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Court Administrator

STATE OF MINNESOTA

NOV 12 2009

DISTRICT COURT

COUNTY OF RAMSEY

By BK Deputy

SECOND JUDICIAL DISTRICT

Case Type: Other Civil

Deanna Brayton, Darlene Bullock, Forough
Mahabady, Debra Branley, Marlene Griffin and
Evelyn Bernhagen, on behalf of themselves and all
others similarly situated,

Court File No. 62-CV-09-11693
Chief Judge Kathleen R. Gearin

Plaintiffs,

vs.

AFFIDAVIT OF PATRICK ROBBEN

Tim Pawlenty, Governor of the State of Minnesota,
Thomas Hanson, Commissioner, Minnesota
Department of Management and Budget, Cal
Ludeman, Minnesota Department of Human
Services, and Ward Einess, Commissioner,
Minnesota Department of Revenue,

Defendants.

STATE OF MINNESOTA)
) ss.
COUNTY OF RAMSEY)

Patrick Robben, being first duly sworn, states that:

1. I am General Counsel to Governor Tim Pawlenty and represent the Governor in
this lawsuit.

2. Attached hereto as Exhibits are copies of the following public records regarding
matters referenced in the Plaintiffs' complaint:

Exhibit 1: November 2008 Economic Forecast (Summary), posted on the website of
Minnesota Management and Budget ("MMB"), www.finance.state.mn.us.

Exhibit 2: February 2009 Economic Forecast (Summary), posted on the MMB
website.

Exhibit 3: April 2009 Economic Update, posted on the MMB website.

- Exhibit 4: Letter dated June 4, 2009, from the Commissioner of MMB, Tom Hanson, to Governor Tim Pawlenty.
- Exhibit 5: Letter and attached report dated June 16, 2009, from Commissioner Hanson to Governor Pawlenty, posted on the MMB website.
- Exhibit 6: Letter dated June 25, 2009, with attached appendices, from Commissioner Hanson to the Legislative Advisory Commission, posted on the MMB website.
- Exhibit 7: Letter dated June 29, 2009, from Commissioner Hanson to the Legislative Advisory Commission, posted on the MMB website.
- Exhibit 8: Letter of approval dated July 1, 2009, from Governor Pawlenty to Commissioner Hanson.
- Exhibit 9: Notice of Approved Unallotments and Administrative Actions, dated July 1, 2009, posted on the MMB website.
- Exhibit 10: Letter notice dated July 16, 2009, from Commissioner Hanson to legislative committees regarding allotment reductions, with attached summary, posted on the MMB website.
- Exhibit 11: Letter dated July 17, 2009, with attachment, from Commissioner Hanson to the Legislative Advisory Commission, posted on the MMB website.
- Exhibit 12: Second letter notice, dated July 28, 2009, from Commissioner Hanson to legislative committees regarding allotment reductions, with attached summary, posted on the MMB website.
- Exhibit 13: Third letter notice, dated August 14, 2009, from Commissioner Hanson to legislative committees regarding allotment reductions, with attached summary, posted on the MMB website.
- Exhibit 14: July 2009 Economic Update, posted on the MMB website.
- Exhibit 15: October 2009 Economic Update, posted on the MMB website.
- Exhibit 16: November 2009 report on revenue collections from Commissioner Hanson to the Governor and legislative leadership, dated November 10, 2009.
- Exhibit 17: Minnesota Session Laws 2009, chapter 79 (House File 1362), article 13, section 3, subdivision 4(j), and section 14.

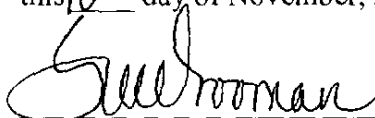
Exhibit 18: Affidavit of Cynthia O. Ransom regarding legislative history, with attached exhibits, filed in *Rukavina v. Pawlenty*, No. C1-03-2239 (Second Jud. Dist. 2003).

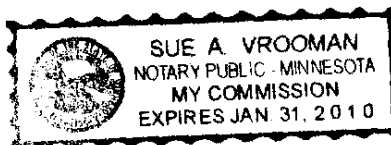
Exhibit 19: Findings of Fact, Conclusions of Law, and Order for Judgment, *Minnesota Fed'n of Teachers v. Quie*, No. 447358 (Second Jud. Dist. Feb. 27, 1981).

FURTHER YOUR AFFIANT SAYETH NOT.


PATRICK ROBBEN

Subscribed and sworn to before me on
this 10th day of November, 2009.


NOTARY PUBLIC





November 2008

HIGHLIGHTS

\$426 Million Deficit in FY 2008-09 - \$4.847 Billion Shortfall Expected for FY 2010-11

The U.S. economy has weakened significantly since February. A longer and deeper recession than previously anticipated is now underway. Revenues are expected to fall \$412 million (1.3 percent) below prior estimates. When combined with small increases in spending the result is a \$426 million deficit for the current biennium.

FY 2010-11 revenues are now forecast to fall 9.4 percent below previous estimates, reducing projected revenues by \$3.321 billion. That revenue reduction, combined with projected spending increases of \$580 million, increase the expected budget deficit for the coming biennium to \$4.847 billion. At the close of the 2008 legislative session a \$946 million shortfall was projected.

U.S. Economic Outlook Has Deteriorated Significantly

As projected in February a recession started in late 2007, however, the problems facing the U.S. economy have proven to be much more difficult to remedy than anticipated. Global Insight's November baseline scenario includes a 1.0 percent reduction in real GDP in 2009 and slightly over 1.5 percent growth in 2010. It is not until the start of 2011 that the economy begins to grow at its trend (3 percent) growth rate. This downturn has already lasted longer than either of the two most recent recessions and most forecasters believe the economic decline will intensify between now and early summer.

Falling Revenues and Higher Spending Drive Budget Outlook

FY 2010-11 revenues will be 1.8 percent, or \$579 million, below levels forecast for the 2008-09 biennium, while current law spending is expected to grow by 6.1 percent over FY 2008-09 levels. About 40 percent of the \$579 million decline in revenues from the 2008-09 biennium is due to the economic slump. The remainder is caused by revenue reductions already in end-of-session estimates. Projected expenditure increases are concentrated in health care programs.

November Forecast

BUDGET SUMMARY

Weakening U.S. Economy Creates State Budget Deficit in Current Biennium – Projected Shortfall Grows Substantially in 2010-11 Biennium

The problems facing the U.S. economy are no longer limited to those of financial institutions and the housing sector. Consumer spending is falling, setting up a vicious, self-reinforcing cycle in which declining consumer spending produces a reduction in the demand for workers, which in turn causes consumer spending to decline further. The result has been the start of a recession that is expected to be more severe than average. As always, state government revenues will be a casualty of the economic downturn.

The recession reduces revenues and adds slightly to expenditures in the current biennium. State budget problems will compound in the 2010-11 biennium as revenues fall further below estimates and expenditure projections increase. Compared to budget projections made at the end of the 2008 legislative session, the forecast for the current biennium has deteriorated by \$432 million, leaving an expected deficit of \$426 million. The outlook for the 2010-11 biennium is now much worse. Balancing the budget for the current biennium will eliminate \$426 million of the total \$5.273 billion budgetary shortfall projected for this next biennium, leaving a \$4.847 billion prospective shortfall.

Budget Forecast, FY 2008-11 (\$ in Millions)

	<u>FY 2008-09</u>	<u>FY 2010-11</u>
Beginning Balance	\$2,245	\$79
Revenues	32,445	31,866
Spending	34,611	36,713
Budget Reserve	155	155
Cash Flow Account	350	350
Budget Balance	(\$426)	(\$5,273)
Shortfall (excluding FY2008-09)	---	(\$4,847)

Action Required to Re-balance FY 2008-09 Budget

Because Minnesota's Constitution prohibits borrowing for operating purposes beyond the end of the biennium, options for dealing with the projected deficit for the current biennium deficit are limited. Minnesota's budget reserve, currently \$155 million, is available for use, but it is not sufficient to solve the entire problem. The Governor also

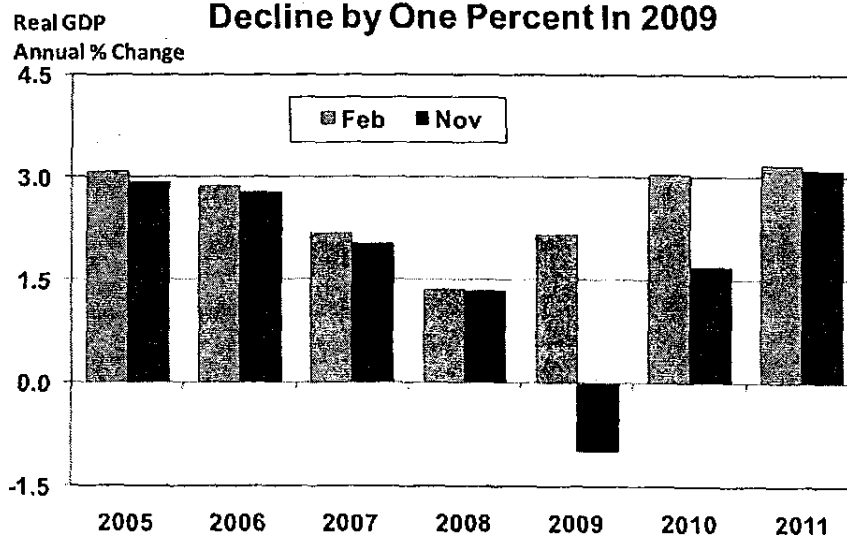
has authority to unallot expenditures after the budget reserve has been depleted. The state's cash flow account, used to smooth timing differences between the receipt of revenues and expenditure cash outlays within the fiscal year, is currently \$350 million.

Economic Outlook Has Deteriorated Since February, 2008 Forecast

There is no longer any debate over whether the U.S. economy was in a recession when the February revenue forecast was prepared. The National Bureau of Economic Research (NBER) has declared that a recession began in December, 2007. The 2008 federal stimulus package provided some relief from the shocks to spending created by the ongoing credit squeeze and rapidly increasing oil prices, but the stimulus checks did not provide a permanent solution to all the problems facing the U.S. economy. By late summer the scope of the problems facing economic policy makers suddenly widened as a seemingly unending flow of bad economic news led consumers to increase savings and cut back spending. Consumer spending, which accounts for more than 70 percent of U.S. economic activity, fell by 3.7 percent during the third quarter. Preliminary data indicate it is extremely likely that consumption will decline again in the current quarter.

The November baseline forecast from Global Insight (GII), Minnesota's national macroeconomic consultant, assumes that real GDP will grow at an annual rate of 1.3 percent during calendar 2008, and then fall by 1.0 percent in 2009. Economic growth begins again in 2010, although at a rate much slower than normal. It is not until 2011 that real GDP growth returns to its trend rate of near 3 percent. February's GII baseline also contained a recession, but that recession was relatively mild and confined to the first two quarters of 2008. The recession in the November baseline is deeper, lasts longer, and has a slower, more extended recovery path than that in February's baseline. The Blue Chip Consensus outlook for 2009 also contains a recession, but it is slightly milder than the one expected by GII. The Blue Chip Consensus forecast calls for real GDP to decline by 0.4 percent in 2009.

Global Insight Expects Real GDP to Decline by One Percent In 2009



The weaker economy has put inflation concerns on hold. GII now projects the Consumer Price Index (CPI) to fall by 0.9 percent in 2009. In 2010 and 2011 CPI growth rates of 2.4 percent and 3.0 percent are now anticipated. When converted to fiscal years, CPI inflation rates of 0.2 percent and 3.1 are projected for FY 2010 and 2011 respectively. Oil prices are expected to remain in the \$50 range through 2009, then gradually move to the \$80 range by 2011.

Global Insight assigns a probability of 60 percent to their November baseline forecast. A more pessimistic forecast which contains a longer and significantly deeper recession is assigned a probability of 25 percent. Their optimistic scenario, assigned a 15 percent probability, also contains a recession but economic growth returns to the trend rate more rapidly than in the baseline.

Budget Deficit of \$426 Million Projected for June 30, 2009

The current U.S. economic recession has produced a major revision in Minnesota's budget outlook for the current biennium. General fund revenues are now forecast to be \$32.445 billion, down \$412 million (1.3 percent) from end-of-session estimates. State general fund expenditures for this biennium are now expected to be \$34.611 billion, \$18 million (0.1 percent) more than prior estimates. As required by current law, an Assigned Risk Plan surplus of \$2 million was transferred to the general fund reserve in FY 2008, increasing the reserve to \$155 million. The combined impact of the revenue, expenditure and reserve changes leaves a projected general fund deficit of \$426 million on June 30, 2009.

FY 2008-09 Forecast

(\$ in millions)

	<u>End of Session</u>	<u>November Forecast</u>	<u>Change</u>
Beginning Balance	\$2,245	\$2,245	\$0
Revenues	32,857	32,445	(412)
Expenditures	34,593	34,611	18
Budget Reserve	153	155	2
Cash Flow Account	<u>350</u>	<u>350</u>	<u>0</u>
Available Balance	\$6	(\$426)	(\$432)

FY 2008-09 Revenues Fall by \$412 Million

Minnesota's general fund revenues are now forecast to total \$32.445 billion in the 2008-09 biennium, \$412 million (1.3 percent) less than end-of-session estimates. Though small in percentage terms, this is a large change for a biennium that is almost complete. Actual receipts for FY 2008 were \$398 million (2.4 percent) more than forecast, but receipts for FY 2009 are now expected to fall \$810 million (4.9 percent) below earlier projections. Receipts from the individual income tax, sales tax, and the corporate income tax all are projected to decline by substantial amounts.

**FY 2008-09 General Fund Revenues
Change from End-of-Session Estimates**
(\$ in Millions)

<u>Revenues</u>	<u>\$ Change</u>	<u>% Change</u>
Income Tax	(\$291)	(1.9%)
Sales Tax	(145)	(1.6)
Corporate Tax	(57)	(3.1)
Motor Vehicle	<u>(1)</u>	<u>(0.4)</u>
Subtotal	(\$493)	(1.9%)
Other	<u>81</u>	<u>1.3</u>
Total	(\$412)	(1.3%)

The forecast for individual income tax receipts has been reduced by \$291 million or 1.9 percent. Projected wage growth during the 2008-09 biennium is now greater than expected in February. The additional revenue generated by the improvement in the wage outlook, however, was more than offset by reductions in forecasts for portfolio incomes, particularly capital gains, interest, and dividends. Net capital gains realizations in tax year 2008 are now projected to decline by 30 percent from tax year 2007 levels.

Sales tax receipts have been reduced \$145 million (1.6 percent) from the last forecast. The projected economic slump will reduce the level of taxable sales in Minnesota in FY 2009 to a level below that observed in FY 2008. Both consumer durable spending and business equipment spending, the two largest portions of Minnesota's sales tax base, are forecast to fall more than 5 percent in FY 2009.

The corporate tax receipts forecast was reduced by 3.1 percent (\$57 million), the largest percentage decline for any of the major revenues. General fund motor vehicle sales tax receipts were also reduced from February's estimates, but by only \$1 million. The declines in the major revenue sources were partially offset by increases to all other revenues, which are now expected to exceed February's forecast by \$81 million. Increases in insurance gross premiums receipts and fee revenues were sufficient to offset declines in other tax and non-tax revenues.

FY 2010-11 Budget Outlook Shows Projected \$4.847 Billion Shortfall

General fund revenues for FY 2010-11 are now forecast to be \$31.866 billion. This is a \$579 million (1.8 percent) decline from the amount of revenue expected to be collected in the current biennium. Projected spending, based on current laws, is expected to reach \$36.713 billion, an increase of \$2.102 billion (6.1 percent) over the spending forecast for the current biennium.

At the end of the 2008 legislative session a \$946 million shortfall was projected for the 2010-11 biennium. With this forecast, that shortfall has increased to \$4.847 billion. When compared to the planning estimates used to prepare the end-of-session estimates, general fund revenues have been reduced by \$3.321 billion (9.4 percent), while the expenditure forecast increased \$580 million (1.6 percent).

FY 2010-11 Budget Forecast

(\$ in millions)

	<u>FY 2008-09</u>	<u>FY 2010-11</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Beginning Balance	\$2,245	\$79	(\$2,166)	
Tax Revenues	29,917	29,589	(328)	
Non-Tax Revenues	1,584	1,481	(103)	
Other Resources	<u>944</u>	<u>796</u>	<u>(148)</u>	
Total Revenues	32,445	31,866	(579)	(1.8%)
Expenditures	34,611	36,713	2,102	6.1%
Budget Reserve	155	155		
Cash Flow Account	<u>350</u>	<u>350</u>		
Budget Balance	(\$426)	(\$5,273)		
Shortfall (excluding FY08-09)	---	(\$4,847)		

Revenues for the 2010-11 biennium from the sales tax and the corporate income tax are below amounts expected in the current biennium. General fund receipts from the motor vehicle sales tax are also expected to be well below amounts received in the 2008-09 biennium, mainly due to the phasing in of full dedication of motor vehicle sales tax collections to transportation funding. In addition transfers from other funds are projected to fall by \$150 million from FY 2008-09 levels. If this forecast holds, this will be the first time revenues for the next biennium will be below collections for the current budget period since the 1986-87 biennium.

Nearly \$1.8 billion of the growth in forecast spending occurs in health care and human services programs which are projected to increase 18.9 percent over the current biennium. Much of the change comes as additional adults, families and children become eligible for health care services due to the weaker economy. Most other areas of the budget show little growth. Expenditure estimates are based on current law adjusted only for enrollment, caseload changes, and specific formula requirements.

No adjustment is included for estimated inflation. The CPI is currently forecast to increase by 0.2 percent in FY 2010, and 3.1 percent in FY 2011. If expenditures were uniformly adjusted for estimated inflation, it would add approximately \$650 million in spending and increase the projected shortfall by a like amount.

Forecast for FY 2010-11 Revenues Down \$3.321 Billion from End-of-Session Estimates

Minnesota general fund revenues for the 2010-11 biennium are forecast to be \$31.866 billion, \$3.321 billion (9.4 percent) less than projected in end-of-session planning estimates. This is the first official forecast of FY 2010-11 revenues using complete models and detailed assumptions. While the transition from planning estimates to forecast often changes the revenue outlook, the new economic assumptions used in this forecast have produced a drop in revenues substantially larger than past experience. The reduction in the individual income tax alone exceeds the total change in forecast revenues in November, 2002, a forecast which occurred at a comparable point in the budget cycle.

FY 2010-11 General Fund Revenues Change from End-of-Session Estimates (\$ in Millions)

<u>Revenues</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Income Tax	(\$1,748)	(10.1%)
Sales Tax	(826)	(8.7)
Corporate Tax	(640)	(31.3)
Motor Vehicle	<u>(10)</u>	<u>(9.0)</u>
Subtotal	(\$3,224)	(11.1%)
Other Revenues	<u>(97)</u>	<u>(1.5)</u>
Total	(\$3,321)	(9.4%)

Individual income tax receipts are expected to fall by the largest amount, \$1.7 billion. While growth recovers in tax year 2010, the 0.2 percent growth rate forecast for tax year 2009 leaves total wage growth for the biennium well below that previously anticipated. Portfolio income also declines further in tax year 2009 but recovers in 2010. For tax year 2010 Minnesota taxable income is about 6.5 percent greater than in tax year 2008.

In the 2010-11 biennium both sales tax receipts and corporate income tax receipts are projected to fall below expected collections in the 2008-09 biennium. Corporate tax receipts show the largest percentage decline from end-of-session estimates, down 31 percent or \$640 million. Much of that decline is due to a recession related reduction in corporate profits. Recent merger and acquisition activity in Minnesota was also incorporated into the corporate revenue estimates. Sales tax receipts are now forecast to fall \$826 million (8.7 percent) below end-of-session estimates and \$345 million below the level projected for the 2008-09 biennium. Cutbacks in consumer spending, business equipment spending, and purchases of building materials reduce the Minnesota's sales tax base. The sales tax base is likely to remain below its 2007 level until FY 2011.

Forecast for FY 2010-11 Expenditures Up \$580 Million from End-of-session Estimates

Projected spending in FY 2010-11 is \$580 million higher than end-of-session estimates. A \$498 million increase in estimated health and human services spending is the primary driver of this change. Higher than expected health care enrollment caused by the weakening economy accounts for over three-quarters of this forecast increase.

Other forecast increases include debt service (\$45 million) and property tax aids and credits (\$28 million). Higher interest rates on new bond issues and lower investment earnings on bond-related balances result in higher debt service costs. Increases in property tax refund and credit programs are partially offset by downward revisions to estimates of police and fire pension aid.

K-12 education spending declined \$22 million from previous estimates, due primarily to lower pupil unit projections and a reduction in the general education forecast. An \$18 million reduction in Department of Corrections costs reflects a lower than anticipated prison population growth rate in the public safety area.

FY 2010-11 Expenditures - Forecast Changes (\$ in millions)

	<u>End of Session</u>	<u>November Forecast</u>	<u>\$ Difference</u>
K-12 Education	\$13,925	\$13,903	(\$22)
Higher Education	3,158	3,158	0
Property Tax Aids & Credits	3,391	3,419	28
Health & Human Services	10,908	11,406	498
Public Safety	1,715	1,697	(18)
Debt Service	1,022	1,067	45
All Other	<u>1,931</u>	<u>1,933</u>	<u>(2)</u>
Subtotal	\$36,050	\$36,583	\$533
Dedicated Expenditures	<u>83</u>	<u>130</u>	<u>47</u>
Total	\$36,133	\$36,713	\$580

Planning Estimates Outlook

Most states currently are facing sizeable budget problems and many national observers of state finances suggest that states are unlikely to see improvements in their fiscal positions for four to five years. Historically, state revenues and fiscal stability lag economic recovery. For this reason, a longer term outlook is a useful measure when formulating state budget plans.

This report provides the first revenue and expenditure planning estimates for the 2012-13 biennium. The planning estimates provide a necessary framework against which the potential impact of FY 2010-11 budget decisions can be judged. Projected revenues for FY 2012-13 are based on long-term trends of economic growth not a specific short-term forecast.

Expenditure planning estimates do not include any tax or spending changes beyond those in current law. Current law spending estimates have been adjusted only to reflect enrollment and caseload growth in entitlement programs and areas where specific statutory formulae exist. Expenditure estimates are not adjusted for inflation. Since the impact of inflation is not included in the expenditure projections, it is important to recognize that inflation and historical growth trends in state spending may create spending pressures in addition to those reflected in the planning estimates.

FY 2012-13 Long Term Planning Estimates (\$ in millions)

	<u>FY 2008-09</u>	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Revenues	\$32,445	\$31,866	\$34,558
Spending	<u>34,611</u>	<u>36,713</u>	<u>39,162</u>
Difference	(\$2,166)	(\$4,847)	(\$4,604)
<i>Inflation (estimate)</i>		\$650	\$1,500

The planning estimates shown above display projected revenues compared to projected spending. Balances or deficits from prior years, as well as any reserves, are excluded. For example, FY 2008-09 began with a \$2.245 billion balance that offsets a significant portion of the revenue-expenditure gap in the biennium. The differences shown by biennium highlight the "structural" gap – how much more is being spent than collected.

These expenditure and revenue planning estimates make no assumptions about any actions taken in the 2009 legislative session to balance the FY 2009 deficit, or to resolve the FY 2010-11 budget gap. The FY 2012-13 planning estimates are simply a benchmark for assessing whether ongoing spending exceeds revenues. Changes in the economic outlook, as well as changes to the budget, will materially affect the planning estimates for the 2012-13 biennium.

Spending projections for FY 2010-11 and FY 2012-13 do not include estimated inflation. Inflation, based on the CPI, is forecast to be 0.2 and 3.1 percent for FY 2010 and FY 2011 respectively. At these levels, the cost of inflation would be \$650 million in the next biennium.

For FY 2012-13 inflation is expected to average 2.5 percent per year. Simply applying forecast inflation to current law projected spending would add about \$1.5 billion to FY 2012-13 spending.

A complete version of this forecast can be found at the Minnesota Management & Budget's World Wide Web site at <http://www.mmb.state.mn.us/>. This document is available in alternate format.

