



State of Minnesota  
Department of Finance

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March 12, 2003

**TO:** Senator John Hottinger  
Senator Richard Cohen  
Senator Lawrence Pogemiller  
Representative Steve Sviggum  
Representative Jim Knoblach  
Representative Ron Abrams

**FROM:** Dan McElroy *Dan McElroy*  
Commissioner

**SUBJECT:** Supplemental Budget Update #1

The purpose of this letter is to officially transmit revisions to the Governor's FY 2004-05 Proposed Budget that was released on February 18, 2003.

The information updates the original submission for the impact of the February forecast. It contains changes and updates to the Governor's recommendations for FY 2003-05 to bring the Governor's proposed budget into balance based on the impact of the new forecast. Additionally, this formal amendment to the Governor's budget incorporates revisions and technical corrections to the biennial budget documents.

As we had highlighted at the February forecast release, the impact of February forecast changes on the Governor's proposed budget is summarized below:

| (\$ in millions)            | <u>Original<br/>Budget</u> | <u>Forecast<br/>Changes</u> | <u>Updated<br/>Budget</u> |
|-----------------------------|----------------------------|-----------------------------|---------------------------|
| <b>Balance from FY 2003</b> | \$186                      | \$(11)                      | \$175                     |
| <b>Revenues</b>             | 28,438                     | (150)                       | 28,288                    |
| <b>Spending</b>             | 28,120                     | (32)                        | 28,088                    |
| <b>Reserves</b>             | 500                        | 0                           | 500                       |
| <br>                        |                            |                             |                           |
| <b>Ending Balance</b>       | \$4                        | \$(129)                     | \$(125)                   |

The budget revisions eliminate the shortfall in the Governor's budget, increase the recommended budget reserve by \$30 million to \$530 million and leave a budget balance of \$6.8 million. The impact of these changes is summarized below.

|   |                  |
|---|------------------|
| <b>Governor's Budget Shortfall (\$ in millions)</b> | <b>(\$125.3)</b> |
| <b>(Based on Feb. Forecast)</b>                     |                  |
| <b>Decision Items</b>                               | <b>148.5</b>     |
| <b>Other Revisions, Forecast Changes (net)</b>      | <b>13.6</b>      |
|   | <hr/>            |
| <b>Available Balance</b>                            | <b>36.8</b>      |
| <br>  |                  |
| <b>Increase Reserve to \$530M</b>                   | <b>(30.0)</b>    |
|   | <hr/>            |
| <b>Ending Balance</b>                               | <b>\$6.8</b>     |

Legislators  
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The attachments to this letter identify general fund revisions to the Governor's recommendations by legislative omnibus bill. The information identifies items and amounts, provides a brief description, and shows fiscal impact for the FY 2004-05 biennium.

We are providing this summary listing so you will be able to begin to consider the specific items being recommended. Additional detailed information updating the numbers provided in the original budget documents, new and revised changes pages, and supplemental fund balance materials will be provided to committee staffs later this week.

Individual agency staffs, along with Finance executive budget officers, are prepared to answer questions you may have on the changes. Amendments to the Governor's budget bills will also be prepared to reflect this updated financial information. As has been past practice, please consider only changes that are submitted under my signature as valid revisions to the Governor's budget recommendations.

