

Money Matters

A Publication of the Minnesota House Ways and Means Staff on Government Finance Issues

Results of the Legislature's 1996 Fiscal Actions

Total Forecast General Fund Budget for FY 1996-97 is Now \$19.47 Billion

This issue of *Money Matters* is intended to be used as a resource document. As a result of the actions of the 1996 session, the state general fund budget is forecast to end the current biennium with spending of \$18.85 billion, a \$350 million cash flow account, a \$270 million budget reserve, and a \$1 million unrestricted balance. This compares to a \$205 million budget reserve at the end of the 1995 session. Total resources available for FY 1996-97 are now forecast to be \$19.47 billion. Total expenditures are projected to be \$18.85 billion. Table 1 summarizes total FY 1996-97 general fund resources and forecasted uses. All forecasted amounts cited in this *Money Matters* are based on the Department of Finance estimates released on April 23, 1996.

Table 1. FY 1996-97 General Fund Balance Summary (\$'s in millions)

Balance Forward From Previous Year	\$1,020.5	Projected Spending	\$18,852.6
Projected Revenues	\$18,453.1	Cash Flow Account	\$350.0
Total Resources Available	\$19,473.6	Budget Reserve and Balance	\$271.0
		Total Allocation	\$19,473.6

Table 2 summarizes total forecasted spending, by omnibus bill area, for the 1996-97 biennium. Attached to this report are pie charts that graphically display total state expenditures and revenues by functional area.

\$878 Million Increase Available to the 1996 Session

The Legislature was able to take action on these adjustments in spending due to the positive change in forecasts since the 1995 session. The forecast released by the Department of Finance indicated that \$878 million more general fund dollars were available for the current biennium than had been forecasted at the end of the 1995 session. The increase in available general fund dollars was due to the stronger than expected economic activity and lower than expected

Table 2. FY 1996-97 General fund Expenditures

Omnibus Bill (\$'s in millions)	
K-12 Education	\$6,517
Property Tax Aids & Credits	\$2,406
Higher Education	\$2,185
Health and Human Services	\$4,805
Environment and Natural Resources	\$374
Economic Development	\$374
Transportation	\$128
Criminal Justice	\$883
State Government Affairs	\$553
Debt Service	\$447
Cancellation Adjustment	(\$23)
Subtotal	\$18,649
Dedicated Expenditure	\$203
TOTAL EXPENDITURES	\$18,853

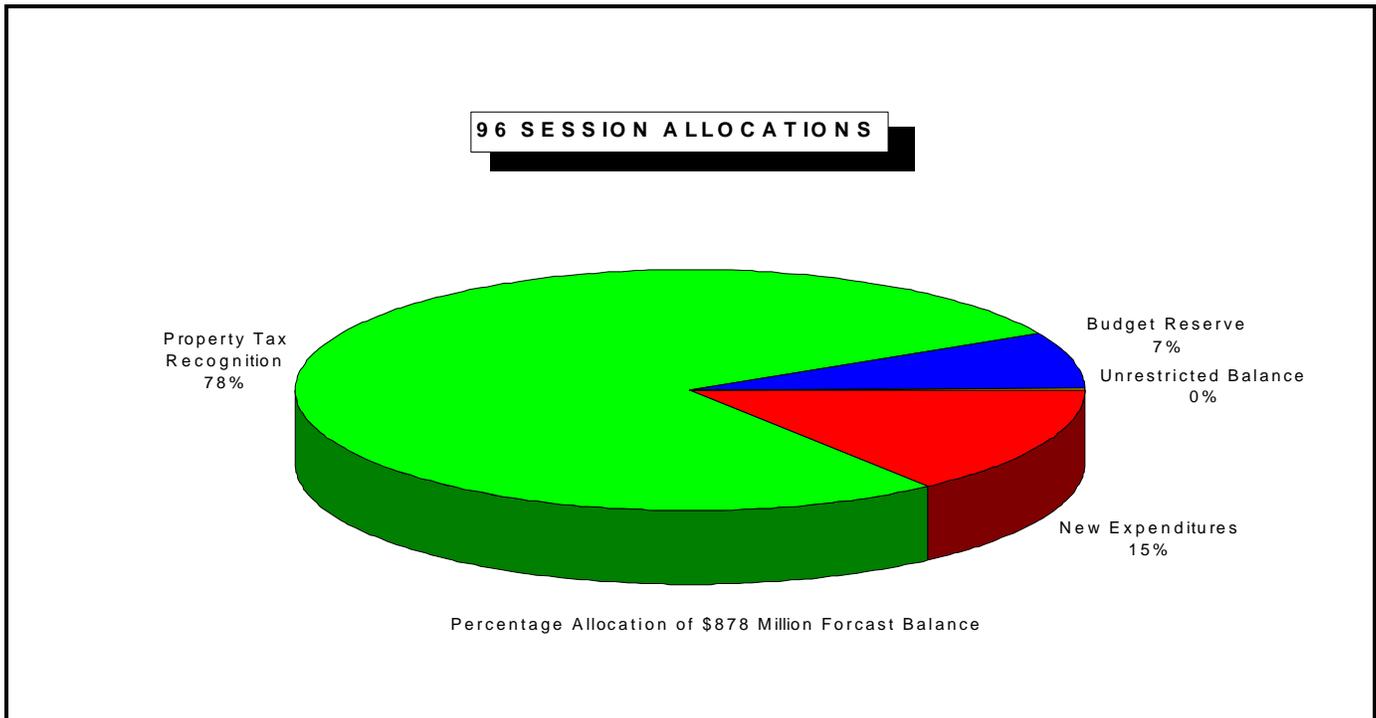
Human Services expenditures.