FY 2008-09 General Fund Budget - Current Biennium Comparison November 2008 Forecast vs End of Session

(\$ in thousands)

	5-08 Enacted FY 2008-09	11-08 Fcst FY 2008-09	Fcst Vs Enacted FY 2008-09
Actual & Estimated Resources			
Balance Forward From Prior Year	2,244,935	2,244,935	0
Current Resources:			
Tax Revenues	30,378,391	29,916,788	(461,603)
Non-Tax Revenues	1,557,786	1,583,838	26,052
Subtotal - Non-Dedicated Revenue	31,936,177	31,500,626	(435,551)
Dedicated Revenue	145,498	162,896	17,398
Transfers In	725,643	731,763	6,120
Prior Year Adjustments	50,000	49,951	(49)
Subtotal - Other Revenue	921,141	944,610	23,469
Subtotal-Current Resources	32,857,318	32,445,236	(412,082)
Total Resources Available	35,102,253	34,690,171	(412,082)
Actual & Estimated Spending			
K-12 Education	13,840,842	13,799,898	(40,944)
K-12 Shift Buyback	(10,525)	(10,525)	0
Subtotal K-12 Education	13,830,317	13,789,373	(40,944)
Higher Education	3,138,791	3,139,859	1,068
Property Tax Aids & Credits	3,153,411	3,172,177	18,766
Health & Human Services	9,530,912	9,594,253	63,341
Public Safety	1,687,397	1,686,829	(568)
Transportation	448,959	452,210	3,251
Environment, Energy & Natural Resources	435,486	428,962	(6,524)
Agriculture & Veterans	277,064	270,937	(6,127)
Economic Development	393,507	398,915	5,408
State Government	701,348	706,776	5,428
Debt Service	870,498	862,058	(8,440)
Capital Projects	34,932	20,495	(14,437)
Deficiencies/Other	0	12,140	12,140
Estimated Cancellations	(21,164)	(23,700)	(2,536)
Subtotal Expenditures & Transfers	34,481,458	34,511,284	29,826
Dedicated Expenditures	111,710	100,262	(11,448)
Total Expenditures & Transfers	34,593,168	34,611,546	18,378
Balance Before Reserves	509,085	78,625	(430,460)
Cash Flow Account	350,000	350,000	0
Budget Reserve	153,000	154,922	1,922
Budgetary Balance	6,085	(426,297)	(432,382)

FY 2010-11 Biennial Comparison - General Fund
November 2008 Forecast vs End of Session
(\$ in thousands)

	5-08 Plng Est FY 2010-11	11-08 Fcst FY 2010-11	Fcst vs Enacted FY 2010-11
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	509,085	78,625	(430,460)
Current Resources:			
Tax Revenues	32,912,582	29,589,108	(3,323,474)
Non-Tax Revenues	1,505,553	1,480,987	(24,566)
Subtotal - Non-Dedicated Revenue	34,418,135	31,070,095	(3,348,040)
Dedicated Revenue	117,626	164,514	46,888
Transfers In	601,558	581,281	(20,277)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	769,184	795,795	26,611
Subtotal-Current Resources	35,187,319	31,865,890	(3,321,429)
Total Resources Available	35,696,404	31,944,515	(3,751,889)
<u>Actual & Estimated Spending</u>			
K-12 Education	13,924,992	13,903,227	(21,765)
Higher Education	3,157,668	3,157,824	156
Property Tax Aids & Credits	3,391,575	3,418,955	27,380
Health & Human Services	10,908,543	11,406,553	498,010
Public Safety	1,715,108	1,696,831	(18,277)
Transportation	389,510	389,888	378
Environment, Energy & Natural Resources	366,528	369,661	3,133
Agriculture & Veterans	259,376	259,006	(370)
Economic Development	280,154	280,078	(76)
State Government	624,949	624,302	(647)
Debt Service	1,021,935	1,067,310	45,375
Capital Projects	29,800	29,800	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	36,050,138	36,583,435	533,297
Dedicated Expenditures	82,826	129,714	46,888
Total Expenditures & Transfers	36,132,964	36,713,149	580,185
Balance Before Reserves	(436,560)	(4,768,634)	(4,332,074)
Cash Flow Account	350,000	350,000	0
Budget Reserve	153,000	154,922	1,922
Budgetary Balance	(939,560)	(5,273,556)	(4,333,996)

Biennial Comparison
FY 2010-11 vs FY 2008-09
(\$ in thousands)

	11-08 Fcst FY 2008-09	11-08 Fcst FY 2010-11	\$ Change	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	2,244,935	78,625	(2,166,310)	-96.5%
Current Resources:				
Tax Revenues	29,916,788	29,589,108	(327,680)	-1.1%
Non-Tax Revenues	1,583,838	1,480,987	(102,851)	-6.5%
Subtotal - Non-Dedicated Revenue	31,500,626	31,070,095	(430,531)	-1.4%
Dedicated Revenue	162,896	164,514	1,618	1.0%
Transfers In	731,763	581,281	(150,482)	-20.6%
Prior Year Adjustments	49,951	50,000	49	0.1%
Subtotal - Other Revenue	944,610	795,795	(148,815)	-15.8%
Subtotal-Current Resources	32,445,236	31,865,890	(579,346)	-1.8%
Total Resources Available	34,690,171	31,944,515	(2,745,656)	-7.9%
<u>Actual & Estimated Spending</u>				
K-12 Education	13,799,898	13,903,227	103,329	0.7%
K-12 Shift Buyback	(10,525)	0	10,525	-100.0%
Subtotal K-12 Education	13,789,373	13,903,227	113,854	0.8%
Higher Education	3,139,859	3,157,824	17,965	0.6%
Property Tax Aids & Credits	3,172,177	3,418,955	246,778	7.8%
Health & Human Services	9,594,253	11,406,553	1,812,300	18.9%
Public Safety	1,686,829	1,696,831	10,002	0.6%
Transportation	452,210	389,888	(62,322)	-13.8%
Environment, Energy & Natural Resources	428,962	369,661	(59,301)	-13.8%
Agriculture & Veterans	270,937	259,006	(11,931)	-4.4%
Economic Development	398,915	280,078	(118,837)	-29.8%
State Government	706,776	624,302	(82,474)	-11.7%
Debt Service	862,058	1,067,310	205,252	23.8%
Capital Projects	20,495	29,800	9,305	45.4%
Deficiencies/Other	12,140	0	(12,140)	-100.0%
Estimated Cancellations	(23,700)	(20,000)	3,700	-15.6%
Subtotal Expenditures & Transfers	34,511,284	36,583,435	2,072,151	6.0%
Dedicated Expenditures	100,262	129,714	29,452	29.4%
Total Expenditures & Transfers	34,611,546	36,713,149	2,101,603	6.1%
Balance Before Reserves	78,625	(4,768,634)	(4,847,259)	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	154,922	154,922	0	
Budgetary Balance	(426,297)	(5,273,556)	(4,847,259)	



February 2009

HIGHLIGHTS

\$4.6 Billion Shortfall Forecast for 2010-11 Biennium

There has been no material change in Minnesota's FY 2010-11 budget outlook. There have, however, been significant changes affecting the forecast. A \$1.166 billion reduction in forecast revenues caused by further deterioration in the U.S. economic outlook was more than offset by \$1.359 billion in general fund assistance from the federal stimulus package. After factoring in a small (\$152 million) spending increase and the carry-forward of FY 2009's projected ending balance (\$236 million) the projected shortfall for the 2010-11 biennium falls by \$277 million to \$4.570 billion. In November the shortfall was \$4.847 billion. In both this forecast and the November forecast expected revenues fall short of projected expenditures by more than 13 percent.

\$236 Million Balance Now Projected for FY 2009

A budget deficit is no longer forecast for the 2008-09 biennium. Minnesota is now expected to end the 2008-09 biennium with a balance of \$236 million and a \$350 million cash flow account. The deficit was eliminated by withdrawing the remaining \$155 million from the budget reserve and unallotting \$271 million. Expected federal stimulus aid of \$464 million was more than sufficient to offset a forecast reduction in FY 2009 revenues.

A Longer and Deeper Recession Is Now Forecast

We are currently in what is likely to be the longest and deepest recession since World War II. Global Insight expects real GDP to fall by 2.7 percent in 2009. November's baseline called for a 1 percent decline. The stimulus is expected to shorten the recession. The economy now is expected to begin growing again by early fall. But job growth is not expected to resume until early 2010. Through January, U.S. payroll employment has fallen by more than 3.6 million. Further job losses of more than 2.5 million are expected through the end of 2009.

Federal Stimulus Aid Helps, But It Is Not a Permanent Budget Solution

One-time federal stimulus aid helps in the upcoming biennium. But it only reduces budgetary pressures through FY 2011. In FY 2012-13 revenues are now expected to be \$5.133 billion less than projected expenditures before adjusting for inflation.

February Forecast

BUDGET UPDATE AND OUTLOOK

FY 2010-11 Budget Shortfall Is \$4.570 Billion, but \$236 Million Balance Forecast for FY 2008-09

The short term outlook for the U.S. economy has deteriorated significantly since November's forecast. Over the past 3 months the nation has lost nearly 1.8 million jobs and the end of this downward spiral is not yet in sight. Most observers now believe the national recession will be the longest and deepest since World War II. The recently approved federal stimulus package will help, but even under the most optimistic assumptions the tax relief and spending increases it contains are not expected to stabilize the national economy until late 2009.

Minnesota's economy is also expected to struggle, but the weaker economic outlook has not translated into large changes in the state budget outlook. State revenues do decline more than forecast in November, but after taking into account the projected budgetary impacts of the stimulus package and the actions taken by the Governor to eliminate the projected FY 2009 deficit Minnesota's fiscal position has not changed materially from that reported in November. For the 2010-11 biennium a budget shortfall of \$4.570 billion is forecast. A \$236 million balance is now projected for FY 2008-09.

FY 2009-2011 Forecast Changes Compared to November (\$ in millions)

	<u>FY 2009</u>	<u>FY 2010-11</u>
November Forecast Shortfall	(\$426)	(\$4,847)
Changes:		
Budget Reserve Used	155	—
Governor's Unallotment	271	—
February Forecast Changes	(228)	(1,318)
Federal Stimulus	<u>464</u>	<u>1,359</u>
February Forecast Balance	\$236	(\$4,806)
Budget Deficit FY 2009-11		(\$4,570)

The larger than anticipated downturn in the economy has reduced state revenues through the end of the forecast horizon. Other things equal the further decline in the national economic outlook would have increased the 2008-09 budget deficit by \$228 million and \$1.318 billion for the 2010-11 biennium. But the federal stimulus package, coupled with

use of the budget reserve and the Governor's unallotment more than offset the additional projected decline in revenue and increase in spending.

Budget Balance of \$236 Million Projected for 2008-09 Biennium

Minnesota's general fund revenues are now forecast to total \$32.232 billion in the 2008-09 biennium, \$213 million (0.7 percent) less than forecast in November. State general fund expenditures are now expected to be \$33.891 billion, \$720 million (2.1 percent) below earlier estimates. The budget reserve has been eliminated, but the state's cash flow account continues to have a balance of \$350 million.

FY 2008-09 Budget Forecast

(\$ in millions)

	<u>November Forecast</u>	<u>February Forecast</u>	<u>Difference</u>
Beginning Balance	\$2,245	\$2,245	—
Revenues	32,445	32,232	(213)
Expenditures	34,611	33,891	(720)
Cash Flow Acct	350	350	—
Budget Reserve	<u>155</u>	<u>—</u>	<u>(155)</u>
Balance	(\$426)	\$236	\$662

Much of the change to this forecast was unrelated to changes in the economic outlook. In December, the Governor acted to eliminate the projected deficit for FY 2009 by drawing down the state's budget reserve and unallotting \$271 million. The unallotment decreased spending by \$193 million and yielded \$78 million in transfers. The stimulus package also improved the budget outlook by reducing projected FY 2009 spending by \$464 million. Revenues would have declined by \$291 million and expenditures fallen by \$63 million in the absence of unallotment and the stimulus package.

Budget Shortfall of \$4.570 Billion Projected for 2010-11 Biennium

General fund revenues for the next biennium are now forecast at \$30.700 billion, \$1.166 billion (3.8 percent) less than projected in November. Net general fund revenues for the 2010-11 biennium are projected to fall by 4.8 percent from 2008-09 levels. Excluding the unallotment related transfers, revenues fall by 4.6 percent. Expenditures are now projected to be \$35.506 billion, a decline of \$1.207 billion (3.3 percent) from November's estimate. The federal stimulus funding has the effect of reducing projected 2010-11 spending by \$1.359 billion. Without that assistance projected expenditures for

the next biennium would be \$36.865 billion, an increase of 7.3 percent over the current biennium.

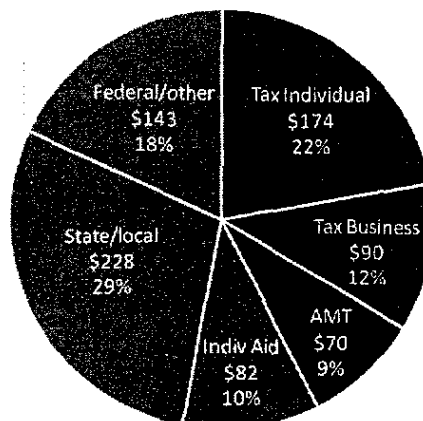
FY 2010-11 Budget Outlook (\$ in millions)

	<u>November Forecast</u>	<u>February Forecast</u>	<u>Difference</u>
Beginning Balance	\$79	\$586	\$508
Revenues	31,866	30,700	(1,166)
Expenditures	36,713	35,506	(1,207)
Cash Flow Acct	350	350	—
Budget Reserve	<u>155</u>	<u>—</u>	<u>(155)</u>
Balance	(\$5,273)	(\$4,570)	\$704

Federal Stimulus Bill Will Provide Relief

President Obama signed the American Recovery and Reinvestment Act (ARRA) into law on February 17, 2009. The ARRA provides \$787 billion of federal tax reductions and federal spending increases to accelerate the nation's economic recovery and preserve and create jobs. The Congressional Joint Committee on Taxation estimates the act contains \$334 billion in tax relief between now and the close of the 2011 federal fiscal year. Individual filers receive a tax reduction of \$174 billion; businesses, \$90 billion. The alternative minimum tax is also reduced for tax year 2009 at a cost of \$70 billion.

Composition of Federal Stimulus Bill By Type of Tax Relief and Type of Spending



The ARRA also provides for \$453 billion in additional federal spending. About 20 percent of the additional federal spending goes directly to individuals through increases in spending on programs such as food stamps. The remainder goes to pay for federal projects and to state and local governments. The National Governors Association estimates about one-half of the spending authorized by the ARRA will be directed through state and local governments.

Much of the spending is not expected to occur until 2010 or 2011. About 20 percent of ARRA authorized spending will occur before October, 2009 and an additional 38 percent is projected to be spent before October 2010. By the close of the 2011 federal fiscal year about 80 percent of stimulus package-related spending will have taken place according to Congressional Budget Office estimates.

State and local governments in Minnesota are expected to be eligible to receive nearly \$4.6 billion in assistance under the ARRA. At this time, however, the forecast impact of the additional federal spending on the state's budget outlook is much smaller than that amount. Much of the spending authorized by the ARRA is dedicated to specific purposes and projects so it will have no direct impact on Minnesota's general fund outlook. For example, Minnesota is expected to be eligible to receive about \$450 million in additional funds for highway and bridge construction projects. When received those funds will be directed into dedicated highway construction funds and not comingled with general fund revenues, leaving the state's general fund budget outlook unchanged.

This forecast includes only one direct ARRA related budget adjustment, the change in the Federal Medical Assistance Percentage (FMAP). Unlike other federal funds, Minnesota can recognize and spend these funds within current law and without additional review. In fact, the state is already preparing to receive the retroactive portion of the FMAP increase. The change in FMAP is expected to provide Minnesota with an additional \$464 million in FY 2009 and \$1.359 billion in FY 2010-11. The change in the FMAP is shown in this forecast as a reduction in expenditures in FY 2009, FY 2010, and FY 2011, not as an increase in revenues.

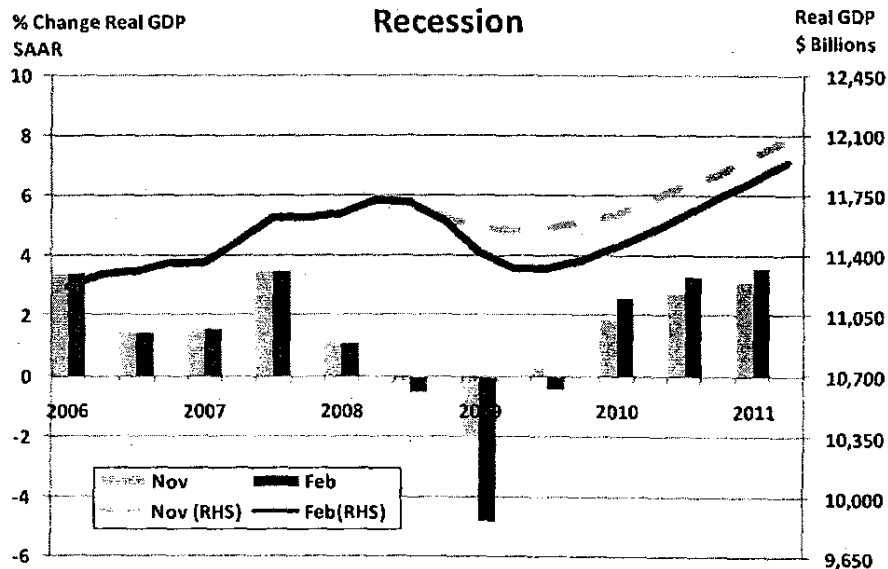
But, It Will Not Jump-Start the U.S. Economy

The 2009 stimulus package will provide a welcome lift to the U.S. economy, but the tax reductions and spending increases it contains will not arrive soon enough to offset the large declines in real GDP already largely in place for the first and second quarters of 2009. Households are reacting to job losses and what seems like a never ending run of bad-news stories about financial institutions by cutting back their spending. The economy is now in a consumer-led recession where reduced demand for goods and services leads managers to cut back employment, which then leads to further cutbacks in demand. Since consumer spending accounts for more than 70 percent of U.S. economic activity, it will be extremely difficult for the economy to rebound until this self-reinforcing downward cycle is broken and consumer spending once again begins to grow.

The enormous decline in household net worth that has occurred during the past 18 months further complicates the problem since baby-boomers approaching retirement are likely to increase their savings to rebuild their retirement accounts. In the short term money saved is money that will not be spent. Policy makers also face the challenge of dealing with declining export demand for U.S. produced goods, since much of the rest of the world is also in recession.

February's baseline economic forecast from Global Insight (GII), Minnesota's national macro-economic consultant, calls for real GDP to decline at a 2.7 percent annual rate in 2009. The recession extends into early fall, with the economy growing at below trend rates through mid 2010. The unemployment rate reaches 9.4 percent in early 2010 and remains at that level until the fall of that year. By the end of 2009 U.S. payroll employment is expected to be 6 million below its fourth quarter 2007 peak, it then recovers very slowly. It is not until mid-2012 that the number of U.S. jobs exceeds the 2007 high. In GII's February baseline real GDP grows at a 2.0 percent annual rate in 2010 and at a 3.5 percent annual rate in 2011.

GII's February Forecast Contains a Deep Recession



Inflation is no longer a concern, at least until the economy once again begins to grow. A CPI increase of 1.0 percent is expected for the current fiscal year; a decline of 0.7 percent is anticipated for fiscal 2010. In fiscal 2011, the CPI is projected to increase by 2.3 percent. Oil prices are expected to remain under \$40 per barrel until late this year, then gradually trend higher, reaching \$60 per barrel by mid 2011.

Global Insight assigns a probability of 60 percent to their baseline forecast, the same as in November. Their optimistic and pessimistic scenarios are both given probabilities of 20

percent. In the optimistic scenario the economy starts to grow again by midsummer. In the pessimistic scenario, growth is delayed until early 2010.

**FY 2009 Revenues Down \$213 Million from November's Estimate,
Revenue Forecast for FY 2010-11 Reduced by \$1.166 Billion**

General fund revenues for the 2008-09 biennium are forecast to total \$32.232 billion, \$213 million less than projected in November. The change in revenues is large for a biennium that has just four months remaining, and it indicates how rapidly the economic outlook has deteriorated since November. Between November and January receipts from the individual income tax, the sales tax, and the corporate franchise tax all were below forecast. For the past three months actual general fund revenues were \$133 million less than November's estimates. The difference between actual and projected receipts accounted for more than one-half of the reduction in the FY 2008-09 revenue forecast. A lower forecast for corporate tax receipts accounted for about 60 percent of the decline. About one-half of the expected reduction in corporate tax receipts has already occurred. The declines in the individual income tax and the sales tax also build on lower than expected receipts since November. The \$87 million increase shown in other revenues is almost entirely due to transfers of balances to the general fund under the Governor's unallotment actions.

**FY 2008-09 and FY 2010-11 Revenues
Forecast Changes
(\$ in millions)**

	<u>FY 2008-09</u>	<u>FY 2010-11</u>
Income	(\$83)	(\$701)
Sales	(84)	(202)
Corporate	(133)	(230)
Motor Vehicle	<u>1</u>	<u>(7)</u>
Subtotal	(299)	(1,140)
Other	<u>87</u>	<u>(26)</u>
Total	(\$213)	(\$1,166)

General fund revenues for the 2010-11 biennium are projected to decline by \$1.166 billion from November's forecast. Revenues are now expected to be \$30.700 billion, 3.7 percent less than previously projected and 4.7 percent less than expected receipts for the 2008-09 biennium. Again, declines in projected receipts from the three major taxes account for almost the entire decline in the forecast. More than 60 percent of the revenue decline was in individual income tax receipts forecast. Larger than previously projected declines in wages and capital gains realizations in tax year 2009 were the primary sources of the reduction in the income tax forecast.

Significant Changes in Spending for FY 2008-09, FY 2010-11

Forecast spending for FY 2008-09 is now \$33.892 billion, \$720 million below November's estimates. The decline is almost exclusively due to unallotment and the federal stimulus bill. Of the projected \$561 million reduction in costs for health and human services, \$90 million was due to unallotment and \$464 million was due to lower state Medical Assistance obligations under federal stimulus. Projected costs for property tax aids and credits were reduced \$108 million, almost exclusively due to unallotment.

**FY 2008-09 and FY 2010-11 Spending
Forecast Changes
(\$ in millions)**

	<u>FY 2008-09</u>	<u>FY 2010-11</u>
K-12 Education	(\$12)	(\$9)
Higher Education	(20)	(1)
Property Tax Aids & Credits	(108)	16
Health & Human Services	(561)	(1,214)
Public Safety	—	—
Debt Service	—	(1)
All Other Spending	<u>(19)</u>	<u>2</u>
Total Change	(\$720)	(\$1,207)

Projected current law spending for the upcoming biennium is now \$35.506 billion, a decline of \$1.207 billion (3.3 percent) since November. Lower anticipated state Medical Assistance spending of \$1.359 billion due to the federal stimulus bill is offset by somewhat higher health and human services caseloads and small revisions in other spending areas.

Impact of Federal Stimulus Bill on Health and Human Services Spending

The Federal Medical Assistance Percentage (FMAP) is used in determining the amount of Federal matching funds for Minnesota's Medical Assistance program and portions of the MinnesotaCare program. Minnesota's FMAP is currently 50 percent. That is, the state draws 50 cents in federal funding for every dollar it spends on medical services.

Under the American Recovery and Reinvestment Act (ARRA), Minnesota's FMAP rate is projected to increase to 60.19 percent from October 1, 2008 through June 30, 2009 and to 61.59 percent from July 1, 2009 to December 31, 2010. During this period, all states are eligible for a 6.2 percentage point FMAP increase, and Minnesota would be eligible for an additional 3.99 percentage point FMAP increase for the first three calendar quarters and 5.39 percentage points for the next six quarters based on projected changes in the state's unemployment rate. The enhanced FMAP results in reductions in state general fund obligations for Medical Assistance of \$464 million for FY 2009, \$862 million for FY 2010, and \$497 million for FY 2011. Since the FMAP also applies to

portions of the MinnesotaCare program, a reduction in Health Care Access Fund spending is also expected.

FY 2012-13 Planning Outlook Tightens

Changes in the FY 2012-13 planning outlook have implications for FY 2010-11 budget decisions. The long-term budget outlook for FY 2012-13 has deteriorated slightly since November. General fund revenues are \$314 million below November's projections while projected spending is \$215 million higher. The gap between ongoing revenues and spending has increased by \$529 million for FY 2012-13.

FY 2012-13 Planning Outlook (\$ in millions)

	<u>FY 2008-09</u>	<u>FY 2010-11</u>	<u>FY 2012-13</u>
Forecast Revenues	\$32,232	\$30,700	\$34,244
Projected Spending	33,891	35,506	39,377
One-time Savings, Federal Stimulus	<u>(464)</u>	<u>(1,359)</u>	<u>—</u>
Adjusted Spending	34,355	36,865	39,377
Difference	(\$2,123)	(\$6,165)	(\$5,133)
Estimated Inflation (CPI)		\$170	\$1,360

The impact of the one-time enhanced federal matching rate from the federal stimulus bill on projected spending is shown above. When compared to November's estimates, the structural deficit for FY 2010-11 has increased, from \$4.847 billion to \$6.165 billion due to the worsening economy.

The impact of inflation is not reflected in expenditure projections. The consumer price index (CPI) is projected to fall by 0.7 percent for FY 2010, then grow by 2.3 percent for FY 2011, 2.2 percent for FY 2012, and 2.4 percent for FY 2013.

The planning estimates become more meaningful when specific budget proposals for closing the FY 2010-11 budget gap are being considered and a starting point for the following biennium is being established. The large structural gap for FY 2012-13 has implications for determining the long term impact of FY 2010-11 budget reductions.

A complete version of this forecast can be found at the Minnesota Management & Budget's World Wide Web site at <http://www.mmb.state.mn.us/>. This document is available in alternate format.

February 2009 General Fund Forecast
FY 2008-09 Biennium Comparison: February 2009 vs November 2008
(\$ in thousands)

	11-08 Fcst FY 2008-09	2-09 Fcst FY 2008-09	Difference
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	2,244,935	2,244,935	0
Current Resources:			
Tax Revenues	29,916,788	29,646,194	(270,594)
Non-Tax Revenues	1,583,838	1,561,353	(22,485)
Subtotal - Non-Dedicated Revenue	31,500,626	31,207,547	(293,079)
Dedicated Revenue	162,896	162,908	12
Transfers In	731,763	815,685	83,922
Prior Year Adjustments	49,951	46,569	(3,382)
Subtotal - Other Revenue	944,610	1,025,162	80,552
Subtotal-Current Resources	32,445,236	32,232,709	(212,527)
Total Resources Available	34,690,171	34,477,644	(212,527)
<u>Actual & Estimated Spending</u>			
K-12 Education	13,799,898	13,788,000	(11,898)
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	(10,525)	0
Subtotal K-12 Education	13,789,373	13,777,475	(11,898)
Higher Education	3,139,859	3,119,469	(20,390)
Property Tax Aids & Credits	3,172,177	3,064,166	(108,011)
Health & Human Services	9,594,253	9,033,517	(560,736)
Public Safety	1,686,829	1,686,529	(300)
Transportation	452,210	451,002	(1,208)
Environment, Energy & Natural Resources	428,962	422,515	(6,447)
Agriculture & Veterans	270,937	269,937	(1,000)
Economic Development	398,915	396,235	(2,680)
State Government	706,776	695,023	(11,753)
Debt Service	862,058	862,071	13
Capital Projects	20,495	20,495	0
Deficiencies/Other	12,140	16,030	3,890
Estimated Cancellations	(23,700)	(23,700)	0
Subtotal Expenditures & Transfers	34,511,284	33,790,764	(720,520)
Dedicated Expenditures	100,262	100,686	424
Total Expenditures & Transfers	34,611,546	33,891,450	(720,096)
Balance Before Reserves	78,625	586,194	507,569
Cash Flow Account	350,000	350,000	0
Budget Reserve	154,922	0	(154,922)
Budgetary Balance	(426,297)	236,194	662,491

FY 2010-11 Biennial Comparison
February 2009 Forecast vs November 2008 Forecast
(\$ in thousands)

	11-08 Fcst FY 2010-11	2-09 Fcst FY 2010-11	Difference
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	78,625	586,194	507,569
Current Resources:			
Tax Revenues	29,589,108	28,474,593	(1,114,515)
Non-Tax Revenues	1,480,987	1,430,184	(50,803)
Subtotal - Non-Dedicated Revenue	31,070,095	29,904,777	(1,165,318)
Dedicated Revenue	164,514	164,514	0
Transfers In	581,281	580,993	(288)
Prior Year Adjustments	50,000	50,000	0
Subtotal - Other Revenue	795,795	795,507	(288)
Subtotal-Current Resources	31,865,890	30,700,284	(1,165,606)
Total Resources Available	31,944,515	31,286,478	(658,037)
<u>Actual & Estimated Spending</u>			
K-12 Education	13,903,227	13,894,099	(9,128)
Higher Education	3,157,824	3,156,864	(960)
Property Tax Aids & Credits	3,418,955	3,435,395	16,440
Health & Human Services	11,406,553	10,192,223	(1,214,330)
Public Safety	1,696,831	1,696,831	0
Transportation	389,888	389,440	(448)
Environment, Energy & Natural Resources	369,661	369,795	134
Agriculture & Veterans	259,006	258,598	(408)
Economic Development	280,078	280,078	0
State Government	624,302	626,767	2,465
Debt Service	1,067,310	1,066,530	(780)
Capital Projects	29,800	29,800	0
Estimated Cancellations	(20,000)	(20,000)	0
Subtotal Expenditures & Transfers	36,583,435	35,376,420	(1,207,015)
Dedicated Expenditures	129,714	129,714	0
Total Expenditures & Transfers	36,713,149	35,506,134	(1,207,015)
Balance Before Reserves	(4,768,634)	(4,219,656)	548,978
Cash Flow Account	350,000	350,000	0
Budget Reserve	154,922	0	(154,922)
Budgetary Balance	(5,273,556)	(4,569,656)	703,900

General Fund Biennial Comparison
FY 2010-11 vs FY 2008-09
(\$ in thousands)

	2-09 Fcst FY 2008-09	2-09 Fcst FY 2010-11	\$ Change	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	2,244,935	586,194	(1,658,741)	-73.9%
Current Resources:				
Tax Revenues	29,646,194	28,474,593	(1,171,601)	-4.0%
Non-Tax Revenues	1,561,353	1,430,184	(131,169)	-8.4%
Subtotal - Non-Dedicated Revenue	31,207,547	29,904,777	(1,302,770)	-4.2%
Dedicated Revenue	162,908	164,514	1,606	1.0%
Transfers In	815,685	580,993	(234,692)	-28.8%
Prior Year Adjustments	46,569	50,000	3,431	7.4%
Subtotal - Other Revenue	1,025,162	795,507	(229,655)	-22.4%
Subtotal-Current Resources	32,232,709	30,700,284	(1,532,425)	-4.8%
Total Resources Available	34,477,644	31,286,478	(3,191,166)	-9.3%
<u>Actual & Estimated Spending</u>				
K-12 Education	13,788,000	13,894,099	106,099	0.8%
K-12 Ptx Rec Shift/Aid Payment Shift	(10,525)	0	10,525	-100.0%
Subtotal K-12 Education	13,777,475	13,894,099	116,624	0.8%
Higher Education	3,119,469	3,156,864	37,395	1.2%
Property Tax Aids & Credits	3,064,166	3,435,395	371,229	12.1%
Health & Human Services	9,033,517	10,192,223	1,158,706	12.8%
Public Safety	1,686,529	1,696,831	10,302	0.6%
Transportation	451,002	389,440	(61,562)	-13.7%
Environment, Energy & Natural Resources	422,515	369,795	(52,720)	-12.5%
Agriculture & Veterans	269,937	258,598	(11,339)	-4.2%
Economic Development	396,235	280,078	(116,157)	-29.3%
State Government	695,023	626,767	(68,256)	-9.8%
Debt Service	862,071	1,066,530	204,459	23.7%
Capital Projects	20,495	29,800	9,305	45.4%
Deficiencies/Other	16,030	0	(16,030)	-100.0%
Estimated Cancellations	(23,700)	(20,000)	3,700	-15.6%
Subtotal Expenditures & Transfers	33,790,764	35,376,420	1,585,656	4.7%
Dedicated Expenditures	100,686	129,714	29,028	28.8%
Total Expenditures & Transfers	33,891,450	35,506,134	1,614,684	4.8%
Balance Before Reserves	586,194	(4,219,656)	(4,805,850)	
Cash Flow Account	350,000	350,000	0	
Budgetary Balance	236,194	(4,569,656)	(4,805,850)	



April 2009

State Revenues Below Forecast in February and March

Net general fund revenues totaled \$2.104 billion in February and March, \$46 million (2.1 percent), less than forecast. Individual income tax and sales tax receipts were both below levels forecast in February, while corporate tax receipts, motor vehicle sales tax receipts, and other tax and fee revenues were above forecast. Fiscal year 2009 receipts now total \$11.041 billion, 4 percent less than at the end of the third quarter of fiscal 2008.

