PETITIONERS' APPENDIX

APPENDIX TABLE OF CONTENTS

Page

Amended Complaint A1

Affidavit of Patrick Robben with Exhibits...A28

November 2009 Economic Forecast (Summary)...A132

Order and Amended Order on Plaintiffs' Motion (Dec. 30, 2009)................................A141

Stipulation, Order and Judgment (Jan. 8, 2010)..A153

24

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By ______ Deputy

STATE OF MINNESOTA
COUNTY OF RAMSEY

DISTRICT COURT
SECOND JUDICIAL DISTRICT
OTHER CIVIL

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

Plaintiffs,

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

vs.

AMENDED CLASS ACTION COMPLAINT

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.

PRELIMINARY STATEMENT

Low-income Minnesota residents who receive Minnesota Supplemental Aid Special Diet funding, and residents who qualify for a Renter Property Tax Refund bring this suit to challenge both the Governor's and the Commissioner of Management and Budget's use of Minn. Stat. § 16A.152 to reduce allotments of funds appropriated and signed into law at the beginning of the current biennium. These reductions in allotments reduce the benefits designed for poor, often disabled and elderly residents who rely on these programs to meet their basic needs. Plaintiffs seek declaratory relief that the defendants' actions violate Minnesota Law and the Minnesota Constitution. Plaintiffs also seek injunctive relief to prevent the Minnesota Departments of Management and Budget, Human Services, and Revenue from implementing the unallotments.

JURISDICTION

1. Plaintiffs bring this action pursuant to article I, section 8 of the Minnesota Constitution.

2. Plaintiffs also bring this action for declaratory judgment pursuant to Minn. Stat. § 555.01.

PARTIES

3. Plaintiff Deanna Brayton is a 49-year-old resident of Anoka County, Minnesota, and receives Minnesota Supplemental Aid Special Diet benefits through the Minnesota Department of Human Services.

4. Plaintiff Darlene Bullock is a 72-year-old resident of Aitkin County, Minnesota, and receives Minnesota Supplemental Aid Special Diet benefits through the Minnesota Department of Human Services.

5. Plaintiff Forough Mahabady is a 54-year-old resident of Hennepin County, Minnesota, and receives Minnesota Supplemental Aid Special Diet benefits through the Minnesota Department of Human Services.

6. Plaintiff Debra Branley is a 56-year-old resident of St. Louis County, Minnesota, and receives Minnesota Supplemental Aid Special Diet benefits through the Minnesota Department of Human Services. Ms. Branley is also a renter who regularly applies for and receives a Renter Property Tax Refund from the Minnesota Department of Revenue.

7. Plaintiff Marlene Griffin is a 53-year-old resident of Ramsey County, Minnesota, and receives Minnesota Supplemental Aid Special Diet benefits through the Minnesota Department of Human Services. Ms. Griffin is also a renter who is eligible to apply for a Renter Property Tax Refund from the Minnesota Department of Revenue.

8. Plaintiff Evelyn Bernhagen is a 57-year-old resident of Anoka County, Minnesota, and receives Minnesota Supplemental Aid Special Diet benefits through the Minnesota Department of Human Services. Ms. Bernhagen is also a long-time renter who regularly applies for and receives a Renter Property Tax Refund from the Minnesota Department of Revenue.

9. Defendant Tim Pawlenty is the Governor of the State of Minnesota. Governor Pawlenty is sued in his official capacity. Pursuant to the Minnesota Constitution, article IV, section 23, Governor Pawlenty has the power to veto an individual appropriation, and pursuant to Minnesota Constitution, article V, section 3, he has the duty to ensure that the laws of the state are faithfully executed.

10. Defendant Thomas Hanson is the Commissioner of the Minnesota Department of Management and Budget. Commissioner Hanson is sued in his official capacity. Among other duties, Commissioner Hanson is responsible for managing the state's financial affairs pursuant to Minn. Stat. § 16A. Included among his duties are the following:

a. Managing the state's financial affairs including keeping expenditure and revenue accounts, Minn. Stat. § 16A.055;

b. Requiring executive agencies to prepare financial reports so the legislature and the governor can compare spending plans with appropriations for state programs, Minn. Stat. § 16A.06;

c. Obtaining and preparing budget information from state agencies, Minn. Stat. § 16A.10;

d. Forecasting revenue and expenditures, Minn. Stat. § 16A.103;

e. Obtaining agency spending plans and approving expenditures or setting an allotment if the spending plan is within the amount and purpose of an appropriation, Minn. Stat. § 16A.14;

f. Where there is a determination that the probable receipts for the general fund will be less than anticipated and the amount needed for the remainder of the biennium will be less than needed, reducing the amount in the budget reserve to balance expenditures with revenue, and if necessary due to an additional deficit, reducing unexpended allotments of any prior appropriation, Minn. Stat. § 16A.152.

11. Defendant Cal Ludeman is the Commissioner of the Minnesota Department of Human Services. He is sued in his official capacity. Among his duties, he is responsible for the administration of the Minnesota Supplemental Aid Act, Minn. Stat. § 256D.33-54, which includes payment to individuals eligible for MSA-special diets pursuant to Minn. Stat. §§ 256D.425 and 256D.44 subdiv. 5(a).

12. Defendant Ward Einess is the Commissioner of the Minnesota Department of Revenue. He is sued in his official capacity. Among his duties, he is responsible for administration of the Property Tax Refund, Minn. Stat. § 290A, which includes payment to individuals eligible to receive a Renter Property Tax Refund pursuant to Minn. Stat. §§ 290A.03, subdiv. 11, and 290A.04, subdivs. 1 and 2a. Pursuant to Minn. Stat. § 270C.30, he prescribes the format and content of all returns, and he is also responsible for the prevention of waste or unnecessary spending of public money, Minn. Stat. § 270C.03 subdiv. 2(1).

CLASS ALLEGATIONS

13. The individual plaintiffs bring this action pursuant to Rules 23.01 and 23.02(b) of the Minnesota Rules of Civil Procedure.

14. The class of persons whom the plaintiffs seek to represent is defined as follows: All adults who reside in Minnesota:

(a) Who have been or will be denied Minnesota Supplemental Aid Special Diet benefits as a result of the defendants' actions to reduce allotments; and/or

(b) Who will file for and receive a reduced Renter Property Tax Refund as a result of the defendants' actions to reduce allotments.

15. The class of persons whom the plaintiffs seek to represent is so numerous that joining all members is impracticable. The exact size of the class is unknown but includes tens of thousands of persons residing in Minnesota. The class members are geographically dispersed, have limited financial resources, and are unlikely to institute individual actions.

16. Questions of law or fact common to the plaintiffs and members of the class dominate. These include whether defendants' reduction in allotments to Health and Human services programs and to the Renters Tax Refund program violates Minn. Stat. § 16A.152 and the Minnesota Constitution.

17. The claims of the named plaintiffs are typical of the claims of all members of the class.

18. The named plaintiffs will fairly and adequately protect the interests of the class.

19. Defendants have acted or refused to act on grounds generally applicable to the class, thereby making appropriate final declaratory and injunctive relief for the class as a whole.

CONSTITUTIONAL AND STATUTORY FRAMEWORK

20. Pursuant to article III, section 1 of the Constitution of the State of Minnesota, no branch of government can exercise powers belonging to another branch of government.

21. Pursuant to article IV of the Constitution of the State of Minnesota, the Legislature is granted the power to pass bills which create or amend the laws of the state and forward them to governor for approval or veto. Legislative bills become law if signed by the governor.