Table 3.	
1996 General Fund allocations:	
(\$'s in millions)	
Taxes\Local Aids	\$5.2
K-12 Education	\$31.7
Higher Education	\$14.5
Health and Human Services	\$20.4
Environment & Natural Resources	\$2.5
Economic Development	\$16.0
Transportation	\$7.3
Criminal Justice	\$17.4
State Government	\$4.5
Capital Investment	\$6.5
Miscellaneous Bills	\$4.1
SUBTOTAL EXPENDITURES	\$130.0.1
Property Tax Recognition	\$682.2
Budget Reserve	\$65.0
Unrestricted Balance	\$1.0
TOTAL ALLOCATIONS	\$878.3

The Governor proposed to the Legislature that the additional surplus be used for increased expenditures of \$160 million in the area of public safety, youth development, education, health, and technology. In addition the Governor proposed that the budget reserve be increased by \$200 million and that a new \$500 million School Cash Flow account be established.

The final allocation of the surplus is indicated by the major bills in Table 3 and the percentage use of the surplus is indicated in graph 1.

The Legislature spent less on new spending initiatives than the amount proposed by the Governor. The final allocations did not create the new School Cash Flow Account as proposed by the Governor and increased the Budget Reserve by \$65 million. The largest single use of the funds was to reduce the school district property tax recognition shift.



Property Tax Recognition Shift, Budget Reserve Increase, and K-12 Education

The **K-12 Education Finance** bill appropriated \$32.3 million, the Governor vetoed \$600,000 of that amount so the total funding in the bill is \$31.7 million. Of this amount \$12 million is for several technology related programs. Another \$3.5 million is for schools with high concentrations of free and reduced lunch eligible students to add either full-day kindergarten or half-day programs for four year old children. After-school enrichment programs primarily in Minneapolis and St. Paul would be funded at \$5 million.

The \$502 million appropriated under existing law in January 1996 for reduction of the **property tax revenue recognition shift** reduces the shift to 18.1 percent for FY 1996. Of the \$297 million previously appropriated to reduce the shift to zero in FY 1997, \$180 million was retained for shift reduction. This amount is estimated to reduce the shift to about 7 percent, however, all of the \$180 million could be retained in the state budget reserve if the November 1996 state revenue forecast is negative.

State Government Finance appropriated \$6.5 million to the Department of Finance for operating costs of the MnAssist/Statewide Systems Project. The Governor's recommendation for the project was twice this amount. Additionally, the Department of Finance was given the authority to bill state agencies for operating costs incurred through Intertechnologies for Statewide Systems. The Department of Administration received \$1 million to begin a study for solutions to the computer problems related to the end of the century. The Department of Revenue was appropriated \$976,000 to increase their audit presence in greater Minnesota. This activity is expected to generate nearly \$2 million in revenues. The only veto for the State Government Finance Division supplemental bill was a \$50,000 appropriation to the Office of Strategic Planning for a Mississippi River environmental impact study.