Summary of Tax Receipts: (February - March, 2009)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	(\$ in millions)			
Income	\$1,035	\$988	\$(47)	(4.5)
Sales	611	586	(25)	(4.0)
Corporate	194	198	4	2.2
Motor Vehicles	12	16	4	26.9
Other	298	316	18	6.0
Total	\$2,150	\$2,104	\$(46)	(2.1)

Individual income tax receipts were \$47 million (4.5 percent) less than forecast in February. Almost the entire income tax shortfall was due to lower than projected withholding tax receipts. (See page 4.) While lower than expected withholding tax receipts are always a matter of concern, this shortfall appears to be due to lower than projected bonus payments, not lower wages. Withholding payments generally have tracked February's forecast quite well except during a short period in mid-March when many firms pay bonuses depending on the firm's performance during the past year.

Gross sales tax receipts were \$20 million less than projected and sales tax refunds were \$5 million more than anticipated, leaving net sales tax receipts for February and March \$25 million (4.0 percent) below forecast. Gross sales tax receipts for fiscal year 2009 are now 3.2 percent less than collections through March, 2008. Corporate taxes, the motor vehicle sales tax, and other taxes and fees showed a combined \$26 million positive variance.

As in past years variances for tax year 2008 final payments and refunds will not be reported until after processing of all timely 2008 returns is completed. Those variances will be reported in the July *Economic Update*.

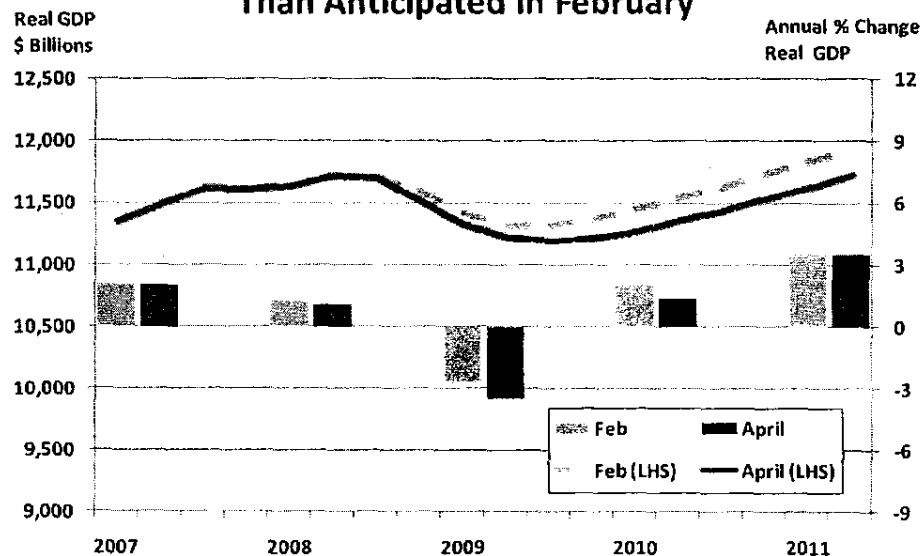
Economic Recovery Is on the Way, But No Real GDP Growth Expected Until Late 2009

During the past six months the U.S. economy has been weaker than even the most pessimistic forecasters thought possible. Since September, real GDP is believed to have declined at an average annual rate of more than 6 percent and more than 3.7 million jobs have been eliminated. The national unemployment rate, now at 8.5 percent, is projected to exceed 10 percent by 2010 and more than 7.2 million jobs are expected to be lost before employment again turns up. What in early 2008 was expected to be a short, mild downturn has evolved into the longest, and probably deepest, recession since World War II.

This recession's length, depth, and breadth has led Minnesota's macroeconomic consultant, IHS-Global Insight (GII), to label it "The Great Recession." But, while GII notes, "The outlook for the economy has gone from bad to worse to horrible," they do not believe this is a re-play of the great depression nor that we are entering a period similar to Japan's lost decade. A quick turnaround is not anticipated, but the federal government's all-out efforts to revive the economy have given forecasters reason to hope the economy's steep slide over the last nine months is coming to a close. The tax cuts and spending increases in the federal stimulus package should begin to affect household spending by early summer. There also are some signs that the on-going efforts of the Federal Reserve and the Treasury to nudge credit markets closer to more normal operations are finally beginning to have some impact.

But, while the worst of this crisis may soon be over, that does not mean that the economy will quickly return to normal. Global Insight's April baseline does not show real GDP returning to pre-recession levels until the spring of 2011. Employment takes even longer to recover, with the number of jobs remaining below the 2007 peak until early 2013.

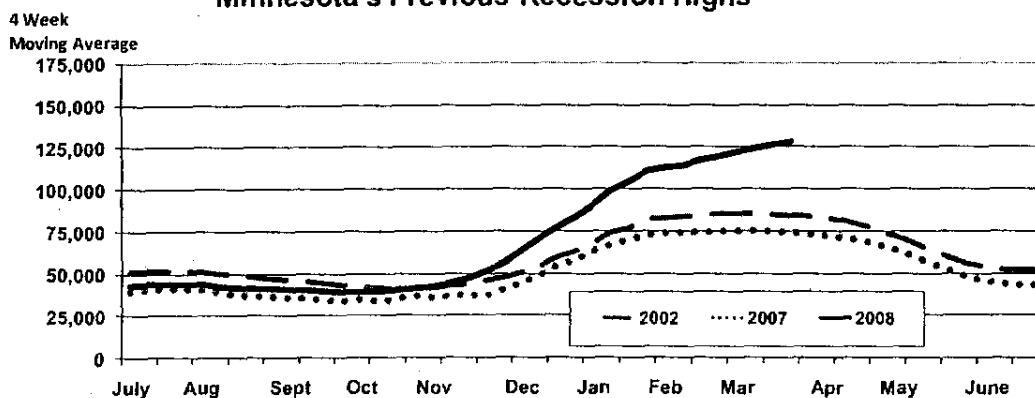
April Baseline Forecast Shows Weaker 2009 Than Anticipated in February



Almost all forecasters have lowered their 2009 and 2010 forecasts since February and Global Insight is no exception. GII's April baseline shows real GDP falling by 3.5 percent in calendar 2009 and then growing by just 1.4 percent in 2010. February's baseline called for a decline of 2.5 percent in 2009 and growth of 2.0 percent in 2010. In the April baseline real GDP is 1.7 percent less at the end of the 2010-11 biennium than was forecast in February. Although Global Insight's April baseline anticipates slightly more inflation than in earlier forecasts, nominal (current dollar) GDP at the end of the 2010-11 biennium is expected to be 0.8 percent less than projected in February.

Global Insight continues to be among the least optimistic of the national forecasters. April's Blue Chip Consensus forecast is for a decline in real GDP of 2.6 percent in 2009 and growth at a 1.7 percent annual rate in 2010. The major difference between GII and the Blue Chip forecast is in the timing of the recovery. The Blue Chip Consensus expects the recovery to begin in the third quarter of 2009, in Global Insight's April baseline the economy starts to grow in the fourth quarter. In the short term the Blue Chip forecast is similar to the GII's April optimistic scenario. A probability of 20 percent is assigned that scenario. A more pessimistic scenario, in which the recession extends into the spring of 2010, is also assigned a 20 percent probability.

Continuing Unemployment Claims Exceed Minnesota's Previous Recession Highs



Data from the U.S. Department of Labor shows the four-week moving average of continuing unemployment claims in Minnesota now totals more than 128,000. This is more than 50,000 above last year's level and exceeds the peak number of continuing claims in the past recession by more than 40,000. While Minnesota's unemployment claims have a very strong seasonal pattern, and the maximum number of weeks an individual may claim unemployment has been extended the continuing claims data indicates the severity of the current recession's impact on Minnesota's work force.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2009 Fiscal Year-to-Date			February-March 2009		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	4,641,700	4,597,049	(44,651)	1,018,177	973,526	(44,651)
Declarations	843,900	841,544	(2,356)	16,470	14,114	(2,356)
Miscellaneous	191,077	191,077	0	0	0	0
Gross	5,676,677	5,629,670	(47,007)	1,034,647	987,640	(47,007)
Refund	197,914	197,914	0	0	0	0
Net	5,478,763	5,431,756	(47,007)	1,034,647	987,640	(47,007)
Corporate & Bank Excise						
Declarations	591,835	587,395	(4,439)	160,272	155,833	(4,439)
Miscellaneous	170,534	167,085	(3,449)	63,354	59,905	(3,449)
Gross	762,368	754,480	(7,888)	223,626	215,738	(7,888)
Refund	207,966	195,740	(12,226)	29,899	17,673	(12,226)
Net	554,402	558,740	4,338	193,727	198,065	4,338
Sales Tax						
Gross	3,339,932	3,320,179	(19,753)	666,210	646,457	(19,753)
Refunds	182,734	187,504	4,770	55,272	60,042	4,770
Net	3,157,198	3,132,674	(24,523)	610,938	586,415	(24,523)
Motor Vehicle Sales Tax						
	80,170	83,516	3,345	12,430	15,775	3,345
Other Revenues:						
Estate	97,589	102,821	5,231	15,607	20,839	5,231
Liquor/Wine/Beer	51,784	50,986	(798)	11,240	10,442	(798)
Cigarette/Tobacco/Cont Sub	160,007	153,566	(6,441)	37,230	30,789	(6,441)
Deed and Mortgage	104,953	105,146	193	21,896	22,089	193
Insurance Gross Earnings	222,457	220,740	(1,717)	84,637	82,920	(1,717)
Lawful Gambling	28,994	28,139	(855)	6,956	6,101	(855)
Health Care Surcharge	158,099	169,994	11,894	37,090	48,984	11,894
Other Taxes	897	552	(344)	492	148	(344)
Statewide Property Tax	333,632	333,737	105	0	105	105
DHS SOS Collections	27,933	29,530	1,597	8,476	10,073	1,597
Income Tax Reciprocity	75,880	75,880	0	0	0	0
Investment Income	28,862	34,598	5,736	0	5,736	5,736
Tobacco Settlement	176,982	176,982	0	0	0	0
Departmental Earnings	204,211	201,718	(2,493)	33,340	30,848	(2,493)
Fines and Surcharges	62,826	61,722	(1,104)	16,702	15,597	(1,104)
Lottery Revenues	33,468	32,590	(878)	8,615	7,737	(878)
Revenues yet to be allocated	1,116	1,008	(108)	0	(108)	(108)
Residual Revenues	72,145	83,173	11,029	19,946	30,975	11,029
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp	5,094	5,094	0	1,132	1,132	0
Other Subtotal	1,846,929	1,867,976	21,047	303,359	324,406	21,047
Other Refunds	30,500	33,706	3,206	5,229	8,435	3,206
Other Net	1,816,429	1,834,270	17,842	298,129	315,971	17,842
Total Gross	11,706,076	11,655,820	(50,256)	2,240,271	2,190,016	(50,256)
Total Refunds	619,114	614,864	(4,250)	90,400	86,150	(4,250)
Total Net	11,086,962	11,040,956	(46,005)	2,149,872	2,103,866	(46,005)



June 4, 2009

Governor Tim Pawlenty
Office of the Governor
130 State Capitol
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Dear Governor Pawlenty:

The purpose of this letter is to advise you that the state's revenues are not anticipated to be sufficient to support planned spending in the upcoming biennium. I expect that the spending authorized for the 2010-11 biennium will exceed revenues by \$2.7 billion.

I have determined, as defined in Minnesota Statutes 16A.152, that "probable receipts for the general fund will be less than anticipated, and that the amount available for the remainder of the [2010-2011] biennium will be less than needed." Several factors, including those listed below, have led me to this determination.

The February 2009 forecast showed declining revenues leading to a projected \$4.6 billion general fund shortfall for FY 2010-11. Projected revenues for the biennium were \$30.7 billion – \$1.2 billion less than anticipated in the November 2008 forecast – while projected expenditures were \$35.5 billion. Although recently enacted spending changes have reduced anticipated spending levels, a \$2.7 billion shortfall still remains after considering all bills passed by the Legislature and signed into law by the Governor.

I do not find sufficient evidence to suggest that our budget outlook for the upcoming biennium will improve with new information. The national economy has worsened since the February forecast and other forecasters generally concur with this outlook. Our national economic forecaster, Global Insights, suggests that Minnesota and the rest of the nation are in the midst of a lengthy economic downturn.

Our state's revenue collections reflect this weakened economy and are not matching expectations. Year to date receipts for FY 2009 are down \$70.3 million compared to the February forecast. Nearly all major revenue categories have collected less than anticipated.

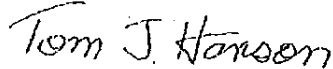
Unfortunately, the state does not have other available funds to cover lower revenue collections. The budget reserve was drawn down to zero last year and no other additional resources are available. Therefore, at the beginning of the next fiscal year, it will be necessary to reduce allotments of

Governor Tim Pawlenty
June 4, 2009
Page 2

appropriations or transfers for FY 2010-11. I will seek your approval to take this action in a future communication.

Our department will continue to monitor the economic and revenue outlook in the coming months.

Sincerely,



Tom J. Hanson
Commissioner

cc: Speaker Margaret Anderson Kelliher
Senate Majority Leader Larry Pogemiller
Senate Minority Leader David Senjem
House Minority Leader Marty Seifert
Legislators



June 16, 2009

Governor Tim Pawlenty
Office of the Governor
130 State Capitol
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155

Dear Governor Pawlenty:

The purpose of this letter is to inform you of reductions necessary to balance the state's general fund budget for the upcoming biennium. Based on the recently completed general fund statement, the enacted budget spends a projected \$2.676 billion more than available for fiscal years 2010-11. No budget reserve remains to help mitigate this shortfall.

I have prepared a list of proposed unallotments and other administrative actions to balance the 2010-11 budget. I have also called a Legislative Advisory Commission meeting for later this week and, with your concurrence, will present these items for discussion. This list of reductions includes ideas proposed by your cabinet and from stakeholder groups and citizens.

Reductions identified demonstrate a targeted approach to resolving the deficit. In many instances, the proposed reductions are less than the reductions in your FY 2010-11 budget recommendations.

Major elements of the proposed plan are presented below. A detailed report outlining each proposed reduction is provided as an attachment to this letter.

- | | |
|------------------|--|
| • \$300 million | Reduction of local aids and credits |
| • \$67 million | Reduction of refunds and other payments |
| • \$236 million | Reduction in human services spending |
| • \$100 million | Reduction in higher education appropriations |
| • \$33 million | Reduction in most state agency operating budgets |
| • \$1.77 billion | K-12 payment deferrals and adjustments |
| • \$169 million | Administrative actions |

Local Aids and Credits - \$300 million

State aids and credits to cities and counties are proposed to be reduced by \$300 million. The reductions would be split so that 1/3 is reduced in FY 2010 and the balance in FY 2011.

County aid would be reduced by \$33 million in FY 2010 and \$67 million in FY 2011. This amounts to a reduction of no more than 1.19 percent of each county's annual aid plus levy for 2009, and a reduction of no more than 2.41 percent for 2010. The five counties with a population of approximately 5,000 or less are exempted from these reductions.

City and township aid is reduced by \$67 million in FY 2010 and \$133 million in FY 2011. No city's reduction exceeds 3.31 percent of annual aid plus levy for 2009, and 7.64 percent of annual aid plus levy for 2010. No township's reduction exceeds 1.74 percent of annual aid plus levy for 2009, and 3.66 percent of annual aid plus levy for 2010.

Small counties, cities, and townships have less flexibility and fewer options to deal with budget challenges. Cities and townships with an adjusted net tax capacity per capita less than the statewide average and which have a population of less than 1,000 are exempted from these reductions. In total, 53 percent of Minnesota cities (454 of 854) and 35 percent of Minnesota townships (629 of 1,802) will not experience a reduction under this plan.

Unlike other parts of the budget, local aids and credits were not reduced as part of the recently enacted 2010-11 budget. Reductions made through unallotment are the total change in local aids and credits for the upcoming biennium.

Other Refunds and Payments - \$67 million

Refunds for political contributions made between July 1, 2009 and June 30, 2011 are proposed to be eliminated, resulting in a savings of \$10.4 million for the biennium. This would not impact individuals electing contributions to the State Election Campaign Fund as part of their state income tax returns, nor those contributions.

The renters' refund would also be reduced to more accurately reflect actual property taxes paid, saving \$51 million. In addition, sustainable forest investment payments would be capped at \$100,000 per enrollee, impacting only 4 of the 1,100 program enrollees for one year (\$5.5 million in savings).

Department of Human Services - \$236 million

DHS expenditures constitute roughly 28 percent of the state general fund and such expenditures are largely responsible for dramatically increasing state government costs. In an effort to limit direct impacts to individuals as well as avoid further reductions to hospitals and nursing facilities, numerous targeted reductions to grants, provider payments, authorized services, and operations are proposed.

Key items include:

- Ending General Assistance Medical Care (GAMC) coverage on March 1, 2010. This ends GAMC coverage one and one-half months sooner than would have occurred as a result of the line-item veto of GAMC funding for FY 2011.
- Reducing grants to counties for mental health services, chemical dependency treatment, housing and basic needs in emergency situations, child support administrative costs, and other flexible

social service purposes. The availability of new federal stimulus funding in many of these areas will mitigate the impact of the reductions.

- Reducing rates an additional 1.5 percent for specialists and certain other non-primary care services. Inpatient hospital services are exempt from these additional rate cuts. Primary care, mental health, dental, and other critical services will be also be excluded, just as they were excluded from the ratable reductions passed during session. Medical education and disproportionate share quarterly payments to hospitals are also exempt from these reductions.
- Lowering the maximum number of hours one Personal Care Attendant (PCA) can work from 310 to 275 per month. Even with this cap, Minnesota still has a generous PCA program when compared to other states.
- Suspending nursing facility rebasing for FY 2010. This does not reduce current rates paid to nursing facilities, but suspends an increase for FY 2010. The 2009 legislature suspended rebasing from FY 2011 to FY 2013.
- Redesigning the State Operated Services (SOS) system towards specialty health care. The Department of Human Services will better meet the needs of clients through lower intensity, lower cost services and savings will be realized as a result. The Minnesota Sex Offender Program will not be impacted by these changes.
- Refinancing transitional MinnesotaCare. Individuals eligible for transitional MinnesotaCare will continue to receive coverage, but all six months will be paid out of the Health Care Access Fund, instead of the General Fund, until enrollment in GAMC ceases.

Higher Education - \$100 million

The general fund operating budgets for the University of Minnesota and the Minnesota State Colleges and Universities System (MnSCU) are each reduced \$50 million for a total savings of \$100 million. All reductions are proposed for the second year of the biennium. These reductions leave sufficient state spending in place to ensure compliance with federal maintenance of effort requirements created by ARRA.

These reductions will present a challenge for our higher education institutions in FY 2011, but a manageable one. The unallotment represents an approximately 3.6 percent change in total general resources (state appropriations plus tuition and fees) and an even lower percentage of total revenues for these systems.

Agency Operating Budgets - \$33 million

A reduction to most state agency operating budgets of approximately 2.25 percent to achieve \$33 million for the biennium is proposed. This reduction is in addition to the approximately 5% reduction many, but not all, state agencies experienced as part of the recently enacted FY 2010-11 budget. Specific reductions will be identified over the next two weeks. Areas exempted from these actions include public safety, military and veterans affairs, corrections, State Operated Services and the Minnesota Sex Offender Program within the Department of Human Services.

The Governor's office will be included in these reductions. Other constitutional offices, the legislature, and the courts will maintain their current level of funding.

K-12 Payment Deferrals and Adjustments - \$1.77 billion

Beginning in FY 2010, aid payments to schools will be temporarily reduced, generating \$1.17 billion in savings. The reduced portion of those payments will be deferred such that school districts will receive 73 percent of their first year entitlement that year and the remaining 27 percent in the second year.

This deferral is similar to the school aid payment deferral proposal in your budget and the proposal passed by the legislature.

In addition, under M.S. 123B.75, the Commissioner of Education will require school districts to recognize a portion of their levy revenues when they are received. The savings resulting from such recognition of school district property tax receipts would be implemented in FY 2011, generating state general fund savings of approximately \$600 million. This will result in a one-time savings in state aid similar to the property tax recognition shift you proposed and the legislature passed.

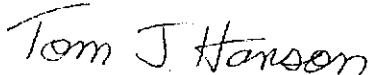
In total, these changes do not reduce aid entitlements to schools.

Other Administrative Actions - \$169 million

Two administrative actions are also recommended. Modifying our income tax reciprocity agreement with Wisconsin will generate \$106 million in additional revenue for the biennium. Currently, Wisconsin takes on average 17 months to reimburse Minnesota for tax losses. You recently sent a letter to Governor Doyle requesting Wisconsin pay tax amounts owed to Minnesota in the fiscal year in which the tax loss was incurred.

In addition, temporarily delaying FY 2011 capital equipment sales tax refunds for three months will generate \$63 million. All refunds would be released immediately in FY 2012.

Sincerely,



Tom J. Hanson
Commissioner

cc: Legislative Advisory Commission

Proposed Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

FY 2010 FY 2011 FY 2010-11

K-12 Education

Education Dept

Property Tax Recognition Adjustment	Expenditures	0	(600,672)	(600,672)
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Requires school districts to recognize a portion of their property tax receipts early and creates a one-time savings through a corresponding deferral in state aid payments. The proposal mimics the property tax recognition shift that has been used historically to create one-time savings.

School Aid Payment Deferral	Expenditures	(1,068,593)	(101,767)	(1,170,360)
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School districts will receive 73 percent of the FY 2010 entitlement in FY 2010 and the remaining 27 percent in FY 2011. This temporary reduction and deferral mimics the school aid payment shift that has been used historically to create one-time savings.

Education Dept Total Net Change:	(1,068,593)	(702,439)	(1,771,032)
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Higher Education

State Colleges & Universities

FY 2011 Allotment Reduction	Expenditures	0	(50,000)	(50,000)
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Reduces the enacted FY 2011 general fund appropriation to the Minnesota State Colleges and Universities (MnSU) system by \$50 million. This will change MnSCU's general fund appropriation in that year from \$665.961 million to \$615.961 million (7.5%). When considering MnSCU's total general resources (appropriations plus tuition and fees), the reduction will be approximately 3.6%.

State Colleges & Universities Total Net Change:	0	(50,000)	(50,000)
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University of Minnesota

FY 2011 Allotment Reduction	Expenditures	0	(50,000)	(50,000)
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Reduce the enacted FY 2011 general fund appropriation to the University of Minnesota by \$50 Million. This will change the University's general fund appropriation in that year from \$677.311 Million to \$627.311 Million (7.4%). When considering the University's total general resources (appropriations plus tuition and fees), the reduction is 3.6%.

University of Minnesota Total Net Change:	0	(50,000)	(50,000)
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Proposed Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

		<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010-11</u>
<u>Tax Policy, Aids and Credits</u>				
Revenue Dept - Other				
Delay Capital Equipment Refunds	Revenues	0	63,000	63,000
Temporarily delay capital equipment sales tax refund payments to realize \$63 million in savings for FY 2011. Refunds estimated to be delayed no longer than 3 months and all would be released immediately in next fiscal year starting July 1, 2011.				
Modify WI Tax Reciprocity Agreement	Revenues	35,000	70,700	105,700
This will require Wisconsin to reimburse Minnesota sooner than the current agreement that has a 17-month average delay in settlement reimbursement.				
Unallot Political Contribution Refund	Expenditures	(4,300)	(6,100)	(10,400)
The refund would be eliminated for any political contribution made between July 1, 2009 and June 30, 2011. Approximately 90,000 refunds are made annually.				
Cap SFIA Payments	Expenditures	0	(5,500)	(5,500)
Sustainable Forest Investment Act (SFIA) Payments would be capped at \$100,000 per enrollee. This cap would impact only 4 of the 1,100 enrollees in the program for the FY 2011 payment only.				
Adjust Renters' Refund	Expenditures	0	(50,800)	(50,800)
The portion of rent used to calculate the refund would be reduced from 19% of rent paid to 15% to more accurately reflect actual property taxes paid. This would impact refunds received by 300,000 renters in 2010 calendar year only.				
Government Aids and Credits	Expenditures	(99,700)	(200,300)	(300,000)
Reductions in local government aid (LGA, county program aid and market value homestead and agricultural credit) of \$99.7 million in FY 2010 and \$200.3 million in FY 2011. The reduction is structured based on a jurisdictions' levy plus aid and is distributed 1/3rd to counties and 2/3rds to cities and townships. The aid payment reductions are structured to exclude the smallest and poorest tax base jurisdictions. In addition, the reductions for cities and townships include a per capita cap. No city's reduction exceeds 3.31 percent of annual aid plus levy for 2009, and 7.64 percent of annual aid plus levy for 2010. No township's reduction exceeds 1.74 percent of annual aid plus levy for 2009, and 3.66 percent of annual aid plus levy for 2010. Cities and townships under 1,000 population and with a tax base below average would not receive any aid reductions (454 of smallest cities and 629 of townships excluded from aid reductions). 5 counties with population of approximately 5,000 or less would not receive an aid reduction. No county would receive an aid reduction of more than 1.19 percent of each county's annual aid plus levy for 2009, and a reduction of no more than 2.41 percent for 2010.				
Revenue Dept - Other Total Net Change:		(139,000)	(396,400)	(535,400)

Health and Human Services

Human Services Dept

Suspend ICF/MR Occupancy Rate Adjust.	Expenditures	(225)	(225)	(450)
Temporarily suspends, for FY 2010 and FY 2011, adjustments to the ICF/MR base residential rate that are based on a facility's unoccupied beds.				