22. Pursuant to article IV, section 23 of the Constitution of the state of Minnesota the governor is granted the authority to veto one or more items within an appropriation bill while still approving the remainder of the bill. However, the legislature has the authority to separately

reconsider each vetoed item. The vetoed item may still become law upon vote by two thirds of the members elected in each house.

23. Pursuant to article V, section 3 of the Constitution of the State of Minnesota, the governor has a constitutional duty to take care that the laws of Minnesota are faithfully executed. The Governor's power with respect to passage of laws of the state is limited to the power granted him in article IV to either sign or veto laws passed by the legislature.

24. Pursuant to article XI, section 6 of the Minnesota Constitution, the budget for the state of Minnesota must be balanced with revenues sufficient to pay funds appropriated. Funds may not be disbursed unless there is an appropriation.

25. Pursuant to article XI, sections 5(c) and 6, certificates of indebtedness may be issued beginning on the first day of the biennium and ending on the last day of the biennium in anticipation of taxes levied for or other revenues appropriated to any fund of the state for expenditure during the biennium.

26. Pursuant to Minn. Stat. § 16A.14 subdiv. 1, the Commissioner of Management and Budget may not set an allotment beyond a fiscal year.

27. Pursuant to Minn. Stat. § 16A.14 subdiv. 3, agencies must submit spending plans to the Commissioner of Management and Budget by July 31 of each year. The spending plans must certify that the amount required for each activity is accurate and is consistent with legislative intent.

28. Pursuant to Minn. Stat. § 16A.14 subdiv. 4, the Commissioner of Management and Budget must approve the estimated amount for expenditure if the spending plan is within the amount and purpose of the appropriation. The commissioner must also keep in mind whether there is a need for the appropriation in the next allotment period. The commissioner shall

modify the spending plan and the allotment to conform with the appropriation and the future needs of the agency.

29. Pursuant to Minn. Stat. § 16A.14 subdiv. 5, after approval, the Commissioner of Management and Budget may modify spending plans for cause.

30. The Commissioner of Management and Budget, with the approval of the Governor, can *reduce unexpended allotments* if he determines three things:

(a) That probable *receipts* for the general fund *will be less than anticipated*;

(b) The amount available *for the remainder* of the biennium will be less than needed; and

(c) There is no money remaining in the budget reserve account.

This process is commonly referred to as "unallotment." *See* Minn. Stat. § 16A.152 subdiv. 4.

<u>Minnesota Supplemental Aid</u>

31. Minnesota Supplemental Aid, commonly known as MSA, is a state-wide program that provides cash assistance to elderly and disabled Minnesota residents who are recipients of the Supplemental Security Income (SSI) program or who are disabled and who are found to have additional maintenance needs. Eligible individuals receive a monthly cash grant which supplements their SSI grant. Minn. Stat. § 256D.33-54.

32. MSA recipients who have certain medically prescribed diets are entitled to an additional monthly allowance to pay the anticipated costs of maintaining that diet when "the cost of those additional dietary needs cannot be met through some other maintenance benefit." Minn. Stat. § 256D.44 subdiv. 5(a). The additional amount paid is determined by the type of diet. Diets eligible for the additional payments and the amount of payment for each diet are set forth in Minn. Stat. § 256D.44 subdiv. 5(a).

33. Individuals who follow an eligible diet must provide verification from a licensed physician documenting the need for the diet. Minn. Stat. § 256D.44 subdiv. 5(a).

Renter Property Tax Refund

34. Low- and middle-income Minnesotans pay a larger share of their income in property taxes than higher-income Minnesotans do.

35. The Renter Property Tax Refund reduces the burden of higher taxes on low- and middle-income taxpayers by providing a tax refund to households whose rental property taxes are high in relation to their income. A Renter Property Tax Refund is allowed for renters in Minnesota if the amount of their rent that constitutes the property tax exceeds a percentage of household income as established by the legislature. Minn. Stat. § 290A.04 subdivs. 1 and 2a.

36. By statute, 19 percent of a tenant's rent is considered payment toward property taxes paid. Minn. Stat. § 290A.03 subdiv. 11.

37. The legislature appropriates from the general fund in the state treasury to the commissioner of revenue the amount necessary to make the renter's property tax refund payments required under section 290A.04, subdiv. 2a. Minn. Stat. § 290A.23 subdiv. 1.

FACTUAL ALLEGATIONS

38. In February and November of each year, the Commissioner of Management and Budget is required to prepare a forecast of revenue and expenditures for the state. Minn. Stat. §16A.103 subdiv. 1.

39. In November 2008, the Minnesota Department of Management and Budget issued a forecast which projected a budget deficit of $4.847 billion for the 2010/2011 biennium. Minnesota Management & Budget Office, *Minnesota Financial Report*, November 2008, pages 78, 80.

40. On January 27, 2009, Governor Pawlenty submitted to the legislature his proposed budget for the 2010/2011 biennium. Based on the November forecast, Governor Pawlenty's proposed budget included numerous reductions to state funded programs which he presented as a way to balance the state's budget in light of the projected budget deficits.

41. In February 2009, a new forecast was released showing "no material change in Minnesota's FY 2010-11 budget outlook." The Commissioner continued to project a state budget shortfall of $4.847 billion. Minnesota Management & Budget Office, *Minnesota Financial Report*, February 2009.

42. Following negotiations with the legislature and in light of the newly available stimulus funds, Governor Pawlenty issued a revised FY 2010-11 budget on March 17, 2009. The revised budget continued to recognize a budget deficit as projected in November 2008 and again in February 2009. Minnesota Management & Budget Office, *Letter and Attachment to Letter from Governor Pawlenty*, March 17, 2009.

43. In April 2009, The Department of Management and Budget issued a state Economic Update showing that state revenues received in February and March 2009 were less than previously forecast. Minnesota Management & Budget Office, *State Revenues Below Forecast in February and March*, April 2009.

44. Pursuant to article IV, section 23 of the Minnesota Constitution, Governor Pawlenty has the authority to either accept or reject a bill presented by the legislature. If the bill is a funding bill, the Governor has authority to reject specific appropriations contained within the bill while otherwise accepting the remainder of the bill. This is known as a line-item veto. The Governor can only exercise his right to a line-item veto for budget appropriations.

45. On May 11, 2009, the state legislature approved and sent the Health and Human Services appropriations bill, HF 1362, to Governor Pawlenty. This bill contained the state budget appropriations for Human Services programs for the 2010/2011 biennium. Included in this bill were appropriations to fund the Minnesota Supplemental Aid special diets.

46. On May 14, 2009, Governor Pawlenty signed HF 1362. He accepted all the spending provisions contained in HF 1362, the omnibus health and human services bill with the sole exception of the appropriation to fund the General Assistance Medical Care (GAMC) program in FY 2011. The Governor exercised his right to line-item veto the GAMC funding for the second year of the biennium. An attempt by the legislature to override this veto was unsuccessful.

47. The Governor chose not to use his constitutional line-item veto right to veto other items in HF 1362.

48. As a result of the Commissioner of Management and Budget's February and April Forecasts, Governor Pawlenty knew the anticipated receipts for the general fund, and that additional revenues would be needed to pay for the remainder of the programs for which funds were appropriated in HF 1362 at the time he signed the appropriations into law.

49. Also on May 14, 2009, Governor Pawlenty held a news conference in which he announced that he would reduce allotments to a variety of state programs for the purpose of balancing the 2010/2011 biennium budget.

