



June 29, 2009

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

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

Dear Speaker Anderson Kelliher and Senator Pogemiller:

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

Education Requests

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

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

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

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

Other Requests

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

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

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

Adjustments to Planned Unallotments and Administrative Actions

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

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

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

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

Moving Forward

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

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

Speaker Anderson Kelliher and Senator Pogemiller

June 29, 2009

Page 3

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

Sincerely,

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

Tom J. Hanson

Commissioner

cc: Legislative Advisory Commission