Proposed Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

FY 2010 FY 2011 FY 2010-11

Health and Human Services

Human Services Dept

Reduce County Mental Health Grants	Expenditures	(5,000)	(3,100)	(8,100)
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Most counties use these state grants to pay for part of the non-federal share of MA adult mental health Targeted Case Management. This reduction reflects a reduced need for these funds due to a temporary reduction in the non-federal share of MA under the federal stimulus bill (ARRA).

Eliminate 3 Chemical Dependency Grants	Expenditures	(693)	(693)	(1,386)
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Temporarily eliminates state funding for three legislatively designated special projects relating to chemical dependency treatment in certain counties. These projects will be able to apply for competitive federal funds in July 2010.

Cap Chemical Dependency Payment Rates	Expenditures	(3,622)	(3,622)	(7,244)
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Temporarily reduces maximum rate to 150% of the average rate, for each type of Chemical Dependency (CD) treatment. Current law requires DHS to develop a new rate methodology for CD treatment that incorporates a reimbursement scale that is based on a patient's level of acuity and complexity. This action has no impact on the mandated redesign of the rate structure for CD treatment.

Restructure State Operated Services	Expenditures	(422)	(4,588)	(5,010)
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DHS has initiated a plan to best meet the established needs of SOS clients by transforming SOS into a statewide specialty health care system. This will lead to a reduction of \$5 million in expenses within the state-operated services system and to an improvement in collections. The Minnesota Sex Offender Program will not be impacted by these changes.

Child Support Enforcement County Grants	Expenditures	(3,400)	(3,400)	(6,800)
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In FY 2010 and FY 2011, eliminates all state grants to counties used for child support administrative costs. Most of these grant funds are incentives and based on county performance in child support activities, with the remainder paid to counties to help with costs associated with implementation of child support guidelines. Through the federal stimulus bill counties are eligible to receive new federal matching funds for child support incentive payments; the stimulus funds will offset the loss of the unallotted state funds.

Eliminate Carry-Forward of AICW Grant	Expenditures	(800)	0	(800)
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Reduce \$800,000 in unspent grant funds from FY 2009 that the legislature authorized to be carried forward and spent in FY 2010 for the American Indian Child Welfare (AICW) initiative that assists tribes to provide child welfare services to American Indian children. The reduction does not impact base funding for the two grantee tribes (White Earth and Leech Lake reservations).

Reduce Children & Community Serv. Grants	Expenditures	(16,900)	(22,300)	(39,200)
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In FY 2010 and FY 2011, reduce block grant funds to counties by 25% in FY 2010 and 33% in FY 2011. Counties use these flexible monies to help purchase or provide social service programs for children, adolescents and other individuals. This reduction does not impact related federal Title XX block grant funding counties receive for social services.

Proposed Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

FY 2010 FY 2011 FY 2010-11

Health and Human Services

Human Services Dept

Eliminate Emergency GA/MSA	Expenditures	(6,000)	(9,000)	(15,000)
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Effective Nov 1, 2009 and through June 30, 2011, eliminate grants to counties for low-income and disabled individuals or families to provide basic need items for emergency situations, most often related to housing or utilities. Under current law these benefits are available once per year out of a capped allocation to counties. This unallotment action is mitigated by the availability of federal stimulus money, including the newly-enacted state expansion of emergency assistance funded through TANF stimulus funds.

Elim. Special Diet Funding-MSA Grants	Expenditures	(2,133)	(3,200)	(5,333)
--	--------------	---------	---------	---------

Effective Nov 1, 2009 and through June 30, 2011, eliminates supplemental special needs payments to Minnesota Supplemental Aid (MSA) recipients for medically prescribed diets. This reduction does not affect a recipient's monthly base grant amount.

GRH--5% Supp. Service Rate Reduction	Expenditures	(730)	(1,100)	(1,830)
---	--------------	-------	---------	---------

Effective November 1, 2009 and through June 30, 2011, reduces the GRH supplementary service rate by 5%. This is a supplemental payment for services that is only paid in GRH specific settings, where it is added to the GRH base room and board rate. Providers receiving similar funding through MA are not eligible for this supplement. Providers affected by this reduction include homeless shelters, board and lodge homes with special services, and housing for long-term homeless individuals and families. This reduction does not affect the base GRH payment rate.

Elim. Funding for Redesign Council	Expenditures	(350)	0	(350)
---	--------------	-------	---	-------

Eliminates one-time funding that a new council of legislators, DHS representatives, and county representatives would distribute to envisioned human services delivery authorities to carry out county human service redesign requirements.

Suspend Construction Projects, Grant Red	Expenditures	(3,600)	(3,600)	(7,200)
---	--------------	---------	---------	---------

Temporarily eliminates funding to provide matching grants for new construction, renovation or remodeling of existing buildings used to provide affordable services for older adults. This action delays funding for future planned projects. The funding pool for competitive grants in support of community services is also reduced by 20% over the biennium.

Delay Continuing Care Grant Payments	Expenditures	0	(2,500)	(2,500)
---	--------------	---	---------	---------

Delays payment of all continuing care grants by one month. Grant contracts would be implemented August 1, 2009.

Limit ICF/MR Variable Rates	Expenditures	(182)	(700)	(882)
------------------------------------	--------------	-------	-------	-------

Limits variable rate payment adjustments to ICF/MR facilities (residential facilities serving persons with developmental disabilities). Variable rate adjustments are provided to certain facilities caring for clients with special needs. Variable rate adjustments are not a permanent part of a facility's rate; they are typically time-limited. This freezes these adjustments for FY 2010, so that no new variable rates are provided but existing ones are continued until FY 2011. The variable rate adjustments are then suspended for FY 2011.

Reduce PCA Worker Hours to 275/Month	Expenditures	(2,900)	(4,640)	(7,540)
---	--------------	---------	---------	---------

Reduces the funding level for Personal Care Attendant (PCA) services. This action will be implemented by lowering the cap on the number of hours one Personal Care Attendant (PCA) can work from the newly-enacted maximum of 310 hours per month to a maximum of 275 hours per month.

Proposed Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

FY 2010 FY 2011 FY 2010-11

Health and Human Services

Human Services Dept

Suspend Nursing Facility Rebasing	Expenditures	(3,420)	(2,520)	(5,940)
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Suspends funding for rebasing (a recent change to the method of setting payment rates for nursing facilities that was to be phased in over eight years) for FY 2010. The 2009 legislature already suspended rebasing for FY 2011-2013. This does not reduce current rates paid to nursing facilities; the cost savings occur from not providing rate increases that were otherwise expected to be given in FY 2010.

Add'l 1.5% Reduction - Non-Primary Care	Expenditures	(2,100)	(2,775)	(4,875)
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Temporarily reduces, by an additional 1.5 percent, fee-for-service rates paid to providers and vendors of basic care services under MA and GAMC in FY 2010 and FY 2011. This reduction does not apply to inpatient hospital services, physician and professional services, family planning services, mental health services, dental services prescription drugs and medical transportation. Managed care rates are to be reduced proportionally to reflect the reduction.

Add'l 1.5% Reduction - Specialists	Expenditures	(1,905)	(2,445)	(4,350)
---	--------------	---------	---------	---------

Temporarily reduces, by an additional 1.5 percent, fee-for-service rates paid for physician and professional services in FY 2011. This does not apply to office and outpatient services, preventive medical services and family planning services provided by certain primary care specialties. Managed care rates are to be reduced proportionally to reflect the reduction. With this additional ratable reduction the state's MA fee schedule for specialty care services would remain above the national average.

Elim. MA Critical Access Dental Payments	Expenditures	0	(6,200)	(6,200)
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Temporarily suspends the MA add-on payment for critical access dental (CAD) providers, effective April 1, 2010. Critical Access Dental add-on payments will continue to be paid in the MinnesotaCare program. CAD providers currently receive higher reimbursements than other dental providers; the CAD add-on in current law is 30% for MA and 50% for MinnesotaCare.

Elim. GF Funding for Outreach Incentives	Expenditures	0	(3,400)	(3,400)
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For FY 2011, temporarily suspends the General Fund appropriation for the Outreach Incentive program, as well as the funding for corresponding enrollment impacts. This program provides funding to community agencies that assist persons in applying for Minnesota's public health care programs. The Outreach Incentive program is currently funded with a combination of General Fund and Health Care Access Fund monies; the Health Care Access Fund appropriation for this program will continue.

Aligning Asset Limits	Expenditures	0	(6,100)	(6,100)
------------------------------	--------------	---	---------	---------

Beginning January 1, 2011, temporarily eliminates the difference in asset limits between parents and elderly and disabled persons. The asset limit for parents will be reduced to the point that they are equal to the current limits for elderly and disabled persons: for a single person from \$10,000 to \$3,000 and for a household of two or more from \$20,000 to \$6,000.

Refinance Transitional MnCare from HCAF	Expenditures	(37,500)	0	(37,500)
--	--------------	----------	---	----------

Temporarily suspends General Fund spending on the Transitional MinnesotaCare program. Under current law the first two months of Transitional MinnesotaCare are paid by the General Fund. Eligible recipients will continue to receive six months of health care coverage under Transitional MinnesotaCare, but all six months will be paid through the Health Care Access Fund (HCAF), until enrollment in GAMC is ended.

Proposed Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

		<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010-11</u>
<u>Health and Human Services</u>				
Human Services Dept				
End GAMC Effective March 1, 2010	Expenditures	(15,000)	0	(15,000)
This ends GAMC coverage one and one-half months sooner than would have occurred as a result of the line-item veto of GAMC funding for FY 2011.				
Reduce MnDHO Rates	Expenditures	0	(2,000)	(2,000)
This action establishes a more gradual change in the rate adjustments needed to meet budget neutrality requirements for the Minnesota Disability Health Options (MnDHO) program, by reducing managed care payment rates more quickly than is otherwise specified in the newly-enacted budget bill.				
Increase Managed Care Withhold to 9.5%	Expenditures	(3,800)	(8,400)	(12,200)
Implements an additional 1.5% managed care withhold starting on Jan. 1, 2010. The newly-enacted budget bill phases in an increased withhold over three years. This action has the effect of implementing the additional withhold percentage all at once, rather than phasing it in.				
Additional Inpatient Hosp. Payment Delay	Expenditures	0	(5,500)	(5,500)
Defers inpatient payments to hospitals that otherwise would occur in June 2011 until July 2011. The newly-enacted budget bill delayed most of the payments for June 2011 until July 2011; this action will defer the remainder of the payments.				
Add'l Non-inpatient Acute Payment Delay	Expenditures	0	(23,400)	(23,400)
Defers fee-for-service payments for acute care services that otherwise would be made to providers in June 2011 until July 2011. The newly-enacted budget bill already delayed one of the two rounds of payments scheduled for June 2011 until July 2011; this action defers the second round.				
Human Services Dept Total Net Change:		(110,682)	(125,408)	(236,090)

State Government

Statewide

Agency Operating Reductions	Expenditures	(16,500)	(16,500)	(33,000)
Represents a reduction to most state agency operating budgets of approximately 2.25 percent for the biennium. Areas exempted include public safety, military and veterans affairs, corrections, and State Operated Services within the Department of Human Services.				
Statewide Total Net Change:		(16,500)	(16,500)	(33,000)

Proposed Unallotments & Administrative Actions
General Fund Summary by Omnibus Bill
(\$ in Thousands)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010-11</u>
K-12 Education			
Revenues	0	0	0
Expenditures	(1,068,593)	(702,439)	(1,771,032)
Higher Education			
Revenues	0	0	0
Expenditures	0	(100,000)	(100,000)
Tax Policy, Aids and Credits			
Revenues	35,000	133,700	168,700
Expenditures	(104,000)	(262,700)	(366,700)
Health and Human Services			
Revenues	0	0	0
Expenditures	(110,682)	(125,408)	(236,090)
State Government			
Revenues	0	0	0
Expenditures	(16,500)	(16,500)	(33,000)
<u>REPORT TOTALS:</u>			
Revenues	35,000	133,700	168,700
Expenditures	(1,299,775)	(1,207,047)	(2,506,822)
<u>NET CHANGE</u>	<u>(\$1,334,775)</u>	<u>(\$1,340,747)</u>	<u>(\$2,675,522)</u>



June 25, 2009

Dear Legislative Advisory Commission Members:

Thank you for meeting with administration officials at the Legislative Advisory Commission (LAC) hearing last week and discussing the proposed unallotment plan announced on June 16, 2009. Attached to this letter, please find specific responses to questions posed to agencies at the hearing. We have met the consultation requirement specified in statute and will proceed with unallotment beginning July 1, 2009.

Commissioner Ludeman has informed me that DHS has submitted for publication in the *State Register* notices of the Medical Assistance rate changes that may occur due to the proposed unallotments. These notices will be published in Volume 33, Issue 52 of the *State Register* because this issue is published on June 29, 2009 and will be the last issue of the *State Register* published before July 1, 2009.

As you know, we have scheduled another LAC hearing for Tuesday, June 30 to provide an opportunity for additional discussion. We have invited State Economist Tom Stinson to provide additional insights on how these actions are likely to impact jobs.

In addition, we would like to inform you of several changes that have been made to the proposed unallotment plan. The following items are being adjusted:

Department of Human Services

Reduce County Mental Health Grants: The amount to be unallotted from the appropriation for adult mental health grants is increased from \$8.10 million to \$8.77 million for the biennium.

Children and Community Services Grants: The amount to be unallotted from the appropriation for the Children and Community Services block grant is increased from \$22.3 million to \$22.5 million for FY 2011.

Eliminate Chemical Dependency Grants: The amount to be unallotted from chemical dependency (CD) grants is decreased by \$600,000, reflecting removal of the category of methamphetamine abuse treatment and prevention grants from the unallotment list. State funds for two other chemical dependency (CD) grant categories that fund legislatively designated special projects relating to prenatal alcohol and fetal alcohol syndrome intervention remain on the list of unallotments. The revised unallotment amount for this item is \$786,000 for the biennium.

Cap Chemical Dependency Payment Rates: The unallotment reduction of \$7.24 million will be achieved by capping CD treatment payment rates at 160% of average (rather than at 150% as originally announced).

Group Residential Housing - 5% Supplemental Service Rate Reduction: The amount to be unallotted through a 5% reduction in the supplementary service rate is decreased from \$1.83 million to \$1.17 million for the biennium. Funding for Group Residential Housing providers with a supplementary service rate based on the same reimbursement system as other nursing facilities in Minnesota will not be unallotted.

Reduce Personal Care Attendant (PCA) Worker Hours to 275/Month: The amount to be unallotted was calculated incorrectly in my June 16 letter. This unallotment item will still be implemented eliminating payment for PCA worker hours in excess of 275 per month, but the amount of the unallotment reduction is decreased from \$7.54 million to \$2.15 million for the biennium.

Eliminate Carryforward of American Indian Child Welfare (AICW) grant: The amount to be unallotted is adjusted to \$600,000 in FY 2010. The restored \$200,000 will be available to the White Earth Band of Ojibwe.

Suspend Growth Factor in Developmental Disability (DD) Waiver Allocations: This new proposed unallotment which would reduce \$5.97 million for the biennium from the DD waiver allocations to counties. This unallotment will be implemented by suspending, for an 18-month period from January 2010 to June 2011, the 1% growth factor in DD waiver county allocations.

Restructure State Operated Services: The projected improvement in collections associated with this item was not included in the fiscal estimates provided on June 16. The restructuring is expected to generate non-dedicated revenues to the general fund of \$3.55 million in FY 2010 and \$5.87 million in FY 2011.

One additional DHS unallotment item should be clarified – *Delay Continuing Care Grant Payments.* The amount being reduced is accurate, but DHS will manage the reduction within the contractual arrangements for each affected grant. Therefore, the exact implementation method for each grant has not yet been determined.

Department of Revenue

Property Tax Refund/Income Tax Interactions: The reductions in aids to local governments are assumed to result in property tax increases which increase state property tax refund payments and reduce state corporate and individual income tax receipts due to larger deductions. This cost was not included in the fiscal estimates provided on June 16. The estimated impact is \$5.7 million for FY 2011.

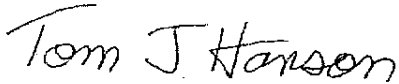
Legislative Advisory Commission

June 25, 2009

Page 3

As was noted last week, we are currently preparing allotment reduction plans for the remaining balance needed. Most state agency operating budgets will be reduced 2.25 percent for the biennium. Additional information on specific agencies and amounts will be transmitted when these plans are complete.

Sincerely,

A handwritten signature in cursive script that reads "Tom J. Hanson".

Tom Hanson
Commissioner, Minnesota Management & Budget

Appendix A: Department of Human Services

Legislators asked for information on the extent to which unallotments in the Human Services area affect federal funds. To the extent that an unallotment item is in the Medical Assistance (MA) program, reducing state funding through unallotment means that the state foregoes the related federal share of MA expenditures. The following table lists the proposed unallotment items for which a federal share of MA expenditures is foregone.

DHS Unallotment Items (\$ in Millions)	FY 2010-11 Reduction	Federal Share
Suspend funding for ICF/ MR Occupancy Rate Adjustments	\$(0.45)	\$(0.63)
Cap Chemical Dependency payment rates	(7.24)	(0.72)
Limit funding for ICF/ MR Variable Rate Adjustments	(0.88)	(1.43)
Reduce PCA Worker Hours to 275/month	(2.15)	(3.00)
Suspend Nursing Facility rebasing	(5.94)	(8.79)
Suspend growth factor in DD waiver allocations for 18 months	(5.97)	(8.04)
Additional 1.5% reduction - non-primary care ("basic care")	(4.88)	(6.19)
Additional 1.5% reduction – specialists	(4.35)	(5.42)
Elim. MA critical access dental payments	(6.20)	(8.20)
Elim. GF funding for outreach incentives	(3.40)	(4.31)
Aligning asset limits	(6.10)	(6.10)
Reduce MnDHO rates	(2.00)	(2.52)
Increase managed care withhold to 9.5%	(12.20)	(16.69)
Total amount of MA federal share foregone		\$(72.05)

In comparison, the Omnibus Health and Human Services budget bill enacted last month made a series of reductions in the state's MA program. Those provisions result in a total loss of \$365 million in foregone federal MA share revenue to the state in the FY2010-11 biennium.

Appendix B: Minnesota Department of Education

SCHOOL DISTRICT PROPERTY TAX LEVY RECOGNITION

Statutes Relating to Levy Recognition: Response to House Fiscal Analyst Inquiry

School districts levy property taxes on a calendar year basis. The first half of property tax payments for the calendar year are received in May or June, and the second half are received in October or November.

Minn. Stat. § 123B.75 outlines procedures for school district revenue recognition, including property tax levy recognition:

- Subdivision 5 requires school districts to recognize certain portions of the calendar year levy in June of each year, including:
 - An amount equal to 31% of the operating referendum levy certified by the school district in 2000; and
 - the entire amount of the following levies:
 - integration levy for Minneapolis, St Paul and Duluth;
 - certain health insurance , health benefits and retirement levies;
 - unemployment insurance levies;
 - career & technical education levy; and
 - levy adjustments for law changes.
- Subdivision 5 does not specify the fiscal year or years to which other portions of the levy are applicable.
- Subdivision 9 states that the Commissioner of Education shall specify the fiscal year or years to which revenue from aid and levy is applicable if Minnesota Statutes do not so specify.

Minn. Stat. § 123B.77 requires each school district to adopt the uniform financial accounting and reporting standards (UFARS) provided for in guidance adopted by the Department of Education. The Department maintains a UFARS manual outlining these standards, including standards related to levy recognition.

Change in Levy Recognition

Under the authority provided in Minn. Stat. § 123B.75, Subdivision 9, and Minn. Stat. § 123B.77, the Commissioner of Education has proposed a change in school district levy recognition beginning with taxes payable in calendar year 2011. Under the proposed change, the entire amount of each school district's May, June and July tax settlement revenue in the operating funds not already recognized as revenue in June under Minn. Stat. § 123B.75, Subdivision 5, would be recognized as revenue in June of each year, beginning in June of 2011.

State Aid Adjustment for Change in School Levy Recognition

Without an adjustment to state aid, the change in school levy recognition outlined above would create a one-time windfall of approximately \$600 million to school districts in fiscal year 2011. Under this proposal, the Commissioner of Minnesota Management & Budget would use his authority under Minn. Stat. § 16A.152, subd. 4, to reduce the allotment for general education aid for FY 2011 by an offsetting amount to eliminate this windfall. The reduction would be allocated among districts in proportion to the increase in Fiscal Year 2011 revenue recognized by each district as a result of the change in levy recognition proposed by the Commissioner of Education.

For Fiscal Year 2012 and later, the change in levy recognition proposed by the Commissioner of Education would continue, but there would be no offsetting adjustment to education aids.

Responses to Questions from Senate Staff Regarding Levy Recognition

Instead of recognizing certain portions of the levy in June under Minn. Stat. § 123B.75, Subd. 5, and the balance on July 1, the entire amount of each school district's May, June and July tax settlement revenue in the operating funds would be recognized as revenue in June of each year, beginning in June of 2011. Only those UFARS accounts dealing with levy recognition will be affected.

The Department makes numerous changes in UFARS each year under the authority provided under Minn. Stat. § 123B.77. As a general rule, these changes are announced to school districts and charter schools through the School Business Bulletin and the Commissioner's weekly e-mails to school superintendents. In 2003, the Department established an Advisory Committee on Financial Management, Accounting, and Reporting, which meets regularly and advises the Department on matters of school accounting, reporting, budgeting and financial management. The committee charter, membership, and minutes are posted to the MDE web site at http://education.state.mn.us/MDE/Accountability_Programs/Program_Finance/General_Information/Advisory_Committee_on_Financial_Management/index.html

The group includes school district business managers, superintendents, independent auditors and representation from the State Auditor's office. The advisory committee is advisory; its advice is not binding on the Commissioner and the Department has sought the advice of the committee on many issues, but not every issue relating to UFARS.

In general, UFARS accounting and reporting is guided by GAAP, GASB, and other accounting guidelines, except where implementation of state law brings conflict.

The UFARS statute was enacted in 1976, and the practice since that time has been for the entire amount of the calendar year levy to be recognized in July, except as provided for in legislation calling for portions of the levy to be recognized in June. Prior to the implementation of UFARS, districts recognized revenues in variant manners.

Minn. Stat. § 123B.75, Subd. 5 specifies that school districts must recognize certain portions of levy receipts as revenue in June, including 31% of the referendum levy certified in calendar year 2000. This does not preclude the Commissioner from specifying that other portions of the levy, including other portions of the operating referendum levy, shall be recognized as revenue in June.

Appendix C: Department of Revenue

Below is the information requested from the Department of Revenue.

1. **How much has Minneapolis LGA been reduced since 2003?** Prior to the 2003 reduction, Minneapolis was estimated to receive \$117.6 million annually in LGA. Under current law (prior to proposed unallotment), Minneapolis is estimated to receive \$90 million in LGA. This represents a 24% reduction in LGA since 2003. If the proposed LGA unallotment is effectuated, the Minneapolis 2010 LGA amount will be reduced to \$68.7 million. This would represent a 42% reduction in Minneapolis LGA since 2003.
2. **The Commission requested additional information regarding the administration of the proposed unallotment of the Renters Property Tax Refund:** The Renters Property Tax Refund program reduction is estimated to save \$50.8 million in general fund expenditures for FY2011. The portion of the rent used to calculate the 2009 refund would be reduced from 19% of rent paid to 15% to more accurately reflect actual taxes paid. The proposed unallotment does not impact refund claims that will be paid beginning in August 2009 (for rent paid in 2008). The unallotment proposal only impacts refunds that will be paid beginning after August 2010 (for rent paid in 2009).

The Renters Property Tax Refund program is a state-paid refund to renters whose rent and property taxes are high relative to their income. Under current law, rent constituting property taxes is assumed to be 19% of rent paid. The property tax reforms enacted in 2001 resulted in a 24% reduction in apartment property taxes. The percentage constituting property taxes was not adjusted to reflect these systemic property tax reductions. The most current census data indicates that the actual percent of rent that constitutes property taxes is 14%. Consequently, the proposed unallotment will result in the Renters' Property Tax Refund more accurately reflecting the percentage of rent attributable to property taxes.

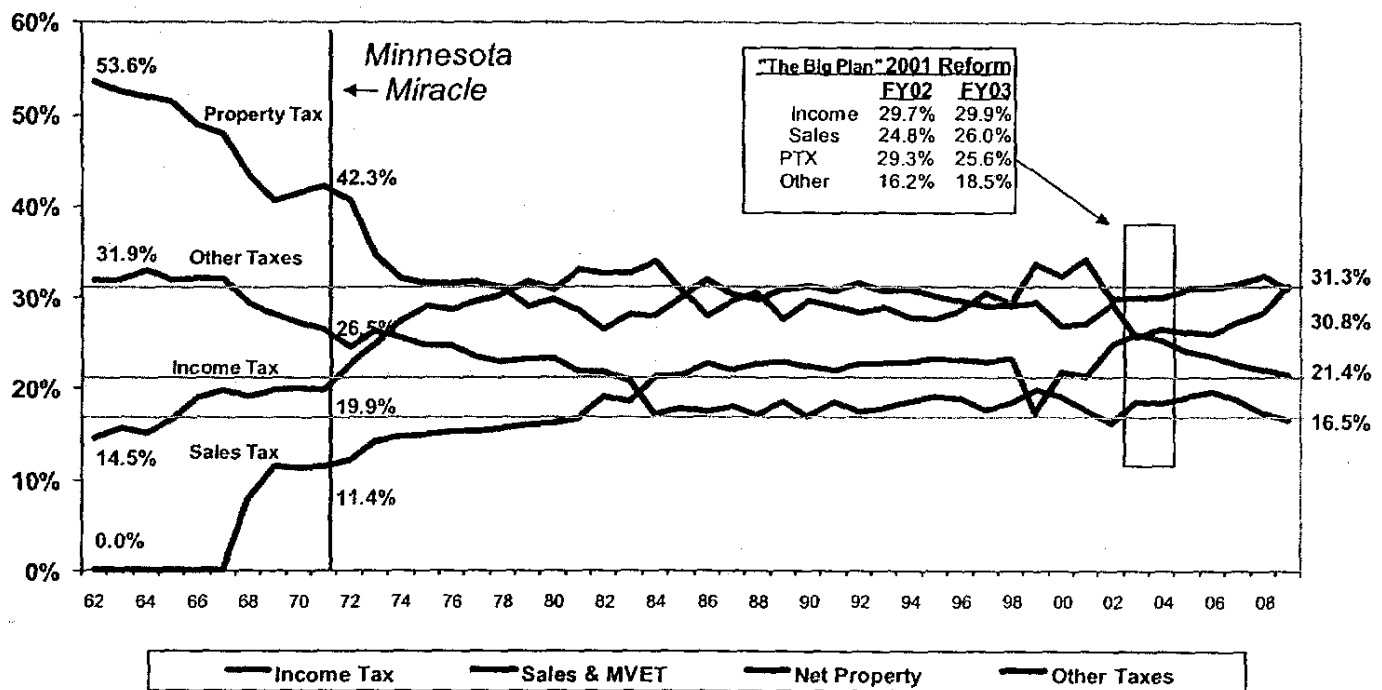
The Department of Revenue will send landlords in October of 2009 the certificate of rent paid (CRP) forms and instructions for refund claims for rent paid in 2009. These instructions will reflect the reductions from 19% to 15% for the CRP forms that landlords are required to provide to each renter by January 31, 2010. The property tax refund instruction booklet and forms for 2009 (M1PR) will also be updated to reflect the unallotment changes.