#### Attachments

cc: Finance and Appropriation Chairs  
Mark Misukanis  
Bill Marx

**Governor's Supplemental Budget**  
**Decision Items / Recommendations**  
(\$ in Millions)

|   | <b>FY 04-05</b>       |
|---|-----------------------|
|   | <b><u>Savings</u></b> |
| <b>Revenue / Tax Policy</b>                               | <b>83.9</b>           |
| Correct state property tax levy                           | 12.1                  |
| Eliminate State Fair sales tax dedication                 | 1.6                   |
| June accelerated sales tax - delay & expansion            | 44.3                  |
| Capital equipment refund - interest delay                 | 5.2                   |
| Expand non-tax debt collection power                      | 2.6                   |
| Accelerate county transfer of mortgage & deed taxes       | 16.1                  |
| Fee for paper returns by preparers                        | 2.0                   |
| <br><b>State Government</b>                               | <br><b>31.9</b>       |
| Arts Board - additional reduction                         | 5.0                   |
| Contingent Account - reduce one-half                      | 5.0                   |
| Campaign finance check-off                                | 2.4                   |
| Political contribution refunds                            | 5.9                   |
| Reduce facility repair & replacement funding              | 6.6                   |
| Public Broadcasting - additional reduction                | 0.4                   |
| Planning Agency - additional reduction                    | 1.0                   |
| Pension Uniformity - Legislators, Constitutional Officers | 5.7                   |
| <br><b>Education and Early Childhood</b>                  | <br><b>5.6</b>        |
| Eliminate At Home Infant Care Program                     | 4.0                   |
| Reduce Youthworks   | 1.6                   |
| <br><b>Transportation</b>                                 | <br><b>5.0</b>        |
| Rail Service Improvement transfer                         | 5.0                   |
| <br><b>Human Services</b>                                 | <br><b>22.2</b>       |
| Managed Care rate reduction                               | 6.2                   |
| Managed Care compliance                                   | 0.3                   |
| Shift MFIP support services payment                       | 14.0                  |
| DHS internal reallocations                                | 1.7                   |
|   | <hr/>                 |
| <b>Total - Decision Items</b>                             | <b>\$148.5</b>        |

## Governor's Supplemental Budget Recommendations

### Summary of General Fund Impacts

| Item   | FY 04-05<br>Savings<br>(\$ Millions) | Brief Description  |
|--|--------------------------------------|--|
| <b>Revenue/Tax Policy</b>                              |                                      |  |
| Correct Statewide Property Tax levy                    | 12.1                                 | Revises statute to allow Revenue to collect the total amount of statewide property tax in current law. Initial levy rates were based on an estimate of properties in the tax base and could not be adjusted for corrections to the data.   |
| Eliminate State Fair sales tax dedication              | 1.6                                  | Eliminates the dedication of state sales tax paid on tickets to the State Fair. This portion of the sales tax is collected but proceeds are currently dedicated to the fairgrounds, not the general fund.  |
| June Accelerated Sales Tax Delay & Expansion           | 44.3                                 | Requires an additional 10% of sales tax collections to be submitted to the state in June 2004. Also eliminates sunset of accelerated payments.   |
| Capital Equipment Refund Interest Delay                | 5.2                                  | Delays start of interest accrual by 90 days.   |
| Expand Non-tax Debt Collection Powers                  | 2.6                                  | Expands powers for the state to collect non-tax debt (to make consistent with tax debt collection powers). Figures shown reflect amounts deposited to the general fund.  |
| Accelerate County Transfer of Mortgage & Deed Taxes    | 16.1                                 | Advances county payments of mortgage and deed tax receipts by one month.   |
| Fee for paper returns by preparers                     | 2.0                                  | Assesses a \$5 fee for each paper copy of individual income tax returns filed by a professional tax preparer. There is no fee if the return is filed electronically.   |
| <b>State Government</b>                                |                                      |  |
| Reduce Arts Board funding                              | 5.0                                  | Reduces funding for the Arts Board by an additional \$5 million, leaving general funds of \$15.186 million for FY 04-05. This is a 40% reduction from the Board's forecast base.   |
| Eliminate General Contingent Account Funds in FY 05    | 5.0                                  | The Governor previously recommended \$5 million a year for unforeseen emergencies in FY 04-05. That recommendation is now revised to \$5 million in FY 04 only.  |
| Campaign finance check-off                             | 2.4                                  | Eliminates the state's contribution associated with the tax check-off for public subsidies to campaigns, which is estimated will reduce the subsidies paid to parties and candidates by one-half. Also converts campaign finance tax check-off from diversion of revenue to taxpayer donation (raises new revenue)   |
| Political contribution refunds                         | 5.9                                  | Reduces state refund of political contributions by one-half, allowing a \$25 refund of an individual's \$50 contribution.  |
| Reduce facility repair and replacement funding (Admin) | 6.6                                  | Reduces by one-half expenditures from the Facility Repair & Replacement (FR&R) Account and transfers the funding to the General Fund. The funds are generated as part of rent paid to the Department of Administration by state agencies and are used to repair, maintain and improve state-owned and Admin-managed buildings. (net savings will transfer to GF) |
| Public broadcasting-additional reduction (Admin)       | 0.4                                  | Further reduces state support for Public Broadcasting, from an original overall reduction of 24% to a revised reduction of 30%. Funding for public broadcasting is now recommended at \$4.48 million in FY 04-05.  |
| MN Planning- additional reduction                      | 1.0                                  | Increases the reduction in funding for programs currently under Planning from a 15% to a 26% reduction.  |
| Pension Uniformity: Legislative and                    | 5.7                                  | Standardizes pension payments for pre-1997 legislators and constitutional officers to provide payments on a pay-as-you-go basis.   |

