



State of Minnesota
Department of Finance

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March 8, 2007

TO: Senator Larry Pogemiller Representative Margaret Anderson Kelliher
Senator Richard Cohen Representative Tony Sertich
Senator David Senjem Representative Marty Seifert

FROM: Tom J. Hanson, Commissioner *TJH*

SUBJECT: Supplemental Budget Update #1

The purpose of this memo is to officially transmit additional changes to the Governor's budget that was initially released on January 22, 2007. The changes submitted today incorporate the impact of the February forecast and adjust the Governor's FY 2008-09 budget plan.

The impact of the February forecast and re-pricing of the Governor's initiatives increased the projected ending balance in the Governor's budget from \$10 million to \$34 million. The attached supplemental budget changes reflect the Governor's priorities and emphasis on ensuring long-term fiscal stability.

The general fund impact of the February forecast and revised Governor's budget plan is summarized below. After changes, an available balance of \$2 million remains for the revised FY 2008-09 budget.

Proposed F.Y. 2008-09 General Fund Budget
(\$ in millions)

	Original Budget	Revised Budget	Change
Beginning Balance	2,134	2,108	(26)
Revenues	33,375	33,615	240
Spending			
K-12 Education	13,741	13,756	15
Health & Human Services	9,541	9,683	142
All Other	<u>11,167</u>	<u>11,132</u>	<u>(35)</u>
Total Spending	34,449	34,571	122
Reserves	<u>1,050</u>	<u>1,150</u>	<u>100</u>
Available Balance	\$10	\$2	\$(8)

Several significant changes included in the Governor's recommendations are highlighted below:

- \$44 million in savings by adjusting transfers from the Health Care Access to the general fund to better match expected enrollment growth in the respective funds
- \$23 million in savings resulting from additional use of federal disproportionate share payments
- \$21 million of additional spending in the State Grant program to lower the share of tuition costs for which students are responsible. This recommendation is funded using the savings from a change in the federal Pell financial aid program
- \$12 million increase in recommended funding for the state courts
- \$100 million increase to the budget reserve, raising the recommended reserve level to \$800 million, 4.5 percent of annual expenditures.

In addition to operating budget changes, the Governor recommends two additional capital budget projects. These are highlighted below:

- \$10 million in emergency bonding authority to the Board of Water and Soil Resources (BWSR) to leverage available federal funds from the USDA Wetland Reserve Program (WRP) and for completing the state's agreement with the USDA, Farm Services Administration under CREP II. Funds would be used to purchase permanent wetland easements and for restoration activities on approximately 8,500 acres of private land. Funds would leverage \$13 million in USDA WRP federal funds. The proposal includes \$8.5 million for easement acquisition and construction and \$1.5 million for technical and professional services provided by the state and local Soil and Water Conservation Districts.
- \$20 million in additional bonding authority to the Rural Finance Authority so they can reopen the agriculture lending programs and operate them for the next two years. This brings the Governor's total recommendation for this program to \$30 million. Without additional bonding authority, this program cannot take new applications or make new loans and will have to cease operations.

February forecast changes reduced projected long-term balances from those anticipated in the original Governor's budget. The updated budget recommendations act to improve FY 2010-11 projected balances.

The proposed budget now results in a structural balance of \$844 million projected for FY 2010-11. This change results in a Governor's budget position that provides balances sufficient to cover approximately eighty percent of the cost of projected inflation based on projected on-going spending.

**FY 2010-11 Planning Estimates
General Fund (\$ in millions)**

March Revised Budget

	<u>FY2010</u>	<u>FY2011</u>
Projected Revenues	\$17,863	\$18,873
Estimated Spending	17,766	18,127
<i>Difference</i>	\$97	\$746

There are four attachments to this letter. The first identifies new and modified recommendations, showing impact by fiscal year along with a brief explanation. The second is a listing of “budget fixes” representing minor corrections. The third is a set of summary tables that display updated Governor’s recommendations compared to the original budget, the February forecast, and the current biennium. Lastly, there is a tax rebate plan as required by Minnesota Statutes 16A.1522.

Revised budget documents with new and revised change pages, as well as supplemental fund balance materials will be posted to the Finance website and provided to legislative staff early next week.

Attachments

cc: Finance committee and budget division chairs
Bill Marx
Matt Massman

Change in Governor's Recommendations
March 2007 vs January 2007
General Fund
(\$ in thousands)

	1-07 Gov Rec FY 2008-09	3-07 Gov Rec FY 2008-09	Difference
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	2,133,701	2,108,328	(25,373)
Current Resources:			
Tax Revenues	31,205,416	31,338,864	133,448
Non-Tax Revenues	1,511,205	1,510,624	(581)
Dedicated Revenue	132,298	156,998	24,700
Transfers In	618,581	621,205	2,624
Prior Year Adjustments	50,000	50,000	0
Budget Changes - Taxes	(163,200)	(135,480)	27,720
Budget Changes - Non-Taxes	20,672	72,783	52,111
Subtotal-Current Resources	33,374,972	33,614,994	240,022
Total Resources Available	35,508,673	35,723,322	214,649
<u>Actual & Estimated Spending</u>			
K-12 Education	13,744,977	13,759,715	14,738
Property Tax Recog/Payment Change	(3,810)	(3,810)	0
Subtotal K-12 Education	13,741,167	13,755,905	14,738
Property Tax Aids & Credits	3,172,293	3,166,579	(5,714)
Higher Education	3,216,217	3,202,511	(13,706)
Health & Human Services	9,540,739	9,683,137	142,398
Environment & Agriculture	465,687	466,947	1,260
Economic Development	378,320	378,415	95
Transportation	335,697	335,697	0
Public Safety	1,865,996	1,877,996	12,000
Military & Veterans Affairs	70,087	69,942	(145)
State Government	661,676	656,959	(4,717)
Debt Service	895,798	912,714	16,916
Capital Projects	20,500	20,500	0
Estimated Cancellations	(12,500)	(12,500)	0
Subtotal Expenditures & Transfers	34,351,677	34,514,802	163,125
Dedicated Expenditures	97,186	56,175	(41,011)
Total Expenditures & Transfers	34,448,863	34,570,977	122,114
Balance Before Reserves	1,059,810	1,152,345	92,535
Cash Flow Account	350,000	350,000	0
Budget Reserve	700,000	800,000	100,000
Budgetary Balance	9,810	2,345	(7,465)