The Committee on **Economic Development, Infrastructure and Regulation Finance** appropriated general fund dollars for projects that included \$4 million for the Minnesota Investment Fund, \$6 million for Summer Youth Employment, and \$1 million to supplement reduced federal aid for Low Income Home Energy Assistance. An additional \$9 million appropriation for energy assistance was authorized under certain conditions from the budget reserve account. Other items included \$2.8 million from the worker's compensation special fund to complete the Daedalus computer imaging project, and a provision included language requiring recipients of Minnesota Investment Fund grants to pay wages at 110 percent of the federal poverty level for a family of four.

The **Transportation Finance** division authorized \$60 million in new spending. Funding for road construction was increased by \$51 million for the biennium, with most of the dollars coming from the trunk highway fund balance. An additional \$6 million from the general fund was appropriated to Metropolitan Transit Operations and \$1 million to Greater Minnesota Transit. The legislature included a provision allowing the Commissioner of Transportation to increase the speed limit from 55 miles per hour to 65 on out-state four-lane divided highways. Proposals to increase the motor fuels tax, and to add 40 State Patrol officers were unsuccessful this session.

The **Higher Education** omnibus bill contained \$16 million in FY 1997 for various purposes related to higher education. \$8.6 million of the total was appropriated to the University of Minnesota(U of M) for redesign of the Academic Health Center (AHC) operations and curriculum, with at least \$2 million of these funds to be used for new or upgraded technology. Release of the other \$6.6 million for the AHC is contingent on the university making changes to its tenure code and proceeding with development of a rural health center at the Duluth campus.

A total of \$4.9 million was appropriated to the Minnesota State Colleges and Universities (MnSCU). Of this amount, \$50,000 is to establish an applied research center at Bemidji State University which would be primarily involved in cold weather testing of automotive products, \$150,000 is for improved office technology at the six regional farm business management programs, and \$175,000 is for a pilot program at one or more technical colleges to provide a small core group of workskills upgrade courses which would be available at very low cost to potential students.

The bulk of the MnSCU appropriation (\$4.5 million) is for competitive grants (up to \$250,000 per grant) to campuses for new or improved instructional technology. An additional \$800,000 was appropriated to MnSCU and the U of M for a joint project to improve distance learning capabilities in the state. The primary use of the money is for development of electronic courseware to be used in a distance learning environment; however, development of marketing and distribution strategies for electronic courseware are also allowed.

The Higher Education Services Office was appropriated \$1.7 million. Of this amount, \$150,000 is for preliminary development of a statewide online library system. This initial funding is for determination of system requirements and a development of a Request for Proposals to implement the system. Of the total, \$1.5 million was allocated to increase the Living and Miscellaneous Expense Allowance portion of the State Grant Program, and \$50,000 was appropriated for the Loan Repayment Assistance Program, which pays a portion of the law school debt for attorneys who go into public interest law. These two items were line item vetoed by the Governor.

The **Health and Human Services** supplemental general fund budget approved \$20.4 million in additional spending. The Personal Care Attendants (PCA) Program was appropriated an additional \$4.7 million to allow for the full restoration of PCA services to adults and children on Medical Assistance, including children on the Tax Equity and Fiscal Responsibility Act (TEFRA) program. The conference report appropriates \$5 million in funds to increase nursing home rates for one year, generating \$17 million in total revenue increases. Current legislation would have applied more severe limits on rate increases to the highest cost and least economically run nursing homes. An additional \$1.5 million is appropriated to support special needs adoptions, \$1.1 million is appropriated to expand senior nutrition and community support programs, \$1.5 million is appropriated for core public health functions, and \$1.9 is appropriated for the establishment of a new registry to collect, analyze and distribute information on birth defects in Minnesota.