50. On May 18, 2009, the state legislature approved and sent HF 2323 to Governor Pawlenty. This bill, the "revenue bill," contained provisions for increased revenue needed to pay for the appropriations which had already been signed into law by Governor Pawlenty and balance the budget for the 2010/2011 biennium.

51. On May 18, the 2009 legislative session ended. The legislature does not have authority to extend their session beyond the first Monday following the third Saturday in May. Minn. Const. Art. IV, § 12.

52. On May 21, 2009, Governor Pawlenty vetoed HF 2323, the revenue bill. At the time he vetoed HF 2323, Governor Pawlenty knew that state revenues were less than previously forecast and also that either additional revenues or savings would be needed to balance the state budget.

53. Governor Pawlenty created a budget shortfall when he signed the budget bills into law and subsequently vetoed the revenue bill. Governor Pawlenty knew that additional funds would be needed to balance the budget when he vetoed the revenue bill.

54. The Governor has the authority to call the legislature into special session on extraordinary occasions. Minn. Const. art. IV, § 12. The Governor allowed the legislative session to end without a balanced budget. He chose not to call the legislature back into special session for the purpose of resolving the budget imbalance.

55. On June 4, 2009, Commissioner Hanson authored a letter to Governor Pawlenty in which he advised the Governor that the state's revenues were not anticipated to be sufficient to support the planned spending during the 2010/2011 biennium.

56. On June 8, 2009, Commissioner Hanson met with community members concerning the Governor's plan to reduce allotments as a way to create a balanced budget.

57. On June 16, 2009, Commissioner Hanson sent Governor Pawlenty a letter stating "[T]he 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." Commissioner Hanson

proposed a series of spending reductions including a $236 million reduction in human services spending, and a $67 million reduction in state renter property tax refunds and other payments.

MSA-Special Diet Reduction

58. The reduction in human services spending proposed by Commissioner Hanson included elimination of funding for the MSA Special Diet program effective November 1, 2009 through June 30, 2011. The defendants projected that this reduction would save the state $5.333 million.

59. The MSA Special Diet program provides a monthly cash supplement to elderly and disabled residents who need to follow a special diet because of a medical condition. The special diet must be prescribed by a licensed physician. The cash supplement assists with the additional costs of maintaining the medically prescribed special diet and is only available when those costs are not adequately met by another benefit program. Minn. Stat. § 256D.44 subdiv. 5(a).

60. Individuals receiving MSA Special Diet assistance live on a fixed income. For most, their primary income is Supplemental Security Income (SSI). SSI is a federally-funded low-income program for elderly and disabled individuals. It pays a monthly cash grant designed to meet only the recipient's basic needs. The special diet recipient may also receive a small cash grant, frequently $81 per month, from the MSA program. The MSA grant is a state-funded supplement designed to meet basic needs not adequately covered by SSI. Neither the SSI grant nor the basic MSA grant contemplates the additional expenses of a medically prescribed diet; therefore, these grants do not provide adequate funds to pay those additional costs.

61. On September 11, 2009, Charles E. Johnson, Assistant Commissioner Children and Family Services, issued Welfare Bulletin # 09-69-04 which informed counties, inter alia, that

as a result of the unallotment of MSA Special Diets (MSA-SD), the program would be suspended effective November 1, 2009. The bulletin instructs counties to arrange to identify all current recipients of MSA-SD and send them a new Maxis generated notice at least ten days in advance to inform them that state money for MSA-SD has ended due to unallotment as of November 1, 2009.

62. The state's anticipated revenues for the entire biennium are sufficient to fully cover the cost of MSA-SD for the first year of the 2010/2011 biennium. The first year of the biennium runs from July 1, 2009 through June 30, 2010.

Renter Property Tax Refund Reduction

63. Governor Pawlenty's unallotments also included a reduction in the state Renter Property Tax Refund. However, Defendants' proposal does this by changing the statutorily prescribed amount used to calculate the refund.

64. Defendant Einess publishes the form Plaintiffs will use to file a claim for the Renter Property Tax Refund. This form is published and made available with the Minnesota Income Tax Return forms and instructions in early 2010 which is the start of the 2009 tax filing period.

65. The defendants' attempt to reduce the Renter Property Tax Refund through unallotment reduces the portion of rent used to calculate the refund from the statutorily prescribed 19% of the rent paid to 15% of the rent paid. This adjustment, which amends prior law, will reduce refunds received by renters in 2010.

66. The defendants do not have a constitutional authority to unilaterally amend a statutory provision.

67. The state legislature will reconvene on February 4, 2010. The state legislature has sufficient time to take action to address the budget shortfall for the balance of the biennium.

Plaintiff Deanna Brayton

68. Plaintiff Deanna Brayton is a 49-year-old woman living in Anoka County, Minnesota. She suffers from multiple health conditions which has rendered her disabled.

69. Ms. Brayton has been diagnosed with an autoimmune disorder, rheumatoid arthritis, degenerative disc disease, osteoporosis, high cholesterol, elevated blood sugar, underactive thyroid, irritable bowel syndrome, traumatic brain injury, irregular heartbeat, anxiety, migraine headaches and visual disturbances. In addition, she suffers from frequent blood clots, kidney stones and multiple ill-defined leg fractures. As a result of these impairments, Ms. Brayton is required to closely monitor her health. She takes multiple medications and follows a strict, medically prescribed diet.

70. Ms. Brayton is required to maintain a low cholesterol diet. In addition, she must follow both a lactose free diet and a gluten free diet. She must also carefully control her daily protein to between 40 and 60 grams. Finally, she must follow an anti-dumping diet. Purchasing and preparing foods that meet this complex mix of dietary restrictions is difficult and expensive.

71. Ms. Brayton's only sources of income are Supplemental Security Income of $674 per month and Minnesota Supplemental Aid (MSA). Currently, Ms. Brayton receives a total of $415.40 from MSA: $81 as her basic MSA grant with a special needs supplement of $334.40 to cover her special dietary needs. Ms. Brayton also receives $16 per month in Food Support benefits.

72. Ms. Brayton currently spends an average of $400 per month on food.

73. Ms. Brayton's monthly expenses of $1,221 exceed her current monthly income of $1,089.40. She routinely delays payments on some expenses each month, paying that creditor the following month and leaving another expense unpaid. In this way, Ms. Brayton is able to get by.

74. Pursuant to the defendants' allotment reductions, Ms. Brayton will lose her MSA Special Diet funding effective November 1, 2009. This will result in a loss of $334.40 per month. This is money Ms. Brayton relies on each month to purchase the foods she needs to follow her medically prescribed diets.

Plaintiff Darlene Bullock

75. Plaintiff Darlene Bullock is a 72-year-old woman living in Aitkin County, Minnesota. She suffers from multiple health conditions which have rendered her disabled.

76. Ms. Bullock has been diagnosed with type II diabetes, had a stroke in 1993, underwent a triple bypass surgery in 2005 and had a stint placed in her heart in 2009 to prevent artery blockage. As a result of these impairments, Ms. Bullock is required to closely monitor her health. She takes multiple medications and follows a strict, medically prescribed diet.

77. Ms. Bullock is required to maintain a low cholesterol, high residue hypoglycemic, high protein diet. Purchasing and preparing foods that meet her dietary restrictions is expensive.