|  |   |   |
|--|---|---|
| Constitutional Officer Plans (MSRS)                                |   |   |
| <b>Education and Early Childhood</b>                               |   |   |
| Eliminate At Home Infant Care Program (MDE)                        | 4.0                                       | Eliminates the At-Home Infant Care Program. This program provides a subsidy for up to twelve months while a parent stays home to care for an infant. Consistent with a proposal to change the work requirement exemption for MFIP participants with infants.                          |
| Reduce Youthworks funding (MDE)                                    | 1.6                                       | Reduces pass-through grant to nonprofit ServeMinnesota. \$1.0M/yr remains.  |
| <b>Transportation</b>  |   |   |
| Rail Service Improvement balance (DOT)                             | 5.0                                       | Transfers \$2.5M/yr for FY2004-05 from Rail Service Improvement Program account to the Debt Service Fund, freeing up similar amount of general funds. Rail loans are repaid to this account under current statute. (transfer reduces GF debt service spending)                        |
| <b>Human Services</b>  |   |   |
| MinnesotaCare Managed Care Rate Reduction (DHS)                    | 6.2 HCAF                                  | Reduces payments to MinnesotaCare managed care organizations by one percent beginning October 1, 2003. (net savings will transfer to GF)  |
| Managed Care Compliance (DHS)                                      | 0.3 GF                                    | Reduces an administrative funding request for activities designed to bring Minnesota in compliance with Federal managed care regulations. This reduction is consistent with proposed administrative reductions elsewhere in DHS' budget.  |
| Shift MFIP Support Services Payment (DHS)                          | 14.0 GF                                   | Delays a payment of the new MFIP Support Services Grant within the initial 18-month allocation period.  |
| <i>DHS Internal Reallocations:</i>                                 |   |   |
| Managed Care Withhold (DHS)  | 20.6 HCAF                                 | Increases the amount withheld from MinnesotaCare managed care organizations for performance incentives from .5% to 5% (net savings will transfer to GF)   |
| GAMC/MnCare consolidation (DHS)                                    | (+8.1) GF<br>(+9.8) HCAF<br>(+17.9) Total | Increases spending to "buy back" two components of the GAMC/MinnesotaCare consolidation proposal: the \$10,000 inpatient hospital cap, and the 10% inpatient hospital copayment. Also proposes a 2/1/04 effective date for the Employer Subsidized Insurance (ESI) definition change. |
| Disability Council   | (+1.0) GF                                 | Continues funding for this activity, which now sunsets June 30, 2003. No funding was contained in the initial budget recommendation.  |
| <b>Environment &amp; Natural Resources</b><br>(minimal net change) |   |   |
| Board of Animal Health   | (+0.4)<br>(0.4)<br>GF rev                 | Chronic Wasting Disease (CWD) initiative totals \$600K/yr funded by a new inspection fee at Animal Health (\$200K/yr special revenue), and a GF appropriation of (\$400K/yr). The general fund cost is offset by increasing the general fund share of Lottery In-Lieu.                |
| DNR Budget Revision  | (+.073)                                   | Reallocation of 15% GF reduction and various non-general fund initiatives within and among programs leaves a \$50,000 annual cost to a general fund open appropriation for Indian Treaty payments.  |