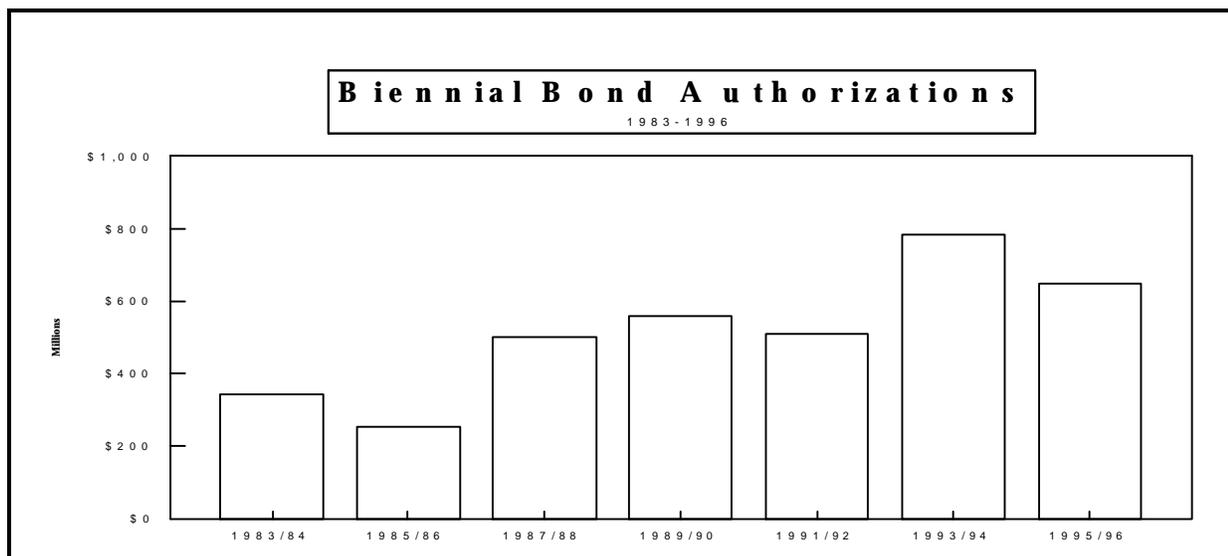
The 1996 session appropriation for the **Criminal Justice** area is \$17.4 million. Of this amount close to \$9 million went to prevention programs. One of the major prevention appropriations is for new police officers, police officer overtime, and school liaison officers. This was funded at \$4.6 million. Other crime prevention programs include grants for community intervention programs, a juvenile monitoring pilot program, grants for home visiting projects, youth intervention programs, and grants for crisis nurseries. Other major appropriations went to the Department of Corrections to make up a deficiency and to the Bureau of Criminal Apprehension for four new special investigators and four new lab scientists. Another major appropriation went to Corrections, the Board of Public Defense, and the Attorney General for community notification.

The **Environment and Natural Resources** funding bill included new general fund appropriations of \$2.7 million. The state park system was appropriated funding to implement an electronic permitting system. Additional Department of Natural Resources funding items were for the design and construction of an off road vehicle park in northern Minnesota, and funding for the cleanup of the severe storms of the past summer. The bill also included funding for eleven Legislative Commission on Minnesota Resources projects including \$1 million for state parks and \$900,000 for local recreation grants.

\$488 Million General Fund Bonding Bill Adopted

This session was the main bonding session of the biennium. A total of \$488 million in general obligation bond projects were approved. Items authorized in the bill include \$93 million for correctional facilities (including \$89 million for a new prison), \$9 million for human services, \$21 million statewide for CAPRA (to repair and maintain existing buildings) and ADA projects (to improve accessibility for people with disabilities), \$143 million for higher education facilities, \$80 million for natural resource projects, \$28 million for K-12 education projects, \$21 million for transportation projects, \$16 million for economic development projects, and \$44 million in grants

to political subdivisions, including \$30 million for the Science Museum of Minnesota. In addition to general fund bonding, \$118 million in user-financed bonds and trunk highway fund appropriations were approved. Graph 2 illustrates the level of recent biennial bond authorizations.



Change in FY 1998-99 Budget Outlook is Positive

The outlook for the FY 1998-99 biennium has improved since the projections at the end of the 1995 session. The budget balance before reserves for FY 1996-97 is now forecast to be \$621 million. For the FY 1998-99 biennium, projected total resources available are now estimated to be \$19.9 billion and total expenditures and transfers are projected at \$19.3 billion, with a projected balance before reserves of \$548.8 million. The FY 1998-99 projections include anticipated school enrollment growth, caseload growth and expected inflationary increases. The projection also includes the reduction in the general education formula amount due to the effects of the current law restriction(caps) on total spending. The time period projected is still several years out and changes to the state’s economic conditions may change these projections in the future.

Table 3. Biennial Summary(\$’s in millions)

	FY 1996-97	FY 1998-99
Balance forward	\$1,021	\$621
Current Revenues	\$18,453	\$19,261
Expenditures	\$18,853	\$19,334
Balance Before Reserves	\$621	\$549

For more information contact: Jim Reinholdz, Fiscal Analyst, 370 State Office Building, 296.4119