There are currently 304,900 renter property tax refund filers. The average refund is \$570. The average refund would be reduced by \$129 to \$441 for refund claims beginning August 2010. 84,700 renter property tax refund filers are seniors or disabled. The average refund for seniors or disabled is currently \$635 and under the proposed unallotment this would be reduced to \$491 (\$144 reduction).

Even with the above mentioned one year proposed unallotment, Minnesota will continue to have the most generous Renters' Property Tax Refund program in the country. A comparison of Minnesota's program to Iowa, North Dakota, South Dakota and Wisconsin is illustrative:

- Minnesota has the highest income ceiling \$52,299 compared to Wisconsin's at \$25,000, Iowa and North Dakota at \$20,000 and South Dakota at \$13,000.
- Minnesota's maximum refund for 2009 is \$1,490. The maximum refund for Wisconsin and North Dakota is \$1,160 and \$240 respectively.

History of Major Taxes Percent Share FY 1962 - 2009



Source: Minnesota Department of Revenue and
Price of Government, February 2009



June 29, 2009

Speaker Margaret Anderson Kelliher
463 State Office Building
100 Rev. Dr. Martin Luther King Jr., Blvd.
St. Paul, MN 55155

Senator Larry Pogemiller
235 State Capitol
75 Rev. Dr. Martin Luther King Jr., Blvd.
St. Paul, MN 55155

Dear Speaker Anderson Kelliher and Senator Pogemiller:

This letter is in response to your letter of June 25 requesting information on issues related to the forthcoming unallotment. Many of the questions raise items addressed in my letter of June 25 that was sent to you shortly before transmittal of your letter.

Education Requests

With respect to your education requests, I refer you to Appendix B of my June 25 letter. That appendix sets forth the legal basis and practical implementation of the property tax recognition adjustment. The authority for this adjustment comes from the language of the operating statutes themselves. Such an adjustment will be accounted in the State's books and records similarly to previous property tax recognition shifts.

As for the school aid payment, school districts will receive 73 percent of the FY 2010 entitlement in FY 2010 and the remaining 27 percent in FY 2011. The temporary reduction and deferral schedule will mimic the payment schedule used historically in school aid payment shifts to create one-time savings. Those payments not paid by June 30, 2011, will be paid from the general fund beginning in July 2011. As we have stated, the clear language in Minn. Stat. § 16A.152, subd. 4, provides that "the commissioner is empowered to defer or suspend prior statutorily created obligations." The school district aid entitlement will not change.

As for districts in statutory operating debt, 16A.152 permits the consideration of an appropriation recipient's other sources of available revenue when applying allotment reductions.

We have not made any determination to treat charter schools differently with respect to the unallotments.

Other Requests

As with your education requests, some of these items were also addressed in Appendixes A and C of my letter.

As for your question relating to a projection of FY 12-13, the projected budgetary shortfall for FY 2012-13 under the proposed unallotment plan would be \$4.427 billion. This estimate assumes that the school aid payment reduction and deferral, capital equipment and corporate tax refund delays, and other human services payment delays result in obligations in FY 2012. Since the change in property tax levy recognition included in the proposed unallotment plan would continue for FY 2012 and beyond, no offsetting adjustment to education aids for the 2012-13 biennium is assumed. If General Assistance Medical Care (GAMC) program funding was restored for FY 2012-13, an additional \$888.7 million in payments would be required.

Regarding potential impact on state and local government public services, local communities will have to make their own decisions on what budget priorities to emphasize. State agencies will work to identify methods of absorbing the operating budget reductions.

Adjustments to Planned Unallotments and Administrative Actions

We would like to inform you of changes that have been made to the proposed plan.

Through administrative action, we propose temporarily delaying FY 2011 corporate franchise tax refunds for three months to generate \$42 million. All refunds would be released immediately in FY 2012.

An adjustment to funding for outreach incentives within the Department of Human Services budget has also been made. The effective date for temporarily suspending the general fund appropriation for the Outreach Incentive program and associated enrollment impacts has been moved up from July 1, 2010 to January 1, 2010. This action results in general fund reductions of \$1.2 million for FY 2010 and \$6.4 million for FY 2011. The Health Care Access Fund (HCAF) appropriation for this program is not affected by the unallotment and will continue.

Refinancing Transitional MinnesotaCare from the HCAF has been removed from the list of proposed unallotments. The proposed reduction to Minnesota Disability Health Options (MnDHO) program rates has also been removed.

Moving Forward

With respect to the information and details provided to date, we have endeavored to promptly consult as to the details and impact of the proposed unallotments. You will recall that relevant commissioners were prepared to provide greater elaboration on the proposed unallotments at the June 18 LAC meeting, but were rebuffed on the stated basis that the LAC members could read the proposed unallotments and administrative actions themselves and therefore did not wish to hear the commissioners elaborate on them. Nevertheless, we have continued to cooperate in responding to information requests and will remain accessible.

These imminent unallotment and administrative actions are not taken lightly. Unfortunately, there remains a \$2.7 billion gap between anticipated revenues and expenditures for the next

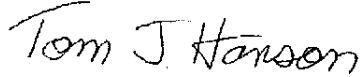
Speaker Anderson Kelliher and Senator Pogemiller

June 29, 2009

Page 3

budget cycle. Accordingly, we are taking these actions in order to uphold our duty to bring the budget into balance.

Sincerely,

A handwritten signature in cursive script that reads "Tom J. Hanson".

Tom J. Hanson

Commissioner

cc: Legislative Advisory Commission



STATE OF MINNESOTA

Office of Governor Tim Pawlenty

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

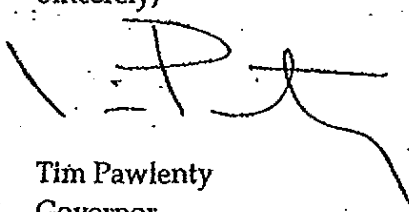
July 1, 2009

Commissioner Tom Hanson
Department of Management and Budget
400 Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Commissioner Hanson:

In accordance with Minnesota Statutes 16A.152, I approve of the unallotment recommendations proposed in your letter of June 16, 2009, and amended in letters on June 25 and 29, 2009, for the biennium beginning today and ending June 30, 2011.

Sincerely,


Tim Pawlenty
Governor

Voice: (651) 296-3391 or (800) 657-3717

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No. 62-CV-09-11693

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Approved Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

FY 2010 FY 2011 FY 2012 FY 2013

K-12 Education

Education Dept

Property Tax Recognition Adjustment	Expenditures	0	(600,672)	0	0
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Requires school districts to recognize a portion of their property tax receipts early and creates a one-time savings through a corresponding deferral in state aid payments. The proposal mimics the property tax recognition shift that has been used historically to create one-time savings.

School Aid Payment Deferral	Expenditures	(1,068,593)	(101,767)	1,170,360	0
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School districts will receive 73 percent of the FY 2010 entitlement in FY 2010 and the remaining 27 percent in FY 2011. This temporary reduction and deferral mimics the school aid payment shift that has been used historically to create one-time savings.

Education Dept Total Net Change:	(1,068,593)	(702,439)	1,170,360	0
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Higher Education

State Colleges & Universities

FY 2011 Allotment Reduction	Expenditures	0	(50,000)	0	0
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Reduces the enacted FY 2011 general fund appropriation to the Minnesota State Colleges and Universities (MnSU) system by \$50 million. This will change MnSCU's general fund appropriation in that year from \$665.961 million to \$615.961 million (7.5%). When considering MnSCU's total general resources (appropriations plus tuition and fees), the reduction will be approximately 3.6%.

State Colleges & Universities Total Net Change:	0	(50,000)	0	0
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University of Minnesota

FY 2011 Allotment Reduction	Expenditures	0	(50,000)	0	0
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Reduce the enacted FY 2011 general fund appropriation to the University of Minnesota by \$50 Million. This will change the University's general fund appropriation in that year from \$677.311 Million to \$627.311 Million (7.4%). When considering the University's total general resources (appropriations plus tuition and fees), the reduction is 3.6%.

University of Minnesota Total Net Change:	0	(50,000)	0	0
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Tax Policy, Aids and Credits

Revenue Dept - Other

Delay Capital Equipment Refunds	Revenues	0	63,000	(63,100)	0
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Temporarily delay capital equipment sales tax refund payments to realize \$63 million in savings for FY 2011. Refunds estimated to be delayed no longer than 3 months and all would be released immediately in next fiscal year starting July 1, 2011.

Approved Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

		FY 2010	FY 2011	FY 2012	FY 2013
<u>Tax Policy, Aids and Credits</u>					
Revenue Dept - Other					
Delay Corporate Franchise Refunds	Revenues	0	42,000	(42,040)	0
Temporarily delay FY 2011 refund payments. Refunds estimated to be delayed no longer than 3 months and all would be released immediately in the next fiscal year starting July 1, 2011.					
Modify WI Tax Reciprocity Agreement	Revenues	35,000	70,700	0	0
This will require Wisconsin to reimburse Minnesota sooner than the current agreement that has a 17-month average delay in settlement reimbursement.					
Unallot Political Contribution Refund	Expenditures	(4,300)	(6,100)	0	0
The refund would be eliminated for any political contribution made between July 1, 2009 and June 30, 2011. Approximately 90,000 refunds are made annually.					
Cap SFIA Payments	Expenditures	0	(5,500)	0	0
Sustainable Forest Investment Act (SFIA) Payments would be capped at \$100,000 per enrollee. This cap would impact only 4 of the 1,100 enrollees in the program for the FY 2011 payment only.					
Adjust Renters' Refund	Expenditures	0	(50,800)	0	0
The portion of rent used to calculate the refund would be reduced from 19% of rent paid to 15% to more accurately reflect actual property taxes paid. This would impact refunds received by 300,000 renters in 2010 calendar year only.					
Government Aids and Credits	Expenditures	(99,700)	(200,300)	0	0
Reductions in local government aid (LGA, county program aid and market value homestead and agricultural credit) of \$99.7 million in FY 2010 and \$200.3 million in FY 2011. The reduction is structured based on a jurisdictions' levy plus aid and is distributed 1/3rd to counties and 2/3rds to cities and townships. The aid payment reductions are structured to exclude the smallest and poorest tax base jurisdictions. In addition, the reductions for cities and townships include a per capita cap. No city's reduction exceeds 3.31 percent of annual aid plus levy for 2009, and 7.64 percent of annual aid plus levy for 2010. No township's reduction exceeds 1.74 percent of annual aid plus levy for 2009, and 3.66 percent of annual aid plus levy for 2010. Cities and townships under 1,000 population and with a tax base below average would not receive any aid reductions (454 of smallest cities and 629 of townships excluded from aid reductions). 5 counties with population of approximately 5,000 or less would not receive an aid reduction. No county would receive an aid reduction of more than 1.19 percent of each county's annual aid plus levy for 2009, and a reduction of no more than 2.41 percent for 2010.					
Prop. Tax Refund/Income Tax Interaction	Revenues	0	(2,939)	(6,104)	(1,000)
Prop. Tax Refund/Income Tax Interaction	Expenditures	0	2,757	5,707	878
Reductions in aids to local governments are assumed to result in property tax increases which increase state property tax refund payments and reduce state corporate and individual income tax receipts due to larger deductions.					
Revenue Dept - Other Total Net Change:		(139,000)	(432,704)	116,951	1,878

Health and Human Services

Human Services Dept

Approved Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

		<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<u>Health and Human Services</u>					
Human Services Dept					
Suspend DD Waiver Growth for 18 Months	Expenditures	(1,493)	(4,481)	0	0
Reduces Developmental Disability (DD) waiver allocations to counties by suspending, for an 18-month period from January 2010 to June 2011, the 1% growth factor in DD waiver county allocations.					
Suspend ICF/MR Occupancy Rate Adjust.	Expenditures	(225)	(225)	0	0
Temporarily suspends, for FY 2010 and FY 2011, adjustments to the ICF/MR base residential rate that are based on a facility's unoccupied beds.					
Reduce County Mental Health Grants	Expenditures	(5,000)	(3,770)	0	0
Most counties use these state grants to pay for part of the non-federal share of MA adult mental health Targeted Case Management. This reduction reflects a reduced need for these funds due to a temporary reduction in the non-federal share of MA under the federal stimulus bill (ARRA).					
Eliminate 2 Chemical Dependency Grants	Expenditures	(393)	(393)	0	0
Temporarily eliminates state funding for two categories of legislatively designated special projects relating to chemical dependency treatment in certain counties. These projects will be able to apply for competitive federal funds in July 2010.					
Cap Chemical Dependency Payment Rates	Expenditures	(3,622)	(3,622)	0	0
Temporarily reduces maximum rate to 160% of the average rate, for each type of Chemical Dependency (CD) treatment. Current law requires DHS to develop a new rate methodology for CD treatment that incorporates a reimbursement scale that is based on a patient's level of acuity and complexity. This action has no impact on the mandated redesign of the rate structure for CD treatment.					
Restructure State Operated Services	Revenues	3,550	5,870	5,870	5,870
Restructure State Operated Services	Expenditures	(422)	(4,588)	0	0
DHS has initiated a plan to best meet the established needs of SOS clients by transforming SOS into a statewide specialty health care system. This will lead to a reduction of \$5 million in expenses within the state-operated services system and to an improvement in collections. The Minnesota Sex Offender Program will not be impacted by these changes.					
Child Support Enforcement County Grants	Expenditures	(3,400)	(3,400)	0	0
In FY 2010 and FY 2011, eliminates all state grants to counties used for child support administrative costs. Most of these grant funds are incentives and based on county performance in child support activities, with the remainder paid to counties to help with costs associated with implementation of child support guidelines. Through the federal stimulus bill counties are eligible to receive new federal matching funds for child support incentive payments; the stimulus funds will offset the loss of the unallotted state funds.					
Eliminate Carry-Forward of AICW Grant	Expenditures	(600)	0	0	0
Reduce \$600,000 in unspent grant funds from FY 2009 that the legislature authorized to be carried forward and spent in FY 2010 for the American Indian Child Welfare (AICW) initiative that assists tribes to provide child welfare services to American Indian children. The reduction does not impact base funding for the White Earth tribe grantee tribes. The White Earth tribe will also have available \$200,000 of carryforward from FY 2009.					

Approved Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

		<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<u>Health and Human Services</u>					
Human Services Dept					
Reduce Children & Community Serv. Grants	Expenditures	(16,900)	(22,500)	0	0
In FY 2010 and FY 2011, reduce block grant funds to counties by 25% in FY 2010 and 33% in FY 2011. Counties use these flexible monies to help purchase or provide social service programs for children, adolescents and other individuals. This reduction does not impact related federal Title XX block grant funding counties receive for social services.					
Eliminate Emergency GA/MSA	Expenditures	(6,000)	(9,000)	0	0
Effective Nov 1, 2009 and through June 30, 2011, eliminate grants to counties for low-income and disabled individuals or families to provide basic need items for emergency situations, most often related to housing or utilities. Under current law these benefits are available once per year out of a capped allocation to counties. This unallotment action is mitigated by the availability of federal stimulus money, including the newly-enacted state expansion of emergency assistance funded through TANF stimulus funds.					
Elim. Special Diet Funding-MSA Grants	Expenditures	(2,133)	(3,200)	0	0
Effective Nov 1, 2009 and through June 30, 2011, eliminates supplemental special needs payments to Minnesota Supplemental Aid (MSA) recipients for medically prescribed diets. This reduction does not affect a recipient's monthly base grant amount.					
GRH -5% Supp. Service Rate Reduction	Expenditures	(467)	(706)	0	0
Effective November 1, 2009 and through June 30, 2011, reduces the GRH supplementary service rate by 5%. This is a supplemental payment for services that is only paid in GRH specific settings, where it is added to the GRH base room and board rate. Providers receiving similar funding through MA are not eligible for this supplement. Providers affected by this reduction include homeless shelters, board and lodge homes with special services, and housing for long-term homeless individuals and families. Funding for Group Residential Housing providers that have their supplementary service rate based on the same reimbursement system as other nursing facilities in Minnesota are not affected. This reduction does not affect the base GRH payment rate.					
Elim. Funding for Redesign Council	Expenditures	(350)	0	0	0
Eliminates one-time funding that a new council of legislators, DHS representatives, and county representatives would distribute to envisioned human services delivery authorities to carry out county human service redesign requirements.					
Suspend Construction Projects, Grant Red	Expenditures	(3,600)	(3,600)	0	0
Temporarily eliminates funding to provide matching grants for new construction, renovation or remodeling of existing buildings used to provide affordable services for older adults. This action delays funding for future planned projects. The funding pool for competitive grants in support of community services is also reduced by 20% over the biennium.					
Delay Continuing Care Grant Payments	Expenditures	0	(2,500)	2,500	0
Delays payment of all continuing care grants by approximately one month. Contractual adjustments for each affected grant would be implemented August 1, 2010.					

Approved Unallotments & Administrative Actions
General Fund by Omnibus Bill and Agency
(\$ in Thousands)

		<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<u>Health and Human Services</u>					
Human Services Dept					
Limit ICF/MR Variable Rates	Expenditures	(182)	(700)	0	0
Limits variable rate payment adjustments to ICF/MR facilities (residential facilities serving persons with developmental disabilities). Variable rate adjustments are provided to certain facilities caring for clients with special needs. Variable rate adjustments are not a permanent part of a facility's rate; they are typically time-limited. This freezes these adjustments for FY 2010, so that no new variable rates are provided but existing ones are continued until FY 2011. The variable rate adjustments are then suspended for FY 2011.					
Reduce PCA Worker Hours to 275/Month	Expenditures	(825)	(1,326)	0	0
Reduces the funding level for Personal Care Attendant (PCA) services. This action will be implemented by lowering the cap on the number of hours one Personal Care Attendant (PCA) can work from the newly-enacted maximum of 310 hours per month to a maximum of 275 hours per month.					
Suspend Nursing Facility Rebasing	Expenditures	(3,420)	(2,520)	0	0
Suspends funding for rebasing (a recent change to the method of setting payment rates for nursing facilities that was to be phased in over eight years) for FY 2010. The 2009 legislature already suspended rebasing for FY 2011-2013. This does not reduce current rates paid to nursing facilities; the cost savings occur from not providing rate increases that were otherwise expected to be given in FY 2010.					
Add'l 1.5% Reduction - Non-Primary Care	Expenditures	(2,100)	(2,775)	0	0
Temporarily reduces, by an additional 1.5 percent, fee-for-service rates paid to providers and vendors of basic care services under MA and GAMC in FY 2010 and FY 2011. This reduction does not apply to inpatient hospital services, physician and professional services, family planning services, mental health services, dental services prescription drugs and medical transportation. Managed care rates are to be reduced proportionally to reflect the reduction.					
Add'l 1.5% Reduction - Specialists	Expenditures	(1,905)	(2,445)	0	0
Temporarily reduces, by an additional 1.5 percent, fee-for-service rates paid for physician and professional services in FY 2010 and FY 2011. This does not apply to office and outpatient services, preventive medical services and family planning services provided by certain primary care specialties. Managed care rates are to be reduced proportionally to reflect the reduction. With this additional ratable reduction the state's MA fee schedule for specialty care services would remain above the national average.					
Elim. MA Critical Access Dental Payments	Expenditures	0	(6,200)	0	0
Temporarily suspends the MA add-on payment for critical access dental (CAD) providers, effective April 1, 2010. Critical Access Dental add-on payments will continue to be paid in the MinnesotaCare program. CAD providers currently receive higher reimbursements than other dental providers; the CAD add-on in current law is 30% for MA and 50% for MinnesotaCare.					
Elim. GF Funding for Outreach Incentives	Expenditures	(1,196)	(6,374)	0	0
Effective January 1, 2010, temporarily suspends the general fund appropriation for the Outreach Incentive program, as well as the funding for corresponding enrollment impacts. This program provides funding to community agencies that assist persons in applying for Minnesota's public health care programs. The Health Care Access Fund appropriation for this program is not impacted.					

Approved Unallotments & Administrative Actions

General Fund by Omnibus Bill and Agency

(\$ in Thousands)

		FY 2010	FY 2011	FY 2012	FY 2013
Health and Human Services					
Human Services Dept					
Aligning Asset Limits	Expenditures	0	(6,100)	0	0
Beginning January 1, 2011, temporarily eliminates the difference in asset limits between parents and elderly and disabled persons. The asset limit for parents will be reduced to the point that they are equal to the current limits for elderly and disabled persons: for a single person from \$10,000 to \$3,000 and for a household of two or more from \$20,000 to \$6,000.					
End GAMC Effective March 1, 2010	Expenditures	(15,000)	0	0	0
This ends GAMC coverage one and one-half months sooner than would have occurred as a result of the line-item veto of GAMC funding for FY 2011.					
Increase Managed Care Withhold to 9.5%	Expenditures	(3,788)	(8,413)	7,298	5,953
Implements an additional 1.5% managed care withhold starting on Jan. 1, 2010. The newly-enacted budget bill phases in an increased withhold over three years. This action has the effect of implementing the additional withhold percentage all at once, rather than phasing it in.					
Additional Inpatient Hosp. Payment Delay	Expenditures	0	(5,500)	5,500	0
Defers inpatient payments to hospitals that otherwise would occur in June 2011 until July 2011. The newly-enacted budget bill delayed most of the payments for June 2011 until July 2011; this action will defer the remainder of the payments.					
Add'l Non-inpatient Acute Payment Delay	Expenditures	0	(23,400)	23,400	0
Defers fee-for-service payments for acute care services that otherwise would be made to providers in June 2011 until July 2011. The newly-enacted budget bill already delayed one of the two rounds of payments scheduled for June 2011 until July 2011; this action defers the second round.					
Human Services Dept Total Net Change:		(76,571)	(133,608)	32,828	83

State Government

Statewide

Agency Operating Reductions	Expenditures	(11,689)	(11,688)	0	0
Represents a reduction to most state agency operating budgets of approximately 2.25 percent for the biennium. Areas exempted include public safety, military and veterans affairs, corrections, and State Operated Services within the Department of Human Services.					
Statewide Total Net Change:		(11,689)	(11,688)	0	0

Approved Unallotments & Administrative Actions

General Fund Summary by Omnibus Bill

(\$ in Thousands)

	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2010-11</u>	<u>FY 2012</u>	<u>FY 2013</u>	<u>FY 2012-13</u>
K-12 Education						
Revenues	0	0	0	0	0	0
Expenditures	(1,068,593)	(702,439)	(1,771,032)	1,170,360	0	1,170,360
Higher Education						
Revenues	0	0	0	0	0	0
Expenditures	0	(100,000)	(100,000)	0	0	0
Tax Policy, Aids and Credits						
Revenues	35,000	172,761	207,761	(111,244)	(1,000)	(112,244)
Expenditures	(104,000)	(259,943)	(363,943)	5,707	878	6,585
Health and Human Services						
Revenues	3,550	5,870	9,420	5,870	5,870	11,740
Expenditures	(73,021)	(127,738)	(200,759)	38,698	5,953	44,651
State Government						
Revenues	0	0	0	0	0	0
Expenditures	(11,689)	(11,688)	(23,377)	0	0	0
<u>REPORT TOTALS:</u>						
Revenues	38,550	178,631	217,181	(105,374)	4,870	(100,504)
Expenditures	(1,257,303)	(1,201,808)	(2,459,111)	1,214,765	6,831	1,221,596
<u>NET CHANGE</u>	(\$1,295,853)	(\$1,380,439)	(\$2,676,292)	\$1,320,139	\$1,961	\$1,322,100



July 16, 2009

Senator Richard Cohen, Chair
Senate Finance Committee
121 State Capitol
St. Paul, MN 55155

Representative Loren Solberg, Chair
House Ways and Means Committee
443 State Office Building
St. Paul, MN 55155

Senator Thomas Bakk, Chair
Senate Tax Committee
226 State Capitol
St. Paul, MN 55155

Representative Ann Lenczewski, Chair
House Tax Committee
509 State Office Building
St. Paul, MN 55155

RE: Notice of Allotment Reductions Pursuant to M.S. 16A.152, Subd. 4

Dear Senators and Representatives:

The purpose of this letter is to update you on our progress in implementing the allotment reductions announced by the Governor. We expect that the plan for reducing FY 2010 and FY 2011 allotments will be complete by mid-August.

This initial notice provides information on the transactions necessary to implement the unallotments and payment deferrals in the areas of K-12 education, local aids and credits, higher education, and health and human services totaling \$2.238 billion. The attached table provides detail by agency, appropriation account, and fiscal year.

As you know, agencies are currently preparing unallotment plans for the remaining balance. The final allocation of operating reductions for executive branch agencies will be sent in a separate communication as soon as it is ready. Additional detail on specific appropriation accounts reduced by agency will be transmitted when these unallotments are complete.

We will continue to keep you informed of our progress. Please direct any questions to Jim Schowalter, Assistant Commissioner for Budget Services.

Sincerely,

A handwritten signature in cursive script that reads "Tom J. Hanson".