78. Ms. Bullock's only sources of income are Social Security Disability Insurance of $255 per month, retirement income of $439 per month and Minnesota Supplemental Aid (MSA). Currently, Ms. Bullock receives a total of $201 from MSA: $81 as her basic MSA grant with a special needs supplement of $119 to cover her special dietary needs. Ms. Bullock also receives $16 per month in Food Support benefits.

79. Ms. Bullock currently spends an average of $250 per month on food.

80. Ms. Bullock's monthly expenses of $930 exceed her current monthly income of $895. She routinely goes without basic needs each month in order to get by.

81. Pursuant to the defendants' allotment reductions, Ms. Bullock will lose her MSA Special Diet funding effective November 1, 2009. This will result in a loss of $119 per month. This is money Ms. Bullock relies on each month to purchase the foods she needs to follow her medically prescribed diet.

Plaintiff Forough Mahabady

82. Plaintiff Forough Mahabady is a 54-year-old woman who lives in Hennepin County, Minnesota.

83. Ms. Mahabady has a number of health problems which has resulted in her being totally disabled. Ms. Mahabady has recently been treated for kidney cancer. In addition she has had two hip replacements and suffers from various digestive problems. These health conditions result in Ms. Mahabady being forced to maintain a strict high protein diet.

84. Ms. Mahabady's only sources of income are Social Security Disability Insurance income of $803 per month and Minnesota Supplemental Aid (MSA). Currently, Ms. Mahabady receives a total of $200 from MSA. The entire amount of the MSA Ms. Mahabady receives is a result of her qualification for the special diet supplement. In addition, Ms. Mahabady receives $152 in Food Support benefits.

85. Ms. Mahabady spends an average of $350 per month for food to maintain her high protein diet.

86. Ms. Mahabady's monthly expenses of $1,892 exceed her current monthly income of $1,003. As a result she has been forced to borrow money from family and friends each month.

87. Pursuant to the defendants' allotment reductions, Ms. Mahabady will lose her MSA Special Diet funding effective November 1, 2009. Without this funding, Ms. Mahabady will not have enough money to purchase the food items she needs to maintain her medically necessary diet.

Plaintiff Debra Branley

88. Plaintiff Debra Branley is a 56-year-old disabled woman who lives in St. Louis County, Minnesota. She lives in an apartment and pays monthly rent.

89. Ms. Branley has significant health problems that have resulted in her total disability. She has acromegaly panhypopituitarism which resulted in the removal of her pituitary gland. She also had renal disease resulting in a kidney transplant. She suffers from rheumatoid arthritis and depression. Currently, Ms. Branley is experiencing difficulty maintaining her weight, causing her doctors significant concern. Ms. Branley's diet is restricted because of her multiple health conditions. She follows a medically prescribed and monitored diet.

90. Ms. Branley's only source of income is Social Security Disability Insurance in the amount of $701 per month and MSA in the amount of $354 per month. Her current MSA grant includes $250 for her special diet. Ms. Branley also gets $16 per month in food support. Occasionally, Ms. Branley is able to supplement her income by working as an election judge or some other community service for which she receives a small stipend.

91. Ms. Branley spends an average of $250 per month for food.

92. Ms. Branley's monthly expenses are $1366. This exceeds her total monthly income of $1055. Ms. Branley is forced each month to make choices about which bill to pay in full and which to underpay.

93. Pursuant to the defendants' allotment reductions, Ms. Branley will lose her MSA Special Diet funding effective November 1, 2009. Without this funding, Ms. Branley will not have enough money to purchase the food items she needs to maintain her diet.

94. Ms. Branley has been a renter for a number of years. Each year she applies for the Renter Tax Refund. Ms. Branley uses the money she receives to buy food and other basic need items. Ms. Branley depends on the Renter Tax Refund to purchase things that she needs but cannot afford on her monthly income.

95. Pursuant to Defendants' allotment reductions, Ms. Branley will experience a reduction in her Renter Tax Refund for the current year.

Plaintiff Marlene Griffin

96. Plaintiff Marlene Griffin is a 53-year-old woman living in Ramsey County, Minnesota. She suffers from multiple health conditions which have rendered her disabled. She lives in an apartment and pays monthly rent.

97. Ms. Griffin has been diagnosed with lupus, rheumatoid arthritis, osteoporosis, fibromyalgia, anemia, asthma, diabetes, hypertension, emphysema, renal disease and carpal tunnel syndrome. In addition, she suffers from complications to gastric bypass surgery. These complications led to the removal of Ms. Griffin's stomach resulting in digestion difficulties and vitamin deficiency. Ms. Griffin closely monitors her health. She takes multiple medications and vitamin supplements. She also follows a strict, medically prescribed diet.

98. Ms. Griffin is required to maintain a low sugar and low sodium diet. In addition, she must follow both a lactose free diet and a gluten free diet.

99. Ms. Griffin's only sources of income are Supplemental Security Income of $674 per month and Minnesota Supplemental Assistance (MSA). Currently, Ms. Griffin receives a

total of $211 from MSA: $81 as her basic MSA grant with a special needs supplement of $130 to cover her special dietary needs. Ms. Griffin also receives $16 per month in Food Support benefits.

100. Ms. Griffin currently spends an average of $200 per month on food.

101. Ms. Griffin's monthly expenses of $919 exceed her current monthly income of $885. Each month, Ms. Griffin is forced to forgo some basic need item because she does not have the money.

102. Pursuant to the Defendants' allotment reductions, Ms. Griffin will lose her MSA Special Diet funding effective November 1, 2009. This will result in a loss of $130 per month. This is money Ms. Griffin needs to purchase the foods she needs to follow her medically prescribed diets.

103. Ms. Griffin is a low-income renter and as such is eligible for the Renter Tax Refund program.

104. Pursuant to Defendants' allotment reductions, Ms. Griffin will receive a lower Renter Tax refund.

Plaintiff Evelyn Bernhagen

105. Plaintiff Evelyn Bernhagen is a 57-year-old disabled woman who lives in Anoka County, Minnesota. She lives in an apartment and pays monthly rent.

106. Ms. Bernhagen has a number of health conditions which includes hypoglycemia and high cholesterol. As a result of these medical conditions, Ms. Bernhagen must follow a medically prescribed diet.

107. Ms. Bernhagen's only sources of income are Supplemental Security Income of $674 per month and Minnesota Supplemental Aid (MSA). Currently, Ms. Bernhagen receives a

total of $151.40 from MSA: $81 as her basic MSA grant with a special needs supplement of $70.40 to cover her special dietary needs. Ms. Bernhagen also receives $38 in Food Support benefits.

108. Ms. Bernhagen spends an average of $200 per month for food.

109. Ms. Bernhagen's monthly expenses are $925. Her current monthly income is $825.40. Her income is already insufficient to meet her monthly expenses. As a result, Ms. Bernhagen maintains a revolving loan through her bank. Each month she borrows the extra funds she needs and then repays that amount the following month.

110. Pursuant to the defendants' allotment reductions, Ms. Bernhagen will lose her MSA Special Diet funding effective November 1, 2009. Without this funding, Ms. Bernhagen will not have enough money to purchase the food items she needs to maintain her medically necessary diet.

111. Ms. Bernhagen has been a renter for a number of years. Each year she applies for the Renter Property Tax Refund. Ms. Bernhagen uses the money she receives to pay off the balance of her revolving loan. Because of the monthly interest attached to her loan, Ms. Bernhagen increases the amount of her debt each month. Ms. Bernhagen depends on the Renter Property Tax Refund to pay off the growing debt so that she can maintain the system of borrowing each month to meet her basic needs.

112. Pursuant to Defendants' allotment reductions, Ms. Bernhagen will experience a reduction in her Renter Property Tax Refund for the current year.

IRREPARABLE HARM

113. Plaintiffs are suffering or are in danger of suffering irreparable harm if their MSA-Special Diet funds are terminated November 1, 2009. Plaintiffs have no adequate remedy at law to prevent this termination of their benefits on November 1, 2009.

114. Plaintiffs are in danger of suffering irreparable harm if their Renter Property Tax Refunds are reduced. Plaintiffs have no adequate remedy at law to prevent this reduction in their property tax refunds.

CLAIMS FOR RELIEF

FIRST CLAIM FOR RELIEF
MINN. STAT. §§ 16A.14 and 16A.152

115. Defendant Hanson's failure to allot funds up to the level of their appropriation at the beginning of a biennium pursuant to Minn. Stat. § 16A.14 violates his duty to allot funds as appropriated at the beginning of a biennium.

116. Defendant Hanson's unallotment of funds before making an initial allotment violates Minn. Stat. § 16A.14.

117. Defendant Hanson's unallotment of funds beyond the current fiscal year violates Minn. Stat. § 16A.14 subdiv. 1.

118. Defendants' use of Minn. Stat. § 16A.152 to reduce funds appropriated and signed into law is not permitted by the statute because, among other reasons:

(a) The probable receipts needed to fund these appropriations were known, and therefore not less than anticipated at the time the appropriations were signed into law.

(b) The amounts needed to fund the appropriations were known before the biennium began.

(c) There are sufficient revenues available to meet the expenses of the MSA-SD program and the Renter Property Tax Refunds until such time as the legislature reconvenes and can address any future budget deficits.

119. Defendant Ludeman's instructions to counties in *Welfare Bulletin #06-69-04* which direct counties to send notices informing persons receiving MSA-Special Diets that their benefits are terminated as a result of the unallotment of the funds for that program violate the law.

SECOND CLAIM FOR RELIEF
MINN. STAT.§ 290A.23 subdiv. 11

120. Only the legislature has the authority to amend a state statute.

121. Defendants' use of Minn. Stat. § 16A.152 to reduce the statutorily prescribed amount of rent used to calculate the Renter Property Tax Refund from 19% to 15% is not permitted by law and is thus ineffectual.

THIRD CLAIM FOR RELIEF
VIOLATION OF SEPARATION 0F POWERS DOCTRINE
MINNESOTA CONSTITUTION ARTICLE III

122. Only the legislature has the authority to amend a state statute.

123. Defendants' reduction of the statutorily prescribed amount of rent used to calculate the Renters Tax Refund from 19% to 15% is not permitted by the Minnesota Constitution.

FOURTH CLAIM FOR RELIEF
VIOALTION OF SEPARATION OF POWERS DOCTRINE
MINNESOTA CONSTITUTION ARTICLE III

124. If Minn. Stat. § 16A.152 is interpreted to grant authority to the Commissioner of Management and Budget and the Governor to unallot funds in order to balance the state budget

at the beginning of a biennium, the statute is an unconstitutional delegation of authority from the legislative to the executive branch of government.

FIFTH CLAIM FOR RELIEF
VIOLATION OF SEPARATION OF POWERS DOCTRINE
MINNESOTA CONSTITUTION ARTICLE III

125. The Governor's use of unallotment at the beginning of the biennium rather than his constitutional authority to balance the state budget by using the line-item veto to reduce appropriations before the beginning of the biennium violates the separation of powers as established in the Minnesota Constitution.

126. The Governor's failure to use the line-item veto to balance the state budget unlawfully deprived the legislature of its constitutional right in article IV, section 23 to attempt to override any proposed veto of an appropriation.

PRAYER FOR RELIEF

WHEREFORE, plaintiffs respectfully request this Court to:

1. Certify this case as a class action;

2. Issue a declaratory judgment which provides:

A. Minn. Stat. § 16A.152 does not grant the defendants the power to reduce allotments at the beginning of a biennium when the probable receipts for the general fund were known, and therefore not "less than anticipated."

B. Defendants' use of Minn. Stat. § 16A.152 to reduce appropriations signed into law at a time when the amounts needed for those appropriations were known is contrary to authority delegated to them pursuant to the plain meaning of the statute.

C. Minn. Stat. § 16A.152 does not grant the defendants the power to reduce allotments at the beginning of the biennium when there are sufficient funds available in the general fund to fully fund all appropriations until such time as the legislature reconvenes and can address any future budget shortfalls.

D. Because allotments cannot extend beyond a fiscal year, any attempt by Defendants to use Minn. Stat. § 16A.152 to unallot funds for fiscal year 2011 is contrary to the provisions of Minn. Stat. § 16A.14 and therefore void.

E. Minn. Stat. § 16A.152 does not grant the defendants the power to revise the program eligibility or administrative provisions surrounding the Renter Property Tax Refund as set forth in Minn. Stat. § 290A.23 subdiv. 1.

F. Defendants' attempt to rewrite substantive provisions regarding eligibility and administration of the Renter Property Tax Refund program exceeds the authority delegated to them under Minn. Stat. § 16A.152 and violates the separation of powers provisions of the Minnesota Constitution.

G. Pursuant to article III of the Minnesota Constitution, Minn. Stat. § 16A.152 is an unconstitutional delegation of powers from the legislative to the executive branch of government if it is interpreted to permit Defendants' actions to a) unallot appropriations when the amount of receipts available for the general fund is known and therefore *not less than anticipated*, b) unallot appropriations when the amount of revenue needed to fund appropriations signed into law is known at the beginning of the biennium, and c) unallot appropriations at the beginning of the biennium when there is sufficient revenue in the general fund to fully fund appropriations until the Governor calls a special session or the legislature reconvenes.

H. Defendant Governor Pawlenty's failure to veto individual appropriations that he disagreed with, and instead to employ Minn. Stat. 16A.152 to reduce appropriations already signed into law is an unconstitutional usurpation of the legislature's constitutional right to attempt to override the Governor's decision with respect to individual appropriations and as such is a violation of the separation of powers doctrine.

3. Grant a permanent injunction that:

A. Prohibits the Commissioner of Management and Budget from reducing allotments to agencies below the amount of funds appropriated by HF 1362 as signed into law by Governor Pawlenty.

B. Prohibits the Commissioner of Management and Budget from reducing the amount available for the Renter Property Tax Refund below the amount necessary to calculate refunds based upon the 19% prescribed by statute.

C. Prohibits the Commissioner of Health and Human services from taking any action to reduce or terminate plaintiffs' MSA Special Diet assistance payments.

D. Orders the Commissioner of Health and Human Services to reinstate and make retroactive payment of any MSA Special diet payments terminated effective November 1, 2009.

E. Orders the Commissioner of Revenue to use current law which sets the amount of rent constituting property tax as 19% when publishing Renter Property Tax Instructions or Tables for distribution at the start of the 2009 tax filing season.

F. Orders the Commissioner of Management and Budget to restore and allot funds as appropriated by the legislature and signed into law by the Governor.

4. Grant such other and further relief as this Court finds just and equitable.

Dated: November 10, 2009

MID-MINNESOTA LEGAL ASSISTANCE

BY ______________________

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ACKNOWLEDGMENT

The undersigned hereby acknowledges that pursuant to Minn. Stat. § 549.21, costs, disbursements, and reasonable attorney and witness fees may be awarded to the opposing party if the plaintiffs or their attorney act in bad faith, assert a frivolous claim, assert an unfounded position to delay or harass, or commit a fraud upon the court.