Tom J. Hanson
Commissioner

Enclosure(s)

Cc: Legislative Advisory Commission Members
Finance Chairs

MINNESOTA MANAGEMENT & BUDGET
FY 2010-11 UNALLOTMENT SUMMARY
7/16/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2010</u>	<u>FY 2011</u>
<u>MN STATE COLLEGES/UNIVERSITIES</u>			
CENTRAL OFFICES & SHARED SERV	COS	\$0	\$3,579,158
MNSCU OPERATIONS & MAINT	GEN	0	46,420,842
MN STATE COLLEGES/UNIVERSITIES		\$0	\$50,000,000

<u>UNIVERSITY OF MINNESOTA</u>			
U OF M MAINTENANCE & OPER	00U	\$0	\$44,605,728
AGRIC & EXTENSION SERVICES	01U	0	3,857,534
HEALTH SCIENCES	02U	0	363,865
INSTITUTE OF TECHNOLOGY	03U	0	102,390
SYSTEM SPECIALS	04U	0	454,370
ST CLOUD HOSP RESIDENCY	SCH	0	25,542
U MAYO PARTNERSHIP	UMP	0	590,571
UNIVERSITY OF MINNESOTA		\$0	\$50,000,000

<u>REVENUE INTERGOVT PAYMENTS</u>			
LOCAL GOVT AIDS	008	\$44,619,614	\$0
RENTERS PROP TAX REFUND	036	0	50,800,000
POLITICAL CONTRIB REFUND	081	4,300,000	6,100,000
RES MV CREDITS (REAL)	083	21,945,467	0
AG MV CREDITS	085	120,721	0
COUNTY PROGRAM AID	090	33,000,000	0
FOREST LAND TAX CREDIT	FLR	0	5,500,000
REVENUE INTERGOVT PAYMENTS		\$103,985,802	\$62,400,000

<u>HUMAN SERVICES DEPT</u>			
HEALTH CARE ADMIN	S15	\$0	\$360,000
CONTINUING CARE ADMIN	S17	350,000	0
DHS ADMIN OPERATIONS	S20	180,000	0
CHILDREN SERVICES GRANTS	S21	600,000	0
MA BASIC FAM & CHILD GRANTS	S22	2,331,000	23,114,000
MA BASIC ELD & DISABLED GRANTS	S23	5,599,000	37,733,000
CHILD & COMM SERVICES GRANTS	S25	16,900,000	22,500,000
AGING & ADULT SERVICES GRANTS	S26	3,600,000	4,517,045
DEAF & HARD OF HEARING GRANTS	S27	0	169,281
MENTAL HEALTH GRANTS	S28	5,000,000	3,770,000
OTHER CONTINUING CARE GRANTS	S29	0	1,413,674
MA LTC WAIV & HOME CARE GRANTS	S31	2,318,000	5,807,000
MA LTC FACILITIES GRANTS	S32	3,827,000	3,445,000
CD ENTITLEMENT GRANTS	S33	3,622,000	3,622,000
CD NON-ENTITLEMENT GRANTS	S34	393,000	393,000
CHILD SUPPORT ENFORCE GRANTS	S37	3,400,000	3,400,000
MN SUPPLEMENTAL ASSIST GRANTS	S49	2,866,000	4,300,000
GROUP RESID HOUSING GRANTS	S50	467,000	706,000
GENERAL ASSISTANCE GRANTS	S52	5,267,000	7,900,000
GAMC GRANTS	S55	15,879,000	0
SOS-ADULT MENTAL HEALTH SVCS	090	422,000	4,588,000
HUMAN SERVICES DEPT		\$73,021,000	\$127,738,000

MINNESOTA MANAGEMENT & BUDGET
FY 2010-11 UNALLOTMENT SUMMARY
7/16/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2010</u>	<u>FY 2011</u>
K-12 EDUCATION			
BALANCE FORWARD FY 2010 TO FY 2011 CURRENT YEAR APPROPRIATIONS		\$1,068,593,000	\$(1,068,593,000)
TRANSFERS FROM FY 2011 CURRENT YEAR TO PRIOR YEAR APPROPRIATIONS (NET IMPACT)		\$0	\$0
PAYMENT DEFERRALS AND UNALLOTMENTS			
GENERAL EDUCATION	B01	\$0	\$1,562,798,000
ABATEMENT	B62	0	173,000
CONSOLIDATION TRANSITION	B73	0	157,000
NONPUBLIC PUPIL AID	B64	0	3,051,000
NONPUBLIC PUPIL TRANSPORTATION	906	0	3,869,000
CHARTER SCHOOL LEASE AID	924	0	7,686,000
CHARTER SCHOOL STARTUP AID	925	0	174,000
INTEGRATION AID	966	0	11,126,000
SUCCESS FOR THE FUTURE	B40	0	363,000
TRIBAL CONTRACT SCHOOLS	B21	0	379,000
SPECIAL EDUCATION	B06	0	133,720,000
SPED-EXCESS COSTS	B10	0	13,951,000
TRAVEL FOR HOME-BASED SERVICES	B09	0	48,000
HEALTH & SAFETY AID	B42	0	27,000
DEBT SERVICE AID	B43	0	1,603,000
ALTERNATIVE FACILITIES AID	995	0	3,279,000
DEFERRED MAINTENANCE	D05	0	349,000
BASIC SUPPORT GRANTS-LIBRARY	B71	0	2,306,000
MULTICOUNTY, MULTITYPE LIBRARY	B72	0	221,000
LIBRARY TELECOMMUNICATIONS	946	0	391,000
ECFE	B35	0	3,840,000
SCHOOL READINESS	B36	0	1,716,000
HEALTH & DEVELOPMENTAL SCREENING	B30	0	648,000
COMMUNITY ED	B28	0	78,000
ADULTS WITH DISABILITIES	B26	0	120,000
ADULT BASIC EDUCATION	B25	0	7,546,000
DISPARITY REDUCTION AID	A94	0	1,459,000
BORDER CITY-DISPARITY REDUCTION CREDIT	A95	0	170,000
PY REAL PROPERTY	A98	0	54,000
HOMESTEAD MARKET VALUE	A55	0	8,704,000
AGRICULTURAL LAND MARKET VALUE	A56	0	940,000
MOBILE HOME HOMESTEAD MARKET VALUE	A55	0	86,000
SUBTOTAL		\$0	\$1,771,032,000
K-12 EDUCATION		\$1,068,593,000	\$702,439,000
REPORT TOTAL		\$1,245,599,802	\$992,577,000
BIENNIAL TOTAL			\$2,238,176,802



July 17, 2009

Dear Legislative Advisory Commission Members:

Thank you for meeting with administration officials at the Legislative Advisory Commission (LAC) hearing on June 30, 2009 to further discuss the unallotment plan to balance the FY 2010-11 budget.

Agencies are currently preparing allotment reduction plans for their operations. As noted in the summary table below, the remaining reduction required is \$23.4 million for the biennium.

Summary of Unallotments and Administrative Actions
(\$ in Millions)

	FY 2010-11
Administrative Actions	\$ 210.7
K-12 Payment Deferrals	1,771.0
Unallotments:	
Local aids & credits	300.0
Health & human services	210.2
Higher education	100.0
Other refunds and payments	61.0
Remaining reduction	<u>23.4</u>
Total	\$ 2,676.3

To achieve this reduction, we plan to do the following:

- Reduce most agency operating budgets by 2.25 percent for the biennium. As stated previously, areas exempted from these reductions include public safety, corrections, military and veterans affairs, State Operated Services and the Minnesota Sex Offender Program within the Department of Human Services. This generates savings of \$19.5 million for the biennium.
- Reduce a portion of the special timing account established by the Laws of 2009, Chapter 88 (\$3.9 million). This is funding reserved that will not be spent in the 2010-11 biennium.

Attached to this letter, please find reduction amounts by agency. Additional detail on specific appropriation accounts will be transmitted after agency allotment reductions are complete.

Sincerely,

A handwritten signature in cursive script that reads "Tom J. Hanson".

Tom J. Hanson
Commissioner

Remaining Unallotments

	FY 2010	FY 2011	Total
Administration	\$ (262,000)	\$ (200,000)	\$ (462,000)
Agriculture	(492,640)	(492,640)	(985,280)
Commerce	(247,000)	(247,000)	(494,000)
Education Dept	(445,000)	(497,400)	(942,400)
Employment and Economic Dev.	(285,000)	(285,000)	(570,000)
Governors Office	(80,775)	(80,775)	(161,550)
Health Dept	(527,000)	(525,000)	(1,052,000)
Historical Society	(167,750)	(167,750)	(335,500)
Human Rights Dept	(79,290)	(79,290)	(158,580)
Human Services Dept	(3,289,000)	(3,282,000)	(6,571,000)
Labor and Industry	(19,800)	(19,800)	(39,600)
Mediation Services Bureau	(16,000)	(16,000)	(32,000)
Metropolitan Council	(1,711,000)	(1,711,000)	(3,422,000)
Minnesota Housing Finance	(256,000)	(256,000)	(512,000)
Minnesota Management & Budget	(459,000)	(459,000)	(918,000)
Natural Resources Dept	(1,475,000)	(1,475,000)	(2,950,000)
Office of Enterprise Technology	(129,555)	(129,555)	(259,110)
Office of Higher Education	(77,000)	(77,000)	(154,000)
Pollution Control Agency	(110,000)	(99,000)	(209,000)
Revenue Dept	(924,479)	(949,932)	(1,874,411)
Transportation Dept	(23,558)	(23,558)	(47,116)
Subtotal	\$ (11,076,847)	\$ (11,072,700)	\$ (22,149,547)
FFP Loss - Human Services Dept.	1,315,600	1,312,800	2,628,400
Net Impact Agency Operating	\$ (9,761,247)	\$ (9,759,900)	\$ (19,521,147)
Portion of Special Timing Acct.	-	(3,870,051)	(3,870,051)
Total	\$ (9,761,247)	\$ (13,629,951)	\$ (23,391,198)

July 28, 2009

Senator Richard Cohen, Chair
Senate Finance Committee
121 State Capitol
St. Paul, MN 55155

Representative Loren Solberg, Chair
House Ways and Means Committee
443 State Office Building
St. Paul, MN 55155

Senator Thomas Bakk, Chair
Senate Tax Committee
226 State Capitol
St. Paul, MN 55155

Representative Ann Lenczewski, Chair
House Tax Committee
509 State Office Building
St. Paul, MN 55155

RE: Second Notice of Allotment Reductions Pursuant to M.S. 16A.152, Subd. 4

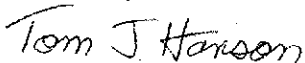
Dear Senators and Representatives:

The purpose of this letter is to update you on our progress in implementing the allotment reductions announced by the Governor. We expect that the plan for reducing FY 2010 and FY 2011 allotments will be complete by mid-August.

This second notice provides information on the transactions necessary to implement the unallotments to agency operating budgets for FY 2010. The attached table provides detail by agency, appropriation account, fiscal year, and fund. Additional detail on agency reductions for FY 2011 will be transmitted in mid-August when these unallotments are complete.

We will continue to keep you informed of our progress. Please direct any questions to Jim Schowalter, Assistant Commissioner for Budget Services.

Sincerely,



Tom J. Hanson
Commissioner

Enclosure(s)

cc: Legislative Advisory Commission Members
Finance Chairs

MINNESOTA MANAGEMENT & BUDGET
UNALLOTMENT SUMMARY: FY 2010 AGENCY OPERATING
GENERAL FUND UNLESS OTHERWISE NOTED
7/28/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2010</u>	<u>Fund</u>
<u>ADMINISTRATION DEPT</u>			
GOVERNMENT & CITIZEN SERVICES	700	100,000	
OFFICE SUPPLY CONNECTION	161	162,000	CENTRAL STORES
ADMINISTRATION DEPT		\$262,000	
<u>AGRICULTURE DEPT</u>			
PESTICIDE & FERTILIZER MGMT	G06	27,000	
PLANT PROTECTION	G06	63,000	
DAIRY & FOOD INSPECTION	G06	133,000	
LIVESTOCK PREMISE	G84	5,000	
AG MARKETING SERVICES	G45	50,000	
INTEGRATED PEST MGMT	G99	77,000	
DAIRY DEVELOPMENT PROGRAM	G90	69,000	
AGENCY SERVICES	G08	68,000	
FEEDING MN TASK FORCE	G91	1,000	
AGRICULTURE DEPT		\$493,000	
<u>COMMERCE DEPT</u>			
ADMINISTRATIVE SERVICES	AS1	97,000	
MARKET ASSURANCE	EL1	150,000	
COMMERCE DEPT		\$247,000	
<u>EDUCATION DEPARTMENT</u>			
EDUCATION AGCY OPERATIONS	001	389,500	
BD OF SCHOOL ADMINISTRATORS	004	3,900	
BOARD OF TEACHING	008	14,000	
EARLY HEARING LOSS INTERVENTIO	017	30,000	
KINDERGARTEN ENTRANCE ASSMNT	079	6,500	
EDUCATE PARENTS PARTNERSHIP	080	1,100	
EDUCATION DEPARTMENT		\$445,000	
<u>EMPLOYMENT & ECONOMIC DEVELPMT</u>			
BUSINESS AND COMMUNITY DVL P	101	62,000	
OFFICE OF SCIENCE & TECH	1D3	25,000	
JOB SKILLS PARTNERSHIP PROGRAM	301	15,000	
MI-SUPPORT EMPLOYMENT	478	11,000	
SERVICES FOR THE BLIND STATE	485	89,000	
ADMINISTRATION	900	83,000	
EMPLOYMENT & ECONOMIC DEVELPMT		\$285,000	
<u>GOVERNORS OFFICE</u>			
GOVERNOR'S OFFICE	GEN	67,775	
NECESSARY EXPENSES	NEC	13,000	
GOVERNORS OFFICE		\$80,775	

MINNESOTA MANAGEMENT & BUDGET
UNALLOTMENT SUMMARY: FY 2010 AGENCY OPERATING
GENERAL FUND UNLESS OTHERWISE NOTED
7/28/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2010</u>	<u>Fund</u>
<u>HEALTH DEPT</u>			
COMMUNITY & FAMILY HLTH PROMO	001	53,000	
POLICY QUALITY & COMPLIANCE	002	118,000	
HEALTH PROTECTION	003	150,000	
ADMINISTRATIVE SUPPORT SVCS	004	131,000	
PENTACHLOROPHENOL	042	55,000	
PFC CITIZENS ADVISORY GROUP	043	20,000	
HEALTH DEPT		\$527,000	
<u>HISTORICAL SOCIETY</u>			
EDUCATION AND OUTREACH	EDO	95,750	
PRESERVATION & ACCESS	PRA	72,000	
HISTORICAL SOCIETY		\$167,750	
<u>HOUSING FINANCE AGENCY</u>			
REHAB LOAN PROGRAM	A09	256,000	HOUSING FINANCE AGENCY
HOUSING FINANCE AGENCY		\$256,000	
<u>HUMAN RIGHTS DEPT</u>			
HUMAN RIGHTS ENFORCEMENT	DHR	79,290	
HUMAN RIGHTS DEPT		\$79,290	
<u>HUMAN SERVICES DEPT</u>			
HEALTH CARE ADMIN	S15	180,000	
DHS ADMIN OPERATIONS	S20	3,109,000	
HUMAN SERVICES DEPT		\$3,289,000	
<u>LABOR AND INDUSTRY DEPT</u>			
LABOR STANDARDS DIVISION	WRE	19,800	
LABOR AND INDUSTRY DEPT		\$19,800	
<u>MEDIATION SERVICES DEPT</u>			
MEDIATION SERVICES	MED	16,000	
MEDIATION SERVICES DEPT		\$16,000	
<u>METROPOLITAN COUNCIL/TRANSPORT</u>			
METRO RAIL OPERATIONS	MRO	119,000	
METRO TRANSIT ASSISTANCE	MTA	1,506,000	
PARKS GEN FUND	PGF	86,000	
METROPOLITAN COUNCIL/TRANSPORT		\$1,711,000	
<u>MINNESOTA MANAGEMENT & BUDGET</u>			
STATEWIDE & AGCY OPERATIONS	GEN	459,000	
MINNESOTA MANAGEMENT & BUDGET		\$459,000	

MINNESOTA MANAGEMENT & BUDGET
UNALLOTMENT SUMMARY: FY 2010 AGENCY OPERATING
GENERAL FUND UNLESS OTHERWISE NOTED
7/28/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2010</u>	<u>Fund</u>
<u>NATURAL RESOURCES DEPT</u>			
LANDS & MINERALS MGMT-GEN	100	30,000	
WATERS RESOURCES MANAGEMENT	200	84,000	
FOREST MANAGEMENT	300	135,000	
MINN FOREST RESOURCES COUNCIL	303	53,000	
PAT PARKS & RECREATION MGMT	400	379,846	
PAT WILD & SCENIC RIVERS	406	40,000	
ENFORCEMENT GEN	700	230,000	
OPERATIONS SUPPORT GEN	840	112,500	
F&W-PRAIRIE WETLANDS-GEN	D10	265,000	
ECOLOGICAL RESOURCES GEN	E00	46,500	
STREAM PROTECT & IMP FUND ITC	202	99,154	MISC SPECIAL REVENUE
NATURAL RESOURCES DEPT		\$1,475,000	
<u>OFFICE OF ENTERPRISE TECHNOLOGY</u>			
OFFICE OF ENTERPRISE TECHNOLOG	500	33,637	
ENTERPRISE IT SECURITY	501	95,918	
OFFICE OF ENTERPRISE TECHNOLOGY		\$129,555	
<u>OFFICE OF HIGHER EDUCATION</u>			
AGENCY ADMINISTRATION	001	77,000	
OFFICE OF HIGHER EDUCATION		\$77,000	
<u>POLLUTION CONTROL AGENCY</u>			
ADMINISTRATIVE SUPPORT OPERATI	P01	12,000	
STORMWATER MANAGEMENT	V13	98,000	
POLLUTION CONTROL AGENCY		\$110,000	
<u>REVENUE DEPT</u>			
TAX SYSTEMS MGMT	900	924,479	
REVENUE DEPT		\$924,479	
<u>TRANSPORTATION DEPT</u>			
TRANSIT IMPROVEMNT AD	002	9,000	
RAIL SERVICE PLAN & P	003	9,000	
ROOSEVELT TOWER	006	5,558	
TRANSPORTATION DEPT		\$23,558	
REPORT TOTAL		\$11,077,207	

August 14, 2009

Senator Richard Cohen, Chair
Senate Finance Committee
121 State Capitol
St. Paul, MN 55155

Representative Loren Solberg, Chair
House Ways and Means Committee
443 State Office Building
St. Paul, MN 55155

Senator Thomas Bakk, Chair
Senate Tax Committee
226 State Capitol
St. Paul, MN 55155

Representative Ann Lenczewski, Chair
House Tax Committee
509 State Office Building
St. Paul, MN 55155

RE: Third Notice of Allotment Reductions Pursuant to M.S. 16A.152, Subd. 4

Dear Senators and Representatives:

The purpose of this letter is to update you on our progress in implementing the allotment reductions announced by the Governor. All of the allotment reductions have been implemented except for the reductions to FY 2011 local government aids, which we expect to be complete by mid-January, 2010.

This third notice provides information on the transactions necessary to implement the remaining unallotments to agency operating budgets for FY 2011. The attached table provides detail by agency, appropriation account, and fund.

Please direct any questions to Jim Schowalter, Assistant Commissioner for Budget Services.

Sincerely,



Tom J. Hanson
Commissioner

Enclosure(s)

cc: Legislative Advisory Commission Members
Finance Chairs

MINNESOTA MANAGEMENT & BUDGET
UNALLOTMENT SUMMARY: FY 2011 AGENCY OPERATING
GENERAL FUND UNLESS OTHERWISE NOTED
8/14/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2011 Fund</u>
<u>ADMINISTRATION DEPT</u>		
GOVERNMENT & CITIZEN SERVICES	700	200,000
ADMINISTRATION DEPT		<u>\$ 200,000</u>
<u>AGRICULTURE DEPT</u>		
PESTICIDE & FERTILIZER MGMT	G06	27,000
PLANT PROTECTION	G06	63,000
DAIRY & FOOD INSPECTION	G06	133,000
LIVESTOCK PREMISE	G84	5,000
AG MARKETING SERVICES	G45	50,000
INTEGRATED PEST MGMT	G99	77,000
DAIRY DEVELOPMENT PROGRAM	G90	69,000
AGENCY SERVICES	G08	68,000
AGRICULTURE DEPT		<u>\$ 492,000</u>
<u>COMMERCE DEPT</u>		
ADMINISTRATIVE SERVICES	AS1	97,000
MARKET ASSURANCE	EL1	150,000
COMMERCE DEPT		<u>\$ 247,000</u>
<u>EDUCATION DEPARTMENT</u>		
EDUCATION AGCY OPERATIONS	001	431,500
BD OF SCHOOL ADMINISTRATORS	004	3,900
BOARD OF TEACHING	008	14,000
EARLY HEARING LOSS INTERVENTION	017	40,000
KINDERGARTEN ENTRANCE ASSMNT	079	6,500
EDUCATE PARENTS PARTNERSHIP	080	1,100
EDUCATION DEPARTMENT		<u>\$ 497,000</u>
<u>EMPLOYMENT & ECONOMIC DEVELPMT</u>		
BUSINESS AND COMMUNITY DVLP	101	62,000
OFFICE OF SCIENCE & TECH	1D3	25,000
JOB SKILLS PARTNERSHIP PROGRAM	301	15,000
MI-SUPPORT EMPLOYMENT	478	11,000
SERVICES FOR THE BLIND STATE	485	89,000
ADMINISTRATION	900	83,000
EMPLOYMENT & ECONOMIC DEVELPMT		<u>\$ 285,000</u>
<u>GOVERNORS OFFICE</u>		
GOVERNOR'S OFFICE	GEN	67,775
NECESSARY EXPENSES	NEC	13,000
GOVERNORS OFFICE		<u>\$ 80,775</u>

MINNESOTA MANAGEMENT & BUDGET
UNALLOTMENT SUMMARY: FY 2011 AGENCY OPERATING
GENERAL FUND UNLESS OTHERWISE NOTED
8/14/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2011 Fund</u>
<u>HEALTH DEPT</u>		
COMMUNITY & FAMILY HLTH PROMO	001	355,000
POLICY QUALITY & COMPLIANCE	002	74,000
HEALTH PROTECTION	003	74,000
ADMINISTRATIVE SUPPORT SVCS	004	22,000
HEALTH DEPT		\$ 525,000
<u>HISTORICAL SOCIETY</u>		
EDUCATION AND OUTREACH	EDO	95,750
PRESERVATION & ACCESS	PRA	72,000
HISTORICAL SOCIETY		\$ 167,750
<u>HOUSING FINANCE AGENCY</u>		
FY 2011 APPROPRIATION	09A	256,000
HOUSING FINANCE AGENCY		\$ 256,000
<u>HUMAN RIGHTS DEPT</u>		
HUMAN RIGHTS ENFORCEMENT	DHR	79,290
HUMAN RIGHTS DEPT		\$ 79,290
<u>HUMAN SERVICES DEPT</u>		
FINANCIAL OPERATIONS	S10	3,282,000
FFP REVENUE LOSS		(1,312,800)
HUMAN SERVICES DEPT		\$ 1,969,200
<u>LABOR AND INDUSTRY DEPT</u>		
LABOR STANDARDS DIVISION	WRE	19,800
LABOR AND INDUSTRY DEPT		\$ 19,800
<u>MEDIATION SERVICES DEPT</u>		
MEDIATION SERVICES	MED	16,000
MEDIATION SERVICES DEPT		\$ 16,000
<u>METROPOLITAN COUNCIL/TRANSPORT</u>		
METRO RAIL OPERATIONS	MRO	119,000
METRO TRANSIT ASSISTANCE	MTA	1,506,000
PARKS GEN FUND	PGF	86,000
METROPOLITAN COUNCIL/TRANSPORT		\$ 1,711,000
<u>MINNESOTA MANAGEMENT & BUDGET</u>		
STATEWIDE & AGCY OPERATIONS	GEN	459,000
MINNESOTA MANAGEMENT & BUDGET		\$ 459,000

MINNESOTA MANAGEMENT & BUDGET
UNALLOTMENT SUMMARY: FY 2011 AGENCY OPERATING
GENERAL FUND UNLESS OTHERWISE NOTED
8/14/2009

<u>Appropriation Name</u>	<u>Unit</u>	<u>FY 2011</u>	<u>Fund</u>
<u>NATURAL RESOURCES DEPT</u>			
LANDS & MINERALS MGMT-GEN	100	30,000	
WATERS RESOURCES MANAGEMENT	200	84,000	
FOREST MANAGEMENT	300	135,000	
MINN FOREST RESOURCES COUNCIL	303	53,000	
PAT PARKS & RECREATION MGMT	400	381,500	
PAT WILD & SCENIC RIVERS	406	40,000	
ENFORCEMENT GEN	700	230,000	
OPERATIONS SUPPORT GEN	840	112,500	
F&W-PRAIRIE WETLANDS-GEN	D10	265,000	
ECOLOGICAL RESOURCES GEN	E00	46,500	
STREAM PROTECT & IMP FUND ITC	202	97,500	MISC SPECIAL REVENUE
NATURAL RESOURCES DEPT		\$ 1,475,000	
<u>OFFICE OF ENTERPRISE TECHNOLOGY</u>			
OFFICE OF ENTERPRISE TECHNOLOG	500	33,637	
ENTERPRISE IT SECURITY	501	95,918	
OFFICE OF ENTERPRISE TECHNOLOGY		\$ 129,555	
<u>OFFICE OF HIGHER EDUCATION</u>			
AGENCY ADMINISTRATION	001	77,000	
OFFICE OF HIGHER EDUCATION		\$ 77,000	
<u>POLLUTION CONTROL AGENCY</u>			
MULTIMEDIA PROGRAM OPERATIONS	C08	16,240	
ENV HEALTH & BIOMONITORING	G83	30,000	
ADMINISTRATIVE SUPPORT OPERATI	P01	14,740	
WATER PROGRAM OPERATIONS	W01	38,020	
POLLUTION CONTROL AGENCY		\$ 99,000	
<u>REVENUE DEPT</u>			
TAX SYSTEMS MGMT	900	949,932	
SPECIAL TIMING ACCOUNT		3,870,051	
REVENUE DEPT		\$ 4,819,983	
<u>TRANSPORTATION DEPT</u>			
TRANSIT IMPROVEMNT AD	002	9,000	
RAIL SERVICE PLAN & P	003	9,000	
ROOSEVELT TOWER	006	5,558	
TRANSPORTATION DEPT		\$ 23,558	
REPORT TOTAL		\$ 13,628,911	



July 2009

FY2009 Revenues \$150 Million Below Forecast

Minnesota's net general fund revenues for FY 2009 are now estimated to total \$14.843 billion, \$150 million (1.0 percent) less than February's forecast. Individual income tax receipts were the primary source of the shortfall, down \$232 million (3.2 percent) from forecast. Receipts from the corporate income tax, the motor vehicle sales tax, and other taxes and revenues exceeded projections by a combined \$98 million. This revenue shortfall reduces the balance carried forward to the 2010-11 biennium.

Summary of Revenues: (Fiscal Year 2009)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$7,244	\$7,012	\$(232)	(3.2)
Sales	4,394	4,378	(16)	(0.4)
Corporate	657	710	53	8.1
Motor Vehicles	107	116	9	8.4
Other	<u>2,591</u>	<u>2,627</u>	<u>36</u>	1.4
Total	\$14,993	\$14,843	\$(150)	(1.0)

All parts of Minnesota's individual income tax underperformed February's forecast. Withholding tax receipts were \$108 million (1.8 percent) less than anticipated and individual estimated payments, excluding extension payments, \$100 million below forecast. Combined tax year 2008 settle-up payments, extension payments, and refunds fell short of projections by \$24 million. While some of the lost withholding revenue appears to reflect smaller than anticipated bonus payments made in early 2009, withholding receipts in April, May, and June averaged more than \$20 million per month below projections, consistent with weaker wage and employment growth than anticipated in February's forecast.

The negative variance for gross sales tax receipts observed earlier this year has been reduced, but not eliminated in the last three months. Taxes paid on sales in April, May, and June totaled \$10 million more than projected, reducing the shortfall in gross sales tax receipts to \$10 million. Sales tax refunds were \$6 million more than forecast due to changes in year-end accounting procedures.

All FY 2009 results are preliminary and subject to change. As in past years forecasts for some revenue sources were adjusted to reflect anticipated accruals in this first report of receipts for the entire fiscal year. Individual income tax refunds paid in FY 2009 could change materially before closing due to processing of amended returns filed by individuals victimized by Ponzi schemes. A complete accounting of FY 2009 revenues reflecting final closing will be published in the October *Economic Update*.