Galen Robinson

19

FILED
Court Administrator
NOV 1 2 2009
By BK Deputy

STATE OF MINNESOTA

COUNTY OF RAMSEY

DISTRICT COURT

SECOND JUDICIAL DISTRICT

Case Type: Other Civil

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

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

Plaintiffs,

vs.

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.

AFFIDAVIT OF PATRICK ROBBEN

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.

Sue Vrooman

NOTARY PUBLIC

SUE A. VROOMAN
NOTARY PUBLIC - MINNESOTA
MY COMMISSION
EXPIRES JAN. 31, 2010

MINNESOTA
Management
& Budget

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

400 CENTENNIAL BUILDING ♦ 658 CEDAR STREET ♦ ST. PAUL, MINNESOTA 55155 ♦ (651) 201-8000

Robben Affidavit
No. 62-CV-09-11693
Exhibit 1

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)

	FY 2008-09	FY 2010-11
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

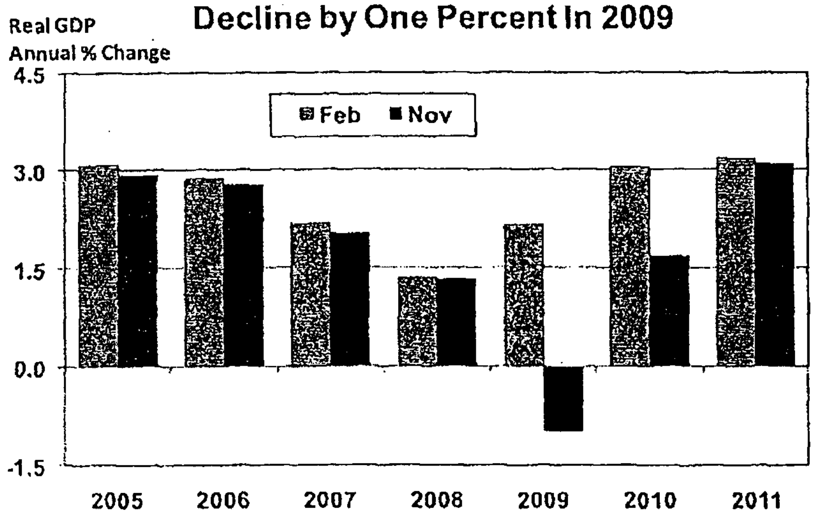
Because Minnesota's Constitution prohibits borrowing for operating purposes beyond the end of the biennium, options for dealing with the projected deficit for the current biennium deficit are limited. Minnesota's budget reserve, currently $155 million, is available for use, but it is not sufficient to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

	End of Session	November Forecast	Change
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	350	350	0
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)

Revenues	$ Change	% Change
Income Tax	($291)	(1.9%)
Sales Tax	(145)	(1.6)
Corporate Tax	(57)	(3.1)
Motor Vehicle	(1)	(0.4)
Subtotal	**($493)**	**(1.9%)**
Other	81	1.3
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)

	FY 2008-09	FY 2010-11	$ Change	% Change
Beginning Balance	$2,245	$79	($2,166)	
Tax Revenues	29,917	29,589	(328)	
Non-Tax Revenues	1,584	1,481	(103)	
Other Resources	944	796	(148)	
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	350	350		
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)

Revenues	$ Change	% Change
Income Tax	($1,748)	(10.1%)
Sales Tax	(826)	(8.7)
Corporate Tax	(640)	(31.3)
Motor Vehicle	(10)	(9.0)
Subtotal	**($3,224)**	**(11.1%)**
Other Revenues	(97)	(1.5)
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)

	End of Session	November Forecast	$ Difference
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	1,931	1,933	(2)
Subtotal	**$36,050**	**$36,583**	**$533**
Dedicated Expenditures	83	130	47
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)

	FY 2008-09	FY 2010-11	FY 2012-13
Revenues	$32,445	$31,866	$34,558
Spending	34,611	36,713	39,162
Difference	**($2,166)**	**($4,847)**	**($4,604)**
Inflation (estimate)		*$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
Actual & Estimated Resources			
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)**
Actual & Estimated Spending			
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
Actual & Estimated Resources				
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%**
Actual & Estimated Spending				
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)**	

MINNESOTA Management & Budget

February Forecast

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 unalloting $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.

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Robben Affidavit
No. 62-CV-09-11693
Exhibit 2

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)

	FY 2009	FY 2010-11
November Forecast Shortfall	**($426)**	**($4,847)**
Changes:		
Budget Reserve Used	155	—
Governor's Unallotment	271	—
February Forecast Changes	(228)	(1,318)
Federal Stimulus	464	1,359
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)

	November Forecast	February Forecast	Difference
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	155	—	(155)
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.

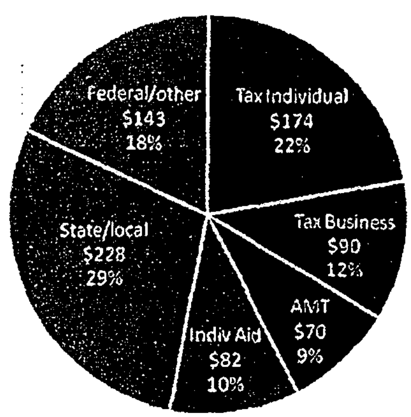
FY 2010-11 Budget Outlook
($ in millions)

	November Forecast	February Forecast	Difference
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	155	—	(155)
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.

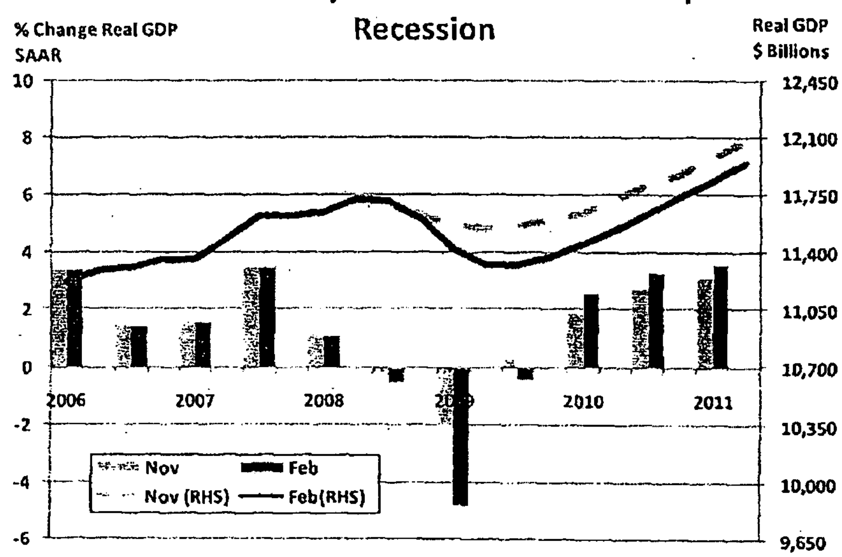
But, It Will Not Jump-Start the U.S. Economy

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)

	FY 2008-09	FY 2010-11
Income	($83)	($701)
Sales	(84)	(202)
Corporate	(133)	(230)
Motor Vehicle	1	(7)
Subtotal	(299)	(1,140)
Other	87	(26)
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)

	FY 2008-09	FY 2010-11
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	(19)	2
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)

	FY 2008-09	FY 2010-11	FY 2012-13
Forecast Revenues	$32,232	$30,700	$34,244
Projected Spending	33,891	35,506	39,377
One-time Savings, Federal Stimulus	(464)	(1,359)	—
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
Actual & Estimated Resources			
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)
Actual & Estimated Spending			
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
Actual & Estimated Resources			
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)**
Actual & Estimated Spending			
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
Actual & Estimated Resources				
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%**
Actual & Estimated Spending				
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)**	

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April 2009 Economic Update

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)

	Estimate	Actual	Variance	Percent
	($ 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.*

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No. 62-CV-09-11693
Exhibit 3

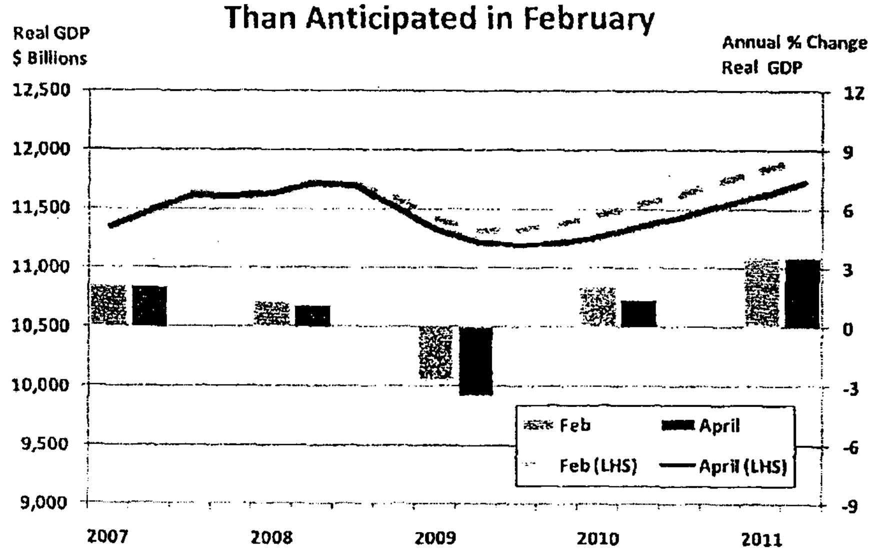
Economic Recovery Is on the Way, But No Real GDP Growth Expected Until Late 2009

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.

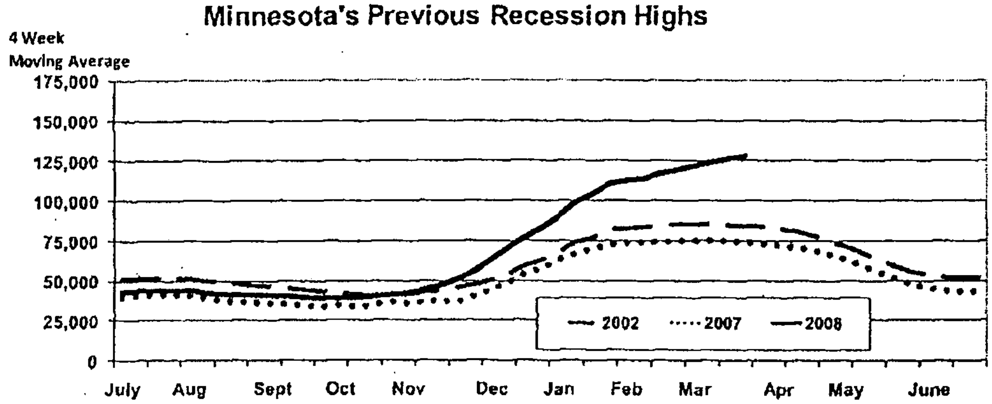
April Baseline Forecast Shows Weaker 2009 Than Anticipated in February



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



Source: U.S. Dept. of Labor

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

Robben Affidavit
No. 62-CV-09-11693
Exhibit 4

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

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

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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 approached 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.

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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

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)

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)

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)**

Higher Education

State Colleges & Universities

FY 2011 Allotment Reduction	Expenditures	0	(50,000)	(50,000)

Reduces the enacted FY 2011 general fund appropriation to the Minnesota State Collegs 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)**

University of Minnesota

FY 2011 Allotment Reduction	Expenditures	0	(50,000)	(50,000)

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)**

Proposed Unallotments & Administrative Actions

General Fund by Omnibus Bill and Agency

($ in Thousands)

		FY 2010	FY 2011	FY 2010-11

Tax Policy, Aids and Credits

Revenue Dept - Other

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
Unallot Poltical 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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

	FY 2010	FY 2011	FY 2010-11
Revenue Dept - Other Total Net Change:	**(139,000)**	**(396,400)**	**(535,400)**

Health and Human Services

Human Services Dept

		FY 2010	FY 2011	FY 2010-11
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

		FY 2010	FY 2011	FY 2010-11
Reduce County Mental Health Grants	Expenditures	(5,000)	(3,100)	(8,100)

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).

		FY 2010	FY 2011	FY 2010-11
Eliminate 3 Chemical Dependency Grants	Expenditures	(693)	(693)	(1,386)

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.

		FY 2010	FY 2011	FY 2010-11
Cap Chemical Dependency Payment Rates	Expenditures	(3,622)	(3,622)	(7,244)

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.

		FY 2010	FY 2011	FY 2010-11
Restructure State Operated Services	Expenditures	(422)	(4,588)	(5,010)

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.

		FY 2010	FY 2011	FY 2010-11
Child Support Enforcement County Grants	Expenditures	(3,400)	(3,400)	(6,800)

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 unalloted state funds.

		FY 2010	FY 2011	FY 2010-11
Elimimate Carry-Forward of AICW Grant	Expenditures	(800)	0	(800)

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).

		FY 2010	FY 2011	FY 2010-11
Reduce Children & Community Serv. Grants	Expenditures	(16,900)	(22,300)	(39,200)

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)

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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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

		FY 2010	FY 2011	FY 2010-11
Suspend Nursing Facility Rebasing	Expenditures	(3,420)	(2,520)	(5,940)

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.

		FY 2010	FY 2011	FY 2010-11
Add'l 1.5% Reduction - Non-Primary Care	Expenditures	(2,100)	(2,775)	(4,875)

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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
Elim. MA Critical Access Dental Payments	Expenditures	0	(6,200)	(6,200)

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.

		FY 2010	FY 2011	FY 2010-11
Elim. GF Funding for Outreach Incentives	Expenditures	0	(3,400)	(3,400)

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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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)

		FY 2010	FY 2011	FY 2010-11

Health and Human Services

Human Services Dept

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

		FY 2010	FY 2011	FY 2010-11
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.

	FY 2010	FY 2011	FY 2010-11
Human Services Dept Total Net Change:	**(110,682)**	**(125,408)**	**(236,090)**

State Government

Statewide

		FY 2010	FY 2011	FY 2010-11
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.

	FY 2010	FY 2011	FY 2010-11
Statewide Total Net Change:	**(16,500)**	**(16,500)**	**(33,000)**

Proposed Unallotments & Administrative Actions

General Fund Summary by Omnibus Bill

($ in Thousands)

	FY 2010	FY 2011	FY 2010-11
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)
REPORT TOTALS:			
Revenues	**35,000**	**133,700**	**168,700**
Expenditures	**(1,299,775)**	**(1,207,047)**	**(2,506,822)**
NET CHANGE	**($1,334,775)**	**($1,340,747)**	**($2,675,522)**

06/16/2009 12:33 PM

MINNESOTA
Management
& Budget

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 unalloted 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 unalloted 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 unalloted 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.