Real GDP Growth Expected by Fall But Job Losses Continue until Spring 2010

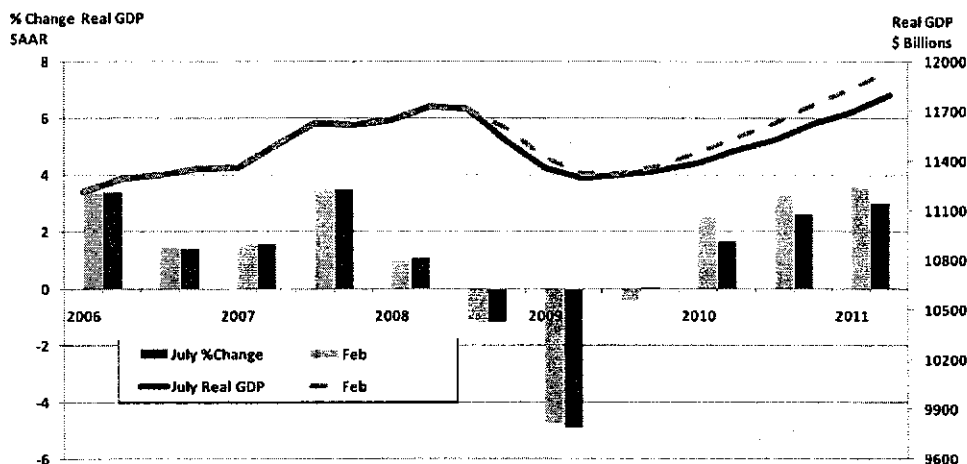
The past year has been a difficult one for the U.S. economy. Real GDP has fallen by an estimated 3.7 percent and we have lost nearly 6.5 million jobs. The unemployment rate is now at 9.5 percent, the average workweek for production and supervisory workers has fallen to the lowest level since the data were first collected in 1964, and average weekly earnings have grown by less than one percent over the past 12 months. We are in the longest recession since the great depression, and while most expect real GDP growth to return by fall, this recession is also likely to be the deepest in the postwar period. In recent months analysts have been searching so hard for signs of an economic turnaround that data which in normal times would signify major economic problems (such as May's loss of more than 300,000 jobs) have been welcomed by some pundits as "green shoots" heralding an approaching recovery.

Most forecasters expect that the tax cuts and spending increases provided in the federal stimulus package, combined with an end to inventory draw downs and modest increases in auto production will lift real output into positive territory this fall. But, most also have reduced their mid-year projections considerably from forecasts made at the start of this year. For example, February's Blue Chip consensus called for real GDP to fall by 1.9 percent in 2009; the July consensus forecast expects a 2009 decline of 2.6 percent. Almost all forecasts show job losses and unemployment rate increases extending well into 2010.

Global Insight (GII), Minnesota's national macroeconomic consultant, has grown modestly more optimistic in recent months, but their July baseline still shows a weaker economy through the end of the 2010-11 biennium than they forecast in February. GII now calls for real GDP to drop by 1.6 percent in fiscal 2009, and by 0.8 percent in fiscal 2010. In fiscal 2011 growth at a 2.5 percent annual rate is anticipated. February's baseline projected real GDP declines of 1.2 percent and 0.8 percent in fiscal 2009 and fiscal 2010, followed by 3.2 percent growth in fiscal 2011.

Oil is expected to remain in the \$60 to \$70 per barrel range through early 2011. Those higher than previously projected prices produce only a small change in projected inflation. CPI increases of 0.4 percent and 2.2 percent are forecast for fiscal 2010 and fiscal 2011. February's baseline called for a CPI decline of 0.7 percent followed by an increase of 2.3 percent.

Weaker Outlook for 2010-11 Biennium



Global Insight assigns a probability of 60 percent to their July baseline forecast. A more optimistic scenario, in which the economy rebounds more rapidly from its current lows is assigned a probability of 20 percent as is a scenario in which the economy's downward spiral does not end until the spring of 2010.

Economic Data Show U.S. Economy Weaker than Minnesota's in 2008

Minnesota has lagged slightly behind the U.S. economy in per capita GDP and per capita personal income growth since 2005. Employment also has grown more slowly in Minnesota and our unemployment rate appears to have shifted from its historical pattern of being well below the U.S. rate to a new pattern more closely tied to the national rate. Per capita personal income in Minnesota was more than 9 percent above the U.S. average in 2003 and 2004. In 2005 and 2006, per capita personal income grew much more slowly than the U.S. average, and the state average fell to 5.8 percent above the U.S. In 2006 per capita GDP fell by 0.3 percent while the U.S. average grew 1.8 percent. Even though Minnesota's subpar economic performance extended for just three years, there has been concern that the state's recent performance might be an early warning of longer term problems.

Economic conditions were far from normal in both Minnesota and nationally in 2008. But, according to preliminary data released by the U.S. Department of Commerce, Minnesota grew faster than the U.S. averages in both per capita GDP and per capita personal income. Last year real GDP per capita in Minnesota grew by 1.25 percent, the best since 2004. Nationally, real GDP per capita fell by 0.2 percent. And, per capita personal income grew by 4.1 percent in Minnesota, considerably stronger than the 2.9 percent growth observed nationally. Minnesota's per capita personal income is now 7.6 percent above the national average. The relative improvement also carried forward to the employment statistics. When compared to the end of 2007 employment in Minnesota fell by 2.0 percent by the end of 2008. Nationally, payroll employment fell by 2.2 percent.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	F2009 Fiscal Year-to-Date			April - June 2009		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	6,105,900	5,998,087	(107,813)	1,464,200	1,401,038	(63,162)
Declarations	1,441,700	1,359,180	(82,521)	597,800	517,635	(80,165)
Miscellaneous	903,220	941,170	37,950	712,143	750,094	37,950
Gross	8,450,820	8,298,436	(152,384)	2,774,143	2,668,767	(105,377)
Refund	1,207,600	1,286,825	79,225	1,009,686	1,088,911	79,225
Net	7,243,220	7,011,612	(231,608)	1,764,457	1,579,856	(184,601)
Corporate & Bank Excise						
Declarations	731,125	751,050	19,925	139,290	163,655	24,364
Miscellaneous	167,860	176,925	9,065	(2,674)	9,840	12,514
Gross	898,985	927,975	28,990	136,617	173,494	36,878
Refund	241,600	217,549	(24,051)	33,634	21,808	(11,826)
Net	657,385	710,426	53,041	102,983	151,686	48,703
Sales Tax						
Gross	4,640,799	4,630,803	(9,996)	1,300,867	1,310,625	9,757
Refunds	246,199	252,425	6,226	63,465	64,921	1,456
Net	4,394,601	4,378,378	(16,223)	1,237,403	1,245,704	8,301
Motor Vehicle Sales Tax						
	107,336	116,170	8,834	27,165	32,654	5,489
Other Revenues:						
Estate	121,000	135,945	14,945	23,411	33,124	9,714
Liquor/Wine/Beer	75,477	76,068	591	23,694	25,082	1,388
Cigarette/Tobacco/Cont Sub	187,160	180,000	(7,160)	27,153	26,434	(720)
Deed and Mortgage	158,600	160,855	2,254	53,648	55,709	2,061
Insurance Gross Earnings	275,800	285,508	9,708	53,343	64,768	11,425
Lawful Gambling	44,090	43,659	(430)	15,096	15,521	425
Health Care Surcharge	214,976	219,337	4,361	56,877	49,343	(7,534)
Other Taxes	9,738	24,122	14,384	8,841	23,570	14,729
Statewide Property Tax	742,263	728,425	(13,838)	408,631	394,688	(13,943)
DHS SOS Collections	40,460	40,212	(248)	12,527	10,681	(1,846)
Income Tax Reciprocity	75,880	75,880	0	0	0	0
Investment Income	28,000	40,183	12,183	(862)	5,585	6,447
Tobacco Settlement	176,982	179,854	2,872	0	2,872	2,872
Departmental Earnings	248,182	243,320	(4,862)	43,971	41,602	(2,370)
Fines and Surcharges	93,461	91,003	(2,458)	30,635	29,281	(1,354)
Lottery Revenues	45,773	44,869	(904)	12,304	12,279	(25)
Revenues yet to be allocated	(0)	43	43	(1,116)	(965)	151
Residual Revenues	96,036	110,815	14,779	23,892	27,642	3,750
Sales Tax Rebates (all years)		0	0	0	0	0
County Nursing Home, Pub Hosp	5,610	5,610	0	516	516	0
Other Subtotal	2,639,489	2,685,708	46,219	792,560	817,732	25,172
Other Refunds	48,325	58,934	10,609	17,825	25,228	7,404
Other Net	2,591,164	2,626,774	35,610	774,735	792,503	17,768
Total Gross	16,737,429	16,659,092	(78,337)	5,031,353	5,003,271	(28,082)
Total Refunds	1,743,724	1,815,732	72,009	1,124,610	1,200,868	76,259
Total Net	14,993,705	14,843,359	(150,346)	3,906,743	3,802,403	(104,340)



October 2009

FY 2010-11 Revenues 1.7 Percent Below Forecast

Net non-dedicated general fund revenues totaled \$3.067 billion during the first quarter of fiscal 2010, \$52 million (1.7 percent) less than end-of-session estimates. Individual income tax receipts were \$93 million below forecast and sales tax receipts were \$20 million below forecast, while corporate income tax receipts were \$52 million more than projected.

Summary of Tax Receipts (July – September, 2009)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,728	\$1,635	\$(93)	(5.4)
Sales	874	854	(20)	(2.3)
Corporate	129	182	52	41.1
Motor Vehicles	16	20	4	25.0
Other	<u>372</u>	<u>376</u>	<u>4</u>	<u>1.1</u>
Total	\$3,119	\$3,067	\$(52)	(1.7)

Third quarter estimated payments for the individual income tax were \$55 million less than anticipated in February's forecast, and withholding tax receipts were \$27 million below projections. The large, 19 percent, negative variance for estimated tax payments may reflect weaker proprietors' incomes and smaller expected capital gains than forecast in February. Estimated payments are 30 percent below year-earlier levels. The weakness in withholding receipts, down more than 7 percent from last year, reflects greater than projected recession-related wage declines. Gross sales tax receipts were down \$13 million from forecast, but down 13.5 percent (\$143 million) from year-earlier levels. Net corporate tax receipts were \$52 million more than forecast, but \$51 million (22 percent) less than in the third quarter of calendar 2008.

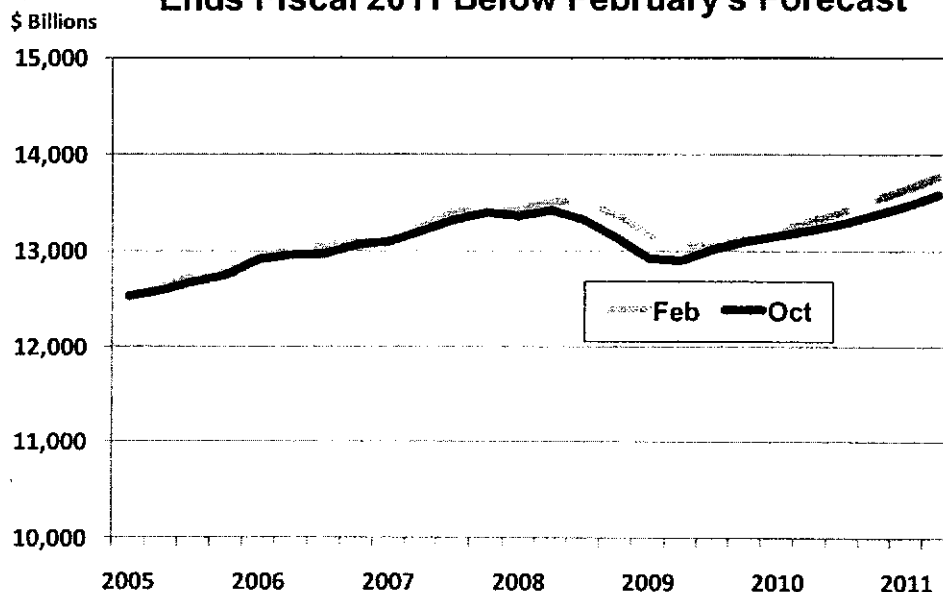
The shortfall in net-non-dedicated revenues for the recently completed 2009 fiscal year is now reported to be \$142 million, \$8 million less than reported in July's *Economic Update*. Individual income tax refunds and corporate income tax refunds were reduced modestly. Sales tax refunds increased by \$19 million, reflecting a change in the treatment of sales tax refund claims for items purchased in fiscal 2009, for which refund claims were received and paid between July 1 and closing.

The “Great Recession” Appears to Be Over, But ...

Although the National Bureau of Economic Research’s official certification of the end of this recession is unlikely to come before next spring, the longest and deepest recession since World War II almost certainly has come to an end. Real, inflation adjusted, GDP appears to have grown at a rate in excess of 3 percent in the third quarter of 2009, and most forecasters expect growth to continue, albeit at a more modest rate, during this year’s final quarter. Forecasters no longer are debating when the recession will end. Their attention has turned to the question of what kind of recovery should be expected and how long it will take to regain pre-recession levels of output and employment. Most expect an extended U shaped recovery; the more optimistic project a V shaped recovery, the more pessimistic, a W or even an L.

The October 2009 baseline forecast from IHS-Global Insight (GII), Minnesota’s national economic consultant, is very similar to the consensus outlook. It is also not greatly different from February’s baseline through 2010. GII’s October baseline calls for real GDP to decline by 2.5 percent in 2009, but then grow at a 2.1 percent annual rate in 2010. In February real GDP was expected to decline by 2.7 percent in 2009, then grow at an annual rate of 2.0 percent. For 2011 real GDP growth of 2.9 percent is projected. In February the expected 2011 growth rate was 3.5 percent. Global Insight continues to see little threat from inflation in the short term with the CPI expected to decline by 0.4 percent in 2009, then increase by 1.4 percent in 2010 and 2.2 percent in 2011.

Economic Growth Returns, But Real GDP Ends Fiscal 2011 Below February’s Forecast



Global Insight’s forecast is identical to the Blue Chip Consensus forecast for 2009. For 2010 the Blue Chip panel is slightly more optimistic than the October baseline calling for 2.5 percent growth. GII categorizes their current outlook as a “mild W” even though real

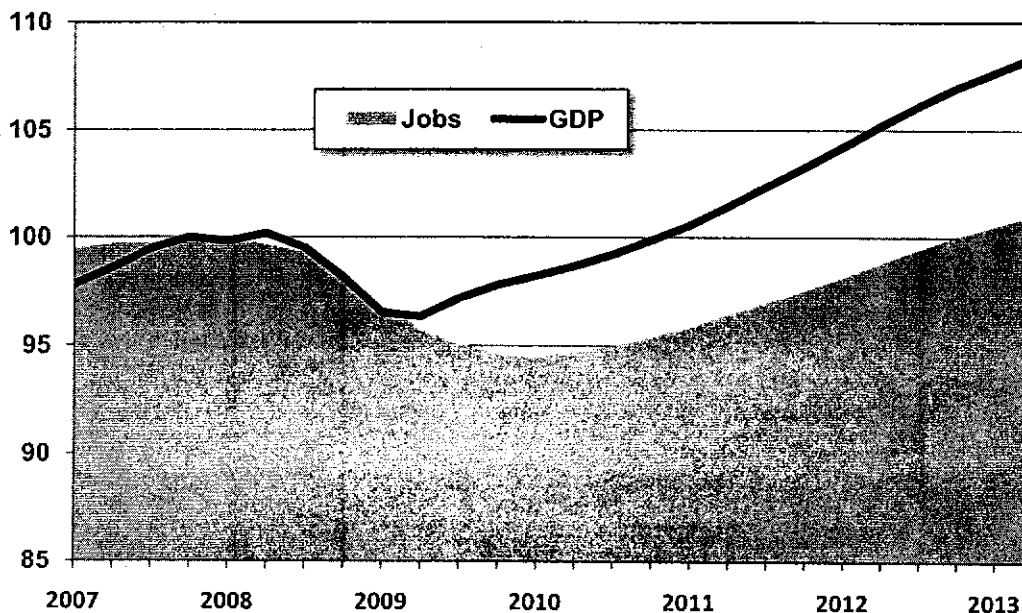
output does not decline over the forecast horizon in their baseline. October's baseline is assigned a probability of 60 percent the same as February's. A more optimistic scenario including a V shaped recovery is assigned a probability of 20 percent as is a more pessimistic scenario containing a double dip recession.

Job Growth for the U.S. Economy Not Expected to Return Until Next Spring

Few forecasters expect to see increases in U.S. payroll employment until after the first of the year and most expect the unemployment rate to move higher until early summer. While labor markets no longer have as many problems as in late 2008 and early 2009 when U.S. job losses averaged more than 600,000 per month, it is unrealistic to expect to see employment growth or a decline in the unemployment rate until the recovery becomes more fully established. Jobs will be added only after hours worked by existing employees have been increased to more normal levels and September's job report showed average hours worked by production workers at an all-time low. The unemployment rate will take even longer to begin to fall since an improving economy will draw discouraged workers back to join those actively seeking work, temporarily increasing the unemployment rate. In September, 17 percent of the workforce was unemployed, working less than full time for economic reasons, or categorized as a discouraged worker. Payroll employment is not expected to again reach pre-recession levels until 2012 and the U.S. unemployment rate is not expected to dip below 8 percent until 2013.

Jobs Recovery for U.S. Will Be Slow

Index 2007Q4 = 100



COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

(\$ in Thousands)

	Fiscal 2010 Year-to-Date			Fiscal Year 2009		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	1,398,227	1,370,879	(27,348)	6,105,900	5,997,887	(108,014)
Declarations	290,022	235,122	(54,900)	1,441,700	1,359,597	(82,103)
Miscellaneous	69,165	69,161	(4)	903,220	941,000	37,780
Gross	1,757,414	1,675,162	(82,252)	8,450,820	8,298,484	(152,337)
Refund	29,595	40,714	11,119	1,242,600	1,310,249	67,649
Net	1,727,819	1,634,448	(93,371)	7,208,220	6,988,234	(219,986)
Corporate & Bank Excise						
Declarations	127,410	164,523	37,113	731,125	751,059	19,934
Miscellaneous	45,696	39,173	(6,523)	167,860	176,082	8,222
Gross	173,106	203,696	30,590	898,985	927,141	28,156
Refund	43,715	22,064	(21,652)	246,600	218,947	(27,653)
Net	129,391	181,632	52,241	652,385	708,195	55,810
Sales Tax						
Gross	923,611	910,737	(12,874)	4,640,799	4,632,609	(8,190)
Refunds	49,650	56,464	6,814	263,199	288,778	25,579
Net	873,961	854,273	(19,688)	4,377,601	4,343,831	(33,770)
Motor Vehicle Sales Tax						
	16,182	20,205	4,023	107,336	116,794	9,459
Other Revenues:						
Estate	30,750	35,479	4,729	121,000	135,944	14,944
Liquor/Wine/Beer	14,468	14,597	129	75,477	76,068	591
Cigarette/Tobacco/Cont Sub	47,392	47,287	(105)	187,160	182,399	(4,761)
Deed and Mortgage	34,707	35,659	952	158,600	160,855	2,254
Insurance Gross Earnings	69,783	66,394	(3,389)	275,800	285,478	9,678
Lawful Gambling	10,216	7,887	(2,329)	44,090	43,481	(609)
Health Care Surcharge	56,751	56,007	(745)	214,976	219,337	4,361
Other Taxes	173	178	5	9,738	24,122	14,384
Statewide Property Tax	110	278	168	743,211	729,373	(13,838)
DHS SOS Collections	12,981	10,829	(2,152)	40,460	40,291	(169)
Income Tax Reciprocity	0	0	0	75,880	75,880	0
Investment Income	1,667	2,231	564	28,000	40,080	12,080
Tobacco Settlement	0	100	100	176,982	179,854	2,872
Departmental Earnings	45,027	58,450	13,423	254,000	251,861	(2,139)
Fines and Surcharges	19,818	17,216	(2,602)	96,700	94,545	(2,155)
Lottery Revenues	8,278	8,041	(238)	53,573	55,996	2,423
Revenues yet to be allocated	0	1,154	1,154	0	(3)	(3)
Residual Revenues	26,231	22,259	(3,972)	99,541	115,969	16,427
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IGT	1,304	1,304	0	5,610	5,610	0
Other Subtotal	379,657	385,349	5,692	2,660,799	2,717,139	56,340
Other Refunds	7,906	9,142	1,236	51,925	61,690	9,765
Other Net	371,751	376,207	4,456	2,608,874	2,655,449	46,575
Total Gross	3,249,970	3,195,149	(54,821)	16,758,739	16,692,168	(66,571)
Total Refunds	130,867	128,384	(2,483)	1,804,324	1,879,664	75,341
Total Net	3,119,104	3,066,765	(52,338)	14,954,415	14,812,503	(141,912)



DATE: November 10, 2009
TO: Governor Tim Pawlenty
FROM: Tom J. Hanson, Commissioner *TJH*
SUBJECT: October Revenue Collections

Preliminary estimates show General Fund receipts totaling \$1.037 Billion in October, \$29.0 million (2.7 percent), less than forecast. For the 2010 Fiscal Year, receipts are now \$4.103 billion, \$81.4 million (1.9 percent) below forecast. This negative variance includes all refunds issued in fiscal 2010 through October 31, 2009. It does not include an additional \$126 million in corporate franchise tax refunds and sales tax refunds processed in October but currently being held in the state's general fund for cash management purposes.

MONTHLY RECEIPTS FOR OCTOBER, 2009
(\$ MILLIONS)

	<u>Est.</u>	<u>Act.</u>	<u>Var.</u>
INDIVIDUAL INCOME TAX	\$ 557.5	\$ 499.6	\$-57.9
SALES TAX	370.2	377.1	6.9
CORPORATE INCOME TAX	-3.6	28.2	31.8
MOTOR VEHICLE SALES TAX	5.4	5.6	0.3
OTHER REVENUE	<u>136.1</u>	<u>126.0</u>	<u>-10.1</u>
TOTAL	\$1,065.6	\$1,036.5	\$-29.0

EXHIBIT: Refunds processed but payments delayed 10/16/09 -10/31/09

Corporate Franchise Tax	\$112,000,000
Sales Tax	<u>14,000,000</u>
Total	\$126,000,000

All results are preliminary and subject to revision. Monthly revenue variances should be interpreted with great caution. Wide swings in variances for particular revenues may be caused by variations in the rate at which receipts are received or refunds are processed and not reflect changes in the revenue outlook. Negative receipts are forecast when expected refund payments exceed projected receipts.

October Revenue Collections Memo
November 10, 2009
Page Two

Other revenues often include undefined accounts receivables which will be added to receipts for the appropriate tax when identified.

cc: Carol Molnau, Lt. Governor
Sen. Larry Pogemiller, Majority Leader
Sen. David Senjem, Minority Leader
Rep. Margaret Anderson Kelliher, Speaker of the House
Rep. Kurt Zellers, Minority Leader

CHAPTER 79—H.F.No. 1362

An act relating to state government; making changes to health and human services; amending provisions related to licensing, the Minnesota family investment program, child care, adult supports; fraud prevention, state-operated services, the Minnesota sex offender program, the Department of Health, health care programs, chemical and mental health; continuing care programs, and public health; establishing the State-County Results, Accountability, and Service Delivery Redesign; making technical changes; making forecast adjustments; requiring reports; establishing and increasing fees; appropriating money; amending Minnesota Statutes 2008, sections 60A.092, subdivision 2; 62D.03, subdivision 4; 62D.05, subdivision 3; 62J.495; 62J.496; 62J.497, subdivisions 1, 2, by adding subdivisions; 62J.692, subdivision 7; 103I.208, subdivision 2; 119B.09, subdivision 7; 119B.13, subdivision 6; 119B.21, subdivisions 5, 10; 119B.231, subdivisions 2, 3, 4; 144.0724, subdivisions 2, 4, 8, by adding subdivisions; 144.121, subdivisions 1a, 1b; 144.122; 144.1222, subdivision 1a; 144.125, subdivision 1; 144.226, subdivision 4; 144.72, subdivisions 1, 3; 144.9501, subdivisions 22b, 26a, by adding subdivisions; 144.9505, subdivisions 1g, 4; 144.9508, subdivisions 2, 3, 4; 144.9512, subdivision 2; 144.966, by adding a subdivision; 144.97, subdivisions 2, 4, 6, by adding subdivisions; 144.98, subdivisions 1, 2, 3, by adding subdivisions; 144.99, subdivision 1; 144A.073, by adding a subdivision; 144A.44, subdivision 2; 144A.46, subdivision 1; 145A.17, by adding a subdivision; 148.6445, by adding a subdivision; 148D.180, subdivisions 1, 2, 3, 5; 148E.180, subdivisions 1, 2, 3, 5; 152.126, subdivisions 1, 2, 6; 153A.17; 157.15, by adding a subdivision; 157.16; 157.22; 176.011, subdivision 9; 245.462, subdivision 18; 245.470, subdivision 1; 245.4871, subdivision 27; 245.488, subdivision 1; 245A.03, by adding a subdivision; 245A.10, subdivisions 2, 3; 245A.11, subdivision 2a, by adding subdivisions; 245A.16, subdivisions 1, 3; 245C.03, subdivision 2; 245C.04, subdivisions 1, 3; 245C.05, subdivision 4, by adding a subdivision; 245C.08, subdivision 2; 245C.10, subdivision 3, by adding subdivisions; 245C.17, by adding a subdivision; 245C.20; 245C.21, subdivision 1a; 245C.23, subdivision 2; 246.50, subdivision 5, by adding subdivisions; 246.51, by adding subdivisions; 246.511; 246.52; 246.54, subdivision 2; 246B.01, by adding subdivisions; 252.025, subdivision 7; 252.46, by adding a subdivision; 252.50, subdivision 1; 254A.02, by adding a subdivision; 254A.16, by adding a subdivision; 254B.03, subdivisions 1, 3, by adding a subdivision; 254B.05, subdivision 1; 254B.09, subdivision 2; 256.01, subdivision 2b, by adding subdivisions; 256.045, subdivision 3; 256.476, subdivisions 5, 11; 256.962, subdivisions 2, 6; 256.969, subdivisions 2b, 3a, by adding subdivisions; 256.975, subdivision 7; 256.983, subdivision 1; 256B.04, subdivision 16; 256B.055, subdivisions 7, 12; 256B.056, subdivisions 3c, 3d; 256B.057, by adding a subdivision; 256B.0575; 256B.0595, subdivisions 1, 2; 256B.06, subdivisions 4, 5; 256B.0621, subdivision 2; 256B.0622, subdivision 2; 256B.0623, subdivision 5; 256B.0624, subdivisions

5, 8; 256B.0625, subdivisions 3, 3c, 6a, 7, 9, 11, 13, 13e, 13h, 17, 17a, 19a, 19c, 26, 42, 47, by adding subdivisions; 256B.0641, subdivision 3; 256B.0651; 256B.0652; 256B.0653; 256B.0654; 256B.0655, subdivisions 1b, 4; 256B.0657, subdivisions 2, 6, 8, by adding a subdivision; 256B.08, by adding a subdivision; 256B.0911, subdivisions 1, 1a, 3, 3a, 3b, 3c, 4a, 5, 6, 7, by adding subdivisions; 256B.0913, subdivision 4; 256B.0915, subdivisions 3a, 3e, 3h, 5, by adding a subdivision; 256B.0916, subdivision 2; 256B.0917, by adding a subdivision; 256B.092, subdivision 8a, by adding subdivisions; 256B.0943, subdivisions 1, 12; 256B.0944, by adding a subdivision; 256B.0947, subdivision 1; 256B.15, subdivisions 1, 1a, 1h, 2, by adding subdivisions; 256B.199; 256B.37, subdivisions 1, 5; 256B.434, subdivision 4, by adding a subdivision; 256B.437, subdivision 6; 256B.441, subdivisions 55, 58, by adding a subdivision; 256B.49, subdivisions 12, 13, 14, 17, by adding subdivisions; 256B.501, subdivision 4a; 256B.5011, subdivision 2; 256B.5012, by adding a subdivision; 256B.69, subdivisions 5a, 5c, 5f, 23; 256B.76, subdivision 1; 256D.03, subdivision 4; 256D.44, subdivision 5; 256G.02, subdivision 6; 256I.03, subdivision 7; 256I.05, subdivisions 1a, 7c; 256J.08, subdivision 73a; 256J.24, subdivision 5; 256J.425, subdivisions 2, 3; 256J.45, subdivision 3; 256J.49, subdivisions 1, 4; 256J.521, subdivision 2; 256J.545; 256J.561, subdivisions 2, 3; 256J.57, subdivision 1; 256J.575, subdivisions 3, 4, 6, 7; 256J.621; 256J.626, subdivision 7; 256J.95, subdivisions 3, 11, 12, 13; 256L.03, by adding a subdivision; 256L.04, subdivisions 1, 7a, 10a, by adding a subdivision; 256L.05, subdivisions 1, 3, 3a, by adding a subdivision; 256L.07, subdivisions 1, 2, 3, by adding a subdivision; 256L.11, subdivision 1; 256L.15, subdivisions 2, 3; 256L.17, subdivisions 3, 5; 259.67, by adding a subdivision; 270A.09, by adding a subdivision; 327.14, by adding a subdivision; 327.15; 327.16; 327.20, subdivision 1, by adding a subdivision; 501B.89, by adding a subdivision; 519.05; 604A.33, subdivision 1; 609.232, subdivision 11; 626.556, subdivision 3c; 626.5572, subdivisions 6, 13, 21; Laws 2003, First Special Session chapter 14, article 13C, section 2, subdivision 1, as amended; Laws 2007, chapter 147, article 19, section 3, subdivision 4, as amended; proposing coding for new law in Minnesota Statutes, chapters 62Q; 246B; 254B; 256; 256B; proposing coding for new law as Minnesota Statutes, chapter 402A; repealing Minnesota Statutes 2008, sections 103I.112; 144.9501, subdivision 17b; 148D.180, subdivision 8; 245C.11, subdivisions 1, 2; 246.51, subdivision 1; 246.53, subdivision 3; 256.962, subdivision 7; 256B.0655, subdivisions 1, 1a, 1c, 1d, 1e, 1f, 1g, 1h, 1i, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 13; 256B.071, subdivisions 1, 2, 3, 4; 256B.092, subdivision 5a; 256B.19, subdivision 1d; 256B.431, subdivision 23; 256I.06, subdivision 9; 256L.17, subdivision 6; 327.14, subdivisions 5, 6; Minnesota Rules, parts 4626.2015, subpart 9; 9555.6125, subpart 4, item B.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

ARTICLE 1

LICENSING

Section 1. Minnesota Statutes 2008, section 245A.10, subdivision 2, is amended to read:

Subd. 4. Basic Health Care GrantsGeneral (224,341,000)Health Care Access (19,460,000)The amounts that may be spent from this appropriation for each purpose are as follows:**(a) MinnesotaCare**Health Care Access (19,460,000)**(b) MA Basic Health Care - Families and Children** (100,055,000)**(c) MA Basic Health Care - Elderly and Disabled** (136,795,000)**(d) General Assistance Medical Care** 12,539,000**Subd. 5. Continuing Care Grants** (247,791,000)The amounts that may be spent from this appropriation for each purpose are as follows:**(a) MA Long-Term Care Facilities** (59,204,000)**(b) MA Long-Term Care Waivers** (168,927,000)**(c) Chemical Dependency Entitlement Grants** (19,660,000)**Sec. 3. EFFECTIVE DATE.**Sections 1 and 2 are effective the day following final enactment.**ARTICLE 13
APPROPRIATIONS****Section 1. SUMMARY OF APPROPRIATIONS.**The amounts shown in this section summarize direct appropriations by fund made in this article.