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Robben Affidavit
No. 62-CV-09-11693
Exhibit 6

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 unalloted 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 unalloted.

Reduce Personal Care Attendant (PCA) Worker Hours to 275/Month: The amount to be unalloted 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 unalloted 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.

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,

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).

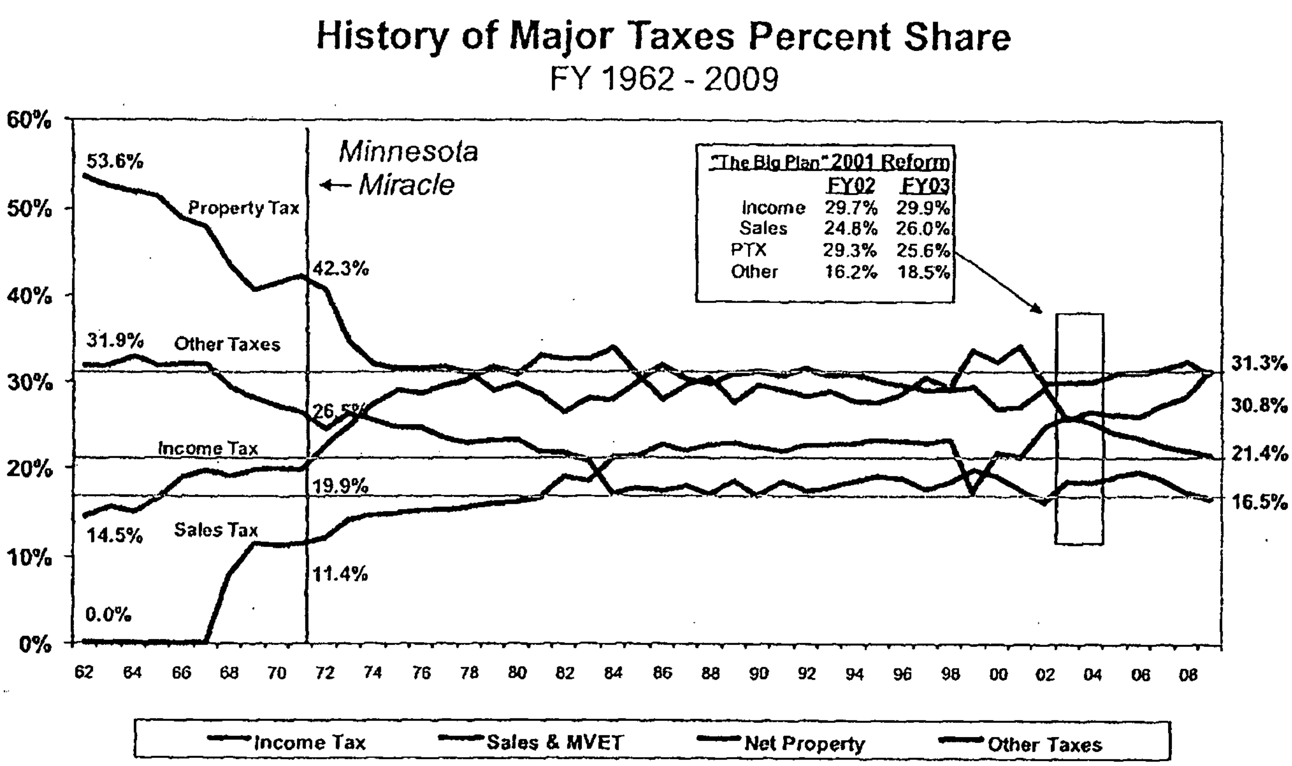
The Renters Property Tax Refund program is a state-paid refund to renters whose rent and property taxes are high relative to their income. Under current law, rent constituting property taxes is assumed to be 19% of rent paid. The property tax reforms enacted in 2001 resulted in a 24% reduction in apartment 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.



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

MINNESOTA
Management
& Budget

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.

400 Centennial Building • 658 Cedar Street • St. Paul, Minnesota 55155
Voice: (651) 201-8000 • Fax: (651) 296-8685 • TTY 1-800-627-3529
An Equal Opportunity Employer

Robben Affidavit
No. 62-CV-09-11693
Exhibit 7

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

Sincerely,

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

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Robben Affidavit
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

		FY 2010	FY 2011	FY 2012	FY 2013
Property Tax Recognition Adjustment	Expenditures	0	(600,672)	0	0

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.

		FY 2010	FY 2011	FY 2012	FY 2013
School Aid Payment Deferral	Expenditures	(1,068,593)	(101,767)	1,170,360	0

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.

	FY 2010	FY 2011	FY 2012	FY 2013
Education Dept Total Net Change:	**(1,068,593)**	**(702,439)**	**1,170,360**	**0**

Higher Education

State Colleges & Universities

		FY 2010	FY 2011	FY 2012	FY 2013
FY 2011 Allotment Reduction	Expenditures	0	(50,000)	0	0

Reduces the enacted FY 2011 general fund appropriation to the Minnesota State Collegs 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%.

	FY 2010	FY 2011	FY 2012	FY 2013
State Colleges & Universities Total Net Change	**0**	**(50,000)**	**0**	**0**

University of Minnesota

		FY 2010	FY 2011	FY 2012	FY 2013
FY 2011 Allotment Reduction	Expenditures	0	(50,000)	0	0

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%.

	FY 2010	FY 2011	FY 2012	FY 2013
University of Minnesota Total Net Change:	**0**	**(50,000)**	**0**	**0**

Tax Policy, Aids and Credits

Revenue Dept - Other

		FY 2010	FY 2011	FY 2012	FY 2013
Delay Capital Equipment Refunds	Revenues	0	63,000	(63,100)	0

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

Tax Policy, Aids and Credits

Revenue Dept - Other

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
Unallot Poltical 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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

	FY 2010	FY 2011	FY 2012	FY 2013
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)

		FY 2010	FY 2011	FY 2012	FY 2013
Health and Human Services					
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 unalloted 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)

		FY 2010	FY 2011	FY 2012	FY 2013

Health and Human Services

Human Services Dept

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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)

		FY 2010	FY 2011	FY 2012	FY 2013
Health and Human Services					
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

($ in Thousands)

		FY 2010	FY 2011	FY 2012	FY 2013

Health and Human Services

Human Services Dept

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

		FY 2010	FY 2011	FY 2012	FY 2013
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.

	FY 2010	FY 2011	FY 2012	FY 2013
Human Services Dept Total Net Change:	**(76,571)**	**(133,608)**	**32,828**	**83**

State Government

Statewide

		FY 2010	FY 2011	FY 2012	FY 2013
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.

	FY 2010	FY 2011	FY 2012	FY 2013
Statewide Total Net Change:	**(11,689)**	**(11,688)**	**0**	**0**

Approved Unallotments & Administrative Actions

General Fund Summary by Omnibus Bill

($ in Thousands)

	FY 2010	FY 2011	FY 2010-11	FY 2012	FY 2013	FY 2012-13
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
REPORT TOTALS:						
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
NET CHANGE	($1,295,853)	($1,380,439)	($2,676,292)	$1,320,139	$1,961	$1,322,100

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