	<u>2010</u>	<u>2011</u>	<u>Total</u>
<u>General</u>	\$ 4,452,323,000	\$ 5,280,470,000	\$ 9,732,793,000

<u>State Government Special Revenue</u>	<u>62,451,000</u>	<u>61,515,000</u>	<u>123,966,000</u>
<u>Health Care Access</u>	<u>489,995,000</u>	<u>568,298,000</u>	<u>1,058,293,000</u>
<u>Federal TANF</u>	<u>301,220,000</u>	<u>268,711,000</u>	<u>569,931,000</u>
<u>Lottery Prize</u>	<u>1,665,000</u>	<u>1,665,000</u>	<u>3,330,000</u>
<u>Federal Fund</u>	<u>110,000,000</u>	<u>0</u>	<u>110,000,000</u>
Total	\$ 5,417,704,000	\$ 6,180,659,000	\$ 11,598,363,000

Sec. 2. HEALTH AND HUMAN SERVICES APPROPRIATION.

The sums shown in the columns marked "Appropriations" are appropriated to the agencies and for the purposes specified in this article. The appropriations are from the general fund, or another named fund, and are available for the fiscal years indicated for each purpose. The figures "2010" and "2011" used in this article mean that the appropriations listed under them are available for the fiscal year ending June 30, 2010, or June 30, 2011, respectively. "The first year" is fiscal year 2010. "The second year" is fiscal year 2011. "The biennium" is fiscal years 2010 and 2011. Appropriations for the fiscal year ending June 30, 2009, are effective the day following final enactment.

APPROPRIATIONS Available for the Year Ending June 30 2010 2011

Sec. 3. HUMAN SERVICES

Subdivision 1. Total Appropriation **\$ 5,230,100,000** **\$ 5,997,715,000**

Appropriations by Fund

	<u>2010</u>	<u>2011</u>
<u>General</u>	<u>4,376,839,000</u>	<u>5,211,018,000</u>
<u>State Government Special Revenue</u>	<u>1,315,000</u>	<u>565,000</u>
<u>Health Care Access</u>	<u>450,792,000</u>	<u>527,489,000</u>
<u>Federal TANF</u>	<u>289,487,000</u>	<u>256,978,000</u>
<u>Lottery Prize</u>	<u>1,665,000</u>	<u>1,665,000</u>
<u>Federal Fund</u>	<u>110,000,000</u>	<u>0</u>

Receipts for Systems Projects.
Appropriations and federal receipts for
information systems projects for MAXIS,
PRISM, MMIS, and SSIS must be deposited

Appropriations by Fund

<u>General</u>	<u>28,077,000</u>	<u>28,077,000</u>
<u>Health Care Access</u>	<u>4,856,000</u>	<u>4,868,000</u>

Subd. 3. Revenue and Pass-Through Revenue
Expenditures

65,746,000 67,068,000

This appropriation is from the federal TANF fund.

Subd. 4. Children and Economic Assistance
Grants

The amounts that may be spent from this appropriation for each purpose are as follows:

(a) MFIP/DWP Grants

Appropriations by Fund

<u>General</u>	<u>63,205,000</u>	<u>89,033,000</u>
<u>Federal TANF</u>	<u>100,404,000</u>	<u>85,789,000</u>

(b) Support Services Grants

Appropriations by Fund

<u>General</u>	<u>8,715,000</u>	<u>12,498,000</u>
<u>Federal TANF</u>	<u>121,257,000</u>	<u>102,757,000</u>

MFIP Consolidated Fund. The MFIP consolidated fund TANF appropriation is reduced by \$1,854,000 in fiscal year 2011 and fiscal year 2012.

Notwithstanding Minnesota Statutes, section 256J.626, subdivision 8, paragraph (b), the commissioner shall reduce proportionately the reimbursement to counties for administrative expenses.

Subsidized Employment Funding Through ARRA. The commissioner is authorized to apply for TANF emergency fund grants for subsidized employment activities. Growth in expenditures for subsidized employment within the supported work program and the MFIP consolidated fund over the amount expended in the calendar quarters in the

(i) General Assistance Grants48,215,00048,608,000

General Assistance Standard. The commissioner shall set the monthly standard of assistance for general assistance units consisting of an adult recipient who is childless and unmarried or living apart from parents or a legal guardian at \$203. The commissioner may reduce this amount according to Laws 1997, chapter 85, article 3, section 54.

Emergency General Assistance. The amount appropriated for emergency general assistance funds is limited to no more than \$7,889,812 in fiscal year 2010 and \$7,889,812 in fiscal year 2011. Funds to counties must be allocated by the commissioner using the allocation method specified in Minnesota Statutes, section 256D.06.

(j) Minnesota Supplemental Aid Grants33,930,00035,191,000

Emergency Minnesota Supplemental Aid Funds. The amount appropriated for emergency Minnesota supplemental aid funds is limited to no more than \$1,100,000 in fiscal year 2010 and \$1,100,000 in fiscal year 2011. Funds to counties must be allocated by the commissioner using the allocation method specified in Minnesota Statutes, section 256D.46.

(k) Group Residential Housing Grants111,778,000114,034,000

Group Residential Housing Costs Refinanced. (a) Effective July 1, 2011, the commissioner shall increase the home and community-based service rates and county allocations provided to programs for persons with disabilities established under section 1915(c) of the Social Security Act to the extent that these programs will be paying for the costs above the rate established in Minnesota Statutes, section 256I.05, subdivision 1.

(b) For persons receiving services under Minnesota Statutes, section 245A.02, who reside in licensed adult foster care beds

TANF appropriation," was indicated as vetoed by the governor.)

(c) Money appropriated under paragraphs (a) and (b) that is not spent in the first year does not cancel but is available for the second year.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 13. EMERGENCY SERVICES SHELTER GRANTS FROM AMERICAN RECOVERY AND REINVESTMENT ACT.

(a) To the extent permitted under federal law, the commissioner of human services, when determining the uses of the emergency services shelter grants provided under the American Recovery and Reinvestment Act, shall give priority to programs that serve the following:

(1) homeless youth;

(2) American Indian women who are victims of trafficking;

(3) high-risk adult males considered to be very likely to enter or reenter state or county correctional programs, or chemical and mental health programs;

(4) battered women; and

(5) families affected by foreclosure.

(b) Paragraph (a) does not supersede use of ARRA funds as otherwise provided in this act.

Sec. 14. TRANSFERS.

Subdivision 1. **Grants.** The commissioner of human services, with the approval of the commissioner of finance, and after notification of the chairs of the relevant senate budget division and house of representatives finance division committee, may transfer unencumbered appropriation balances for the biennium ending June 30, 2011, within fiscal years among the MFIP, general assistance, general assistance medical care, medical assistance, MinnesotaCare, MFIP child care assistance under Minnesota Statutes, section 119B.05, Minnesota supplemental aid, and group residential housing programs, and the entitlement portion of the chemical dependency consolidated treatment fund, and between fiscal years of the biennium.

Subd. 2. **Administration.** Positions, salary money, and nonsalary administrative money may be transferred within the Departments of Human Services and Health as the commissioners consider necessary, with the advance approval of the commissioner of finance. The commissioner shall inform the chairs of the relevant house and senate health committees quarterly about transfers made under this provision.

Sec. 15. 2007 AND 2008 APPROPRIATION AMENDMENTS.

(a) Notwithstanding Laws 2007, chapter 147, article 19, section 3, subdivision 4, paragraph (g), as amended by Laws 2008, chapter 363, article 18, section 7, the TANF fund base for the Children's Mental Health Pilots is \$0 in fiscal year 2011. This paragraph is effective retroactively from July 1, 2008.

DISTRICT COURT

SECOND JUDICIAL DISTRICT

**TOM RUKAVINA, DAVID TOMASSONI,
JOSEPH BEGICH, PAUL PLESHA,
ROXANNE HORTON, and THE RANGE
ASSOCIATION OF MUNICIPALITIES AND
SCHOOLS, on behalf of its organization and
members,**

Plaintiffs,

**AFFIDAVIT OF CYNTHIA O. RANSOM
IN SUPPORT OF DEFENDANTS'
MOTION FOR SUMMARY JUDGMENT**

vs.

TIM PAWLENTY, Governor of Minnesota,
and **DAN McELROY**, Commissioner of the
Minnesota Department of Finance,

Defendants.

COUNTY OF RAMSEY)
) ss
STATE OF MINNESOTA)

Cynthia O. Ransom, being first duly sworn, states that:

1. I am a Legal Secretary with the Minnesota Attorney General's Office and make this Affidavit in support of Defendants' motion for summary judgment in the above-entitled matter. I work with Legal Assistant Rita Desmond. Ms. Desmond obtained and made handwritten transcripts of various audiotapes from the History Center Library regarding the legislative history of the statute at issue in this case and asked me to transcribe certain of these audiotapes.

2. Attached as Exhibit A is a true and correct transcription of an excerpt from the May 4, 1987 Senate Floor Session regarding HF No. 529.

3. Attached as Exhibit B is a true and correct transcription of an excerpt from the May 6, 1987 Conference Committee hearing regarding HF No. 529.

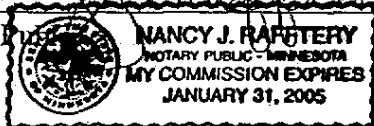
4. Attached as Exhibit C is a true and correct transcription of an excerpt from the May 18, 1987 Senate Floor Session regarding HF No. 529.

FURTHER AFFIANT SAYETH NOT.


CYNTHIA O. RANSOM

Subscribed and sworn before me
this 26 th day of August, 2003.

Notary Public



AG: #906517-v1

Legislative Research 1987 Minnesota Laws chapter 268, article 18, Section 1: Budgeting
and Cash Flow Reserve, Reduction; HF No. 529

Floor Session
May 4, 1987

Sen. Johnson, D.J.:

... Article 20 is the very important feature of the bill. It provides for a \$250 million budget reserve. We do have a blinker system to keep that \$250 million reserve. It will not be, we will not maintain that \$250 million reserve with only blinker taxes, but we'll give the authority of the Commissioner of Finance to unallocated expenditures by one half of the amount and one half of the amount would be through tax adjustments on individuals and corporations. We think that provision is very important for the state's cash flow as well to try to keep us out of debt and could help our credit rating that will be reviewed by the rating agency shortly.

Article 21 ...

Sen. Laidig:

... I do have one last quick question for Senator Johnson. It has to deal with Article 20, the Budget and Cash Flow Reserve. As I understand in reading that Article, Senator Johnson, that we're going to make some radical changes in the way the Commissioner can unallot. Mr. President, Senator Johnson, the question on Article 20, the Budget and Cash Flow, and I was working off of the summary of Article 20, and it appears to me we are going to extend the authority of the Commissioner in terms of what he may or may not unallot. In current law, there are some prohibitions on the kinds of things he can unallot and as I understand it we're going to change that but we also have some language that says that he can go back and unallot, notwithstanding any law to the contrary the Commissioner's empowered to defer or suspend prior statutorily created obligations which I find on page 441. I am wondering, if that, that may not be a significant change in the budget reserve law but it appears that the Governor currently does not have a line item veto but if we give the Commissioner of Finance authority to go back into prior law, prior statutory obligations, that may or may not be a significant change and may be an explanation of that would be helpful.

Sen. Johnson:

Under this provision, the Commissioner could unallot regular budget spending items as well as entitlement items. Up until this point, the Commissioner was unclear whether or not he could unallot entitlement items. He could with the language in this bill.

(bill passed)



Legislative Research 1987 Minnesota Laws chapter 268, article 18, Section 1: Budgeting
and Cash Flow Reserve, Reduction; HF No. 529

Conference Committee
May 6, 1987

(Joel Michael House Research is providing an overview of the bill comparisons)

... Article 10 of the House Bill and Article 20 of the Senate Bill relates to the Budget and Cash Flow Reserves provision.

Section 1 is the same in both bills. It extends the Commissioner powers to unallot so that it applies to all appropriations and expenditures regardless of whether they are exempted from allotment under a prior law.

Section 2 establishes the budget reserves account at \$250 million for the '88-'89 biennium.

Section 3 repeals the existing priorities for using revenues in excess of the amount that were -

Chairman: Excuse me, Joel, I was just, I'm a little behind you and I got section 20 in Article 9, I noticed in the summary there, you talk about legal services, I don't think they exist any longer in our uh.

Joel: Mr. Chairman, that's a mistake. The result from retaining in the word processor old summaries.

Section 3 repeals the existing priorities for expending budget surpluses and provides that 75% of any surplus will be used to increase the budget reserves to an amount of \$550 million to [inaudible] (its original ?) in both bills.

Section 4 is a provision that's not in the Senate bill and it exempts the Commissioner of Revenue from the daily deposit requirements if the tax receipts that are received cannot be processed within the day, or cannot be posted to the accounts during the day.

Section 5 is the trigger tax provision in the House bill and provides that if, first of all requires the Commissioner of Finance to prepare a November 1988 forecast. If this forecast shows that the budget reserve will be below \$100 million at the end of the biennium, then the trigger tax rate schedules in the individual income tax and under the corporate income tax become effective and those rates get, so the corporate income tax is raised from 10 to 11 and on the individual income tax each of the individual rates is increased by 2/10ths of a percentage point.

EXHIBIT

B

**Legislative Research 1987 Minnesota Laws chapter 268, article 18, Section 1: Budgeting
and Cash Flow Reserve, Reduction; HF No. 529**

**Senate Floor
May 18, 1987**

Sen. Johnson DJ.:

Article 18 is the Budget and Cash Flow Reserves section.

Section 1 was from the Senate bill expanding authority of the Commissioner to reduce allotments by extending that authority to all appropriations and expenditures which had been limited until this time.

Section 2 sets the reserve fund at \$250 million.

Section 3 eliminates existing priorities for using reserves in excess of the amounts budgeted, and provides for two contingencies. One would buy back the shift in the education aides bill after the November '87 forecast and the second one, after that shift was brought back, would provide that any dollars above that shift, one half would go to the budget reserves and one half would go to the greater Minnesota corporation up to \$120 million. The maximum that would go into the cash flow reserve account would be \$550 million.

Section 5 is what's known as the trigger tax, in case the state gets into a problem again. If the forecast in November of 1988 indicates that the general fund receipts will be not sufficient, if the reserve account is estimated to be less than \$150 million, individual income tax rates will be increased by 25 hundredths of a percentage point and corporate rates by four tenths of a percentage point. If the cash flow reserve account is estimated at less than \$50 million, the percentage increase will be 50/100s for individual rates and 8/10ths for corporate rates to guarantee that there is a \$250 million budget reserve. So those, and then Article 19 on the back . . .

Sen. Benson:

. . . the cruelest part of this bill and what we're building into it is the trigger. Now evidently we don't think that this bill is very good and is not going to work or we wouldn't be building this trigger into it. We have forsaken our job, for those you who have followed our debate on rules, we're going to let an automatic trigger do the job that we're supposed to do.

That automatic trigger is going to kick into effect if the state coffers aren't large enough. So Mr. President and members, so no one is mislead there is a little tax reform in this bill . . .

STATE OF MINNESOTA

DISTRICT COURT

COUNTY OF RAMSEY

SECOND JUDICIAL DISTRICT
#447358

Minnesota Federation of Teachers
on behalf of their organizations
and members, et al.,

Plaintiffs,

-vs-

Albert H. Quie, Governor of State
of Minnesota, et al.,

Defendants.

FINDINGS OF FACT
CONCLUSIONS OF LAW
ORDER FOR JUDGMENT

This declaratory judgment action was submitted to the Court on January 12, 1981 upon stipulated facts and briefs filed thereafter. The plaintiffs were represented by their attorneys, Roger A. Peterson and Marcus J. Christianson of Peterson, Engberg and Peterson, 700 Title Insurance Building, Minneapolis, Minnesota. The defendants were represented by William P. Donohue, Special Assistant Attorney General, and Assistant Attorney Generals J. Michael Miles and Michael J. Bradley, 515 Transportation Building, St. Paul, Minnesota. Based upon the stipulated facts, the briefs and arguments of counsel and the files and records herein, the Court makes the following:

FINDINGS OF FACT

1. The Minnesota Federation of Teachers (MFT) is a statewide labor organization with approximately 17,000 members and 125 local organizations within the various school districts. The MFT does not, however, enter into any collective bargaining agreements between itself and any school district.
2. Edward Bolstad, the executive secretary of the MFT, is the father of Andrea Bolstad, a student in the Minneapolis public schools. Local 59 of the MFT is the exclusive bargaining representative for teachers in Special School District No. 1, Minneapolis, and Norman Moen is executive secretary of Local 59.
3. In July, 1980, Governor Quie was advised by Commissioner Burggraff of the Department of Finance that the State's revenues were considerably below the projected estimates. The shortage in funds was caused by a sharp downturn in national and state economic conditions in the first six months of 1980.

4. Shortly thereafter Governor Quie met with the state department heads, legislative leaders, members of the press and the public. The situation was reviewed, and the probability of a reduction in state expenditures was discussed.

5. Thereafter Commissioner Burggraff and the Finance Department prepared a revised state financial forecast for revenues and expenditures through June 30, 1981, using accepted techniques of fiscal management. A state budget reduction plan was also developed.

6. This economic forecast was based on material prepared by Data Resources, Inc. a nationally known forecasting service used by the State for several years. The resulting analysis included calculations of all state income and expenditures through the biennium ending June 30, 1981. It was reviewed by three independent economic experts, namely Sung Won Son, Senior Vice President of the Northwestern National Bank of Minneapolis; O. H. Brownlee, Professor of Economics at the University of Minnesota; and Thomas Supel, Senior Economist with the Ninth District Federal Reserve Bank. They all agreed that the assumptions and method used in arriving at the forecast were valid and reasonable.

7. In its estimate dated August 21, 1980, the Finance Department forecast revenues that would be 195.1 million dollars less than required to fund the expenditures previously authorized by the legislature.

8. The Constitution of the State of Minnesota, Article XI, Sec. 1 states: "No money shall be paid out of the treasury of this state except in pursuance of an appropriation by law."
Sec. 6 states: "As authorized by law certificates of indebtedness may be issued during a biennium, commencing on July 1 in each odd-numbered year and ending on and including June 30 in the next odd-numbered year, in anticipation of the collection of taxes levied for and other revenues appropriated to any fund of the state for expenditure during that biennium. . . ."

Minnesota Statutes 16A.15, subd. 1 reads:

"Reduction. In case the commissioner of finance shall discover at any time that the probable receipts from taxes or other sources for any appropriation, fund, or item will be less than was anticipated, and that consequently the amount available for the remainder of the term of the appropriation or for any allotment period will be less than the amount estimated or allotted therefor, he shall, with the approval of the governor, and after notice to the agency concerned, reduce the amount allotted or to be allotted so as to prevent a deficit. In like manner he shall request reduction of the amount allotted or to be allotted to any agency by the amount of any saving which can be effected upon previous spending plans through a reduction in prices or other cause."

9. The budget reduction plan prepared by the Finance Department and adopted by the Governor as the chief executive of the State carried out the mandate of M.S.A. 16A.15 Subd. 1. The necessary reduction of 195.1 million dollars was applied uniformly throughout the State budget, and therefore state aids to school districts was reduced by some 89.5 million dollars.

10. The uniform reduction plan preserves the public policy as established by the legislature in its appropriation of funds among state agencies, educational institutions, school districts and local governments. On a state wide basis, the total operating budgets of the school districts would have to be reduced 5.3% as a result of the reduced state aid available.

11. Based on the best financial information available the reduction program was necessary to avoid a deficit, and should result in a zero balance in the State general fund as of June 30, 1981.

12. In implementing the budget plan the State Department of Education equalized the reductions in school aid so as to continue the legislative policy of equal financial support on a per pupil basis. The cuts in state school aid took effect in November, 1980 and are to continue each month until the end of the fiscal year.

13. Most of the school districts in the State have surplus funds available, and the aggregate amount of fund balances has increased every year since 1977. On June 30, 1980 the 438 school districts had available surplus funds of some 286 million dollars, more than three times the amount cut by the action of the Governor.

14. Any school district may issue tax anticipation certificates, or obligation bonds in an amount equal to three times its average yearly tax revenue or may utilize deficit spending on a short term basis.

15. The Minneapolis School District reduced its non-fixed costs by 4% of its 101 million dollar annual budget. No base salaries were cut and there was no lay off of personnel. At the end of the 1980-81 school year, Minneapolis Special School District No. 1 will have a projected surplus of 2.5 million dollars, raised from local taxation.

16. The plaintiffs will not be harmed by the Governor's uniform reduction plan.

CONCLUSIONS OF LAW

1. M.S.A. 16A.15 Subd. 1 is constitutional, and is a lawful delegation and direction from the legislature to the executive branch.

2. The actions taken by the Governor of Minnesota and the executive branch reducing state expenditures by 195.1 million dollars for the year ending June 30, 1981 was a valid and necessary action required by M.S.A. 16A.15 Subd. 1.

3. The plaintiffs have no standing to contest the action taken by the Governor and the executive branch.

4. The defendants are entitled to judgment against the plaintiffs, together with their costs and disbursements herein.

LET JUDGMENT BE ENTERED ACCORDINGLY.

The following memorandum is made a part of this Order.


Judge of District Court

DATED: February 27, 1981.

M E M O R A N D U M

It is a longstanding legal principle that laws are presumed to be constitutional unless there is clear and convincing evidence to the contrary. The burden of proof in this regard must necessarily rest upon the party seeking to set the law aside or claiming that it is unconstitutional. See Minnesota Federation of Teachers v. Obermeyer, 275 Minn. 347, 147 NW2d 358 (1966). It should further be noted that in Borden's Farm Products Co., Inc. v. Baldwin, 293 U.S. 194, 55 S. Ct. 187, 79 L.ed. 281 (1934) the court held that the party challenging a law's constitutionality must show that the action is arbitrary to rebut the presumption of constitutionality.

The statute in question is a clear enunciation of the intent of the legislature that the State of Minnesota must not indulge in deficit financing, and that expenditures can never exceed income during any fiscal period. It is the function of the legislature to enact laws, and the responsibility of the executive branch to carry them out and to conduct the management of state government.

This Court can find no basis for the claim of the plaintiffs that the statute in question constitutes an unlawful delegation from the legislature to the executive branch.

While it may be true that injury to the several plaintiffs may have been thought to be imminent at the time of commencement of the action, the stipulated facts are to the contrary. There is a complete lack of showing that any of the plaintiffs could possibly be injured by any actions taken by the Governor and the Departments of Finance and Education. It should further be noted that the Minneapolis School District has a present surplus of some 2.5 million dollars available for school purposes.

Any claimed injury must be distinct and palpable and not just an ingenious academic exercise in the conceivable. See Snyder Drug Stores v. Minnesota Board of Pharmacy, 301 Minn. 28, 221 NW2d 162 (1974); Warth v. Seldin, 422 U.S. 490 (1975) and U.S. v. SCRAP, 412 U.S. 669 (1973).

Our Supreme Court held in St. Paul Chamber of Commerce v. Marzitelli, 258 NW2d 585 (Minn. 1977) that proceedings for declaratory judgment must be based on a justiciable controversy "in the sense that it involves definite and concrete assertions of right and the contest thereof touching the legal relations of parties having adverse interests in the matter with respect to which the declaration is sought . . . Mere differences of opinion with respect to the rights of parties do not constitute such a controversy." See also Minnesota Association of Public Schools v. Hanson, 287 Minn. 415, 178 NW2d 846 (1970), wherein the court held that "A party challenging the constitutionality of a statute must show that it affects his rights in an unconstitutional manner and not merely the rights of others. It is not sufficient that he suffers in some indefinite way in common with people generally."

The above quoted language would seem to have particular applicability to the plaintiffs in the instant case, and the Court must accordingly find that they have no standing, and that there is not in fact a justiciable controversy.

Because of the public interest in this litigation, however, the Court has nevertheless made its findings that the statute is constitutional and valid, and that the executive branch acted not only in a legal manner but that the reduction in the State expenditures was in fact mandated by the statute.

O.H.G.