Governor's Recommendations vs February 2007 Forecast

General Fund

(\$ in thousands)

	2-07 Fcst FY 2008-09	3-07 Gov Rec FY 2008-09	Gov vs Fcst FY 2008-09
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	2,125,966	2,108,328	(17,638)
Current Resources:			
Tax Revenues	31,338,864	31,338,864	0
Non-Tax Revenues	1,510,624	1,510,624	0
Dedicated Revenue	156,998	156,998	0
Transfers In	621,205	621,205	0
Prior Year Adjustments	50,000	50,000	0
Budget Changes - Taxes	0	(135,480)	(135,480)
Budget Changes - Non-Taxes	0	72,783	72,783
Subtotal-Current Resources	33,677,691	33,614,994	(62,697)
Total Resources Available	35,803,657	35,723,322	(80,335)
<u>Actual & Estimated Spending</u>			
K-12 Education	12,999,762	13,759,715	759,953
Property Tax Recog/Payment Change	(3,810)	(3,810)	0
Subtotal K-12 Education	12,995,952	13,755,905	759,953
Property Tax Aids & Credits	3,107,742	3,166,579	58,837
Higher Education	2,802,020	3,202,511	400,491
Health & Human Services	9,459,654	9,683,137	223,483
Environment & Agriculture	383,074	466,947	83,873
Economic Development	300,042	378,415	78,373
Transportation	224,964	335,697	110,733
Public Safety	1,723,372	1,877,996	154,624
Military & Veterans Affairs	50,384	69,942	19,558
State Government	549,122	656,959	107,837
Debt Service	918,620	912,714	(5,906)
Capital Projects	20,500	20,500	0
Estimated Cancellations	(20,000)	(12,500)	7,500
Subtotal Expenditures & Transfers	32,515,446	34,514,802	1,999,356
Dedicated Expenditures	122,198	56,175	(66,023)
Total Expenditures & Transfers	32,637,644	34,570,977	1,933,333
Balance Before Reserves	3,166,013	1,152,345	(2,013,668)
Cash Flow Account	350,000	350,000	0
Budget Reserve	653,000	800,000	147,000
Budgetary Balance	2,163,013	2,345	(2,160,668)

Governor's FY 2008-09 Budget
March 2007 - Biennial Comparison
General Fund
(\$ in thousands)

	3-07 Gov Rec FY 2006-07	3-07 Gov Rec FY 2008-09	\$ Difference	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	1,393,086	2,108,328	715,242	51.3%
Current Resources:				
Tax Revenues	29,564,998	31,338,864	1,773,866	6.0%
Non-Tax Revenues	1,707,300	1,510,624	(196,676)	-11.5%
Dedicated Revenue	113,022	156,998	43,976	38.9%
Transfers In	777,433	621,205	(156,228)	-20.1%
Prior Year Adjustments	48,190	50,000	1,810	3.8%
Budget Changes - Taxes	0	(135,480)	(135,480)	nm
Budget Changes - Non-Taxes	0	72,783	72,783	nm
Subtotal-Current Resources	32,210,943	33,614,994	1,404,051	4.4%
Total Resources Available	33,604,029	35,723,322	2,119,293	6.3%
<u>Actual & Estimated Spending</u>				
K-12 Education	12,752,868	13,759,715	1,006,847	7.9%
Property Tax Recog/Payment Change	609,435	(3,810)	(613,245)	nm
Subtotal K-12 Education	13,362,303	13,755,905	393,602	2.9%
Property Tax Aids & Credits	3,027,757	3,166,579	138,822	4.6%
Higher Education	2,762,911	3,202,511	439,600	15.9%
Health & Human Services	8,242,104	9,683,137	1,441,033	17.5%
Environment & Agriculture	366,985	466,947	99,962	27.2%
Economic Development	345,996	378,415	32,419	9.4%
Transportation	216,139	335,697	119,558	55.3%
Public Safety	1,711,704	1,877,996	166,292	9.7%
Military & Veterans Affairs	46,450	69,942	23,492	50.6%
State Government	569,696	656,959	87,263	15.3%
Debt Service	752,098	912,714	160,616	21.4%
Capital Projects	0	20,500	20,500	nm
Estimated Cancellations	(12,500)	(12,500)	0	0.0%
Subtotal Expenditures & Transfers	31,404,467	34,514,802	3,110,335	9.9%
Dedicated Expenditures	91,234	56,175	(35,059)	-38.4%
Total Expenditures & Transfers	31,495,701	34,570,977	3,075,276	9.8%
Balance Before Reserves	2,108,328	1,152,345	(955,983)	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	800,000	147,000	
Tax Relief Account	109,660	0	(109,660)	
Budgetary Balance	995,668	2,345	(993,323)	

**Governor's 2008-09 Budget Supplemental / New Recommendations
All Funds (\$ in thousands)**

<u>Change Item Description</u>		<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
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Area – Taxes**Agency: Revenue Dept.**

1. <u>Fund: General Fund</u>	Exp	\$0	\$337	\$843	\$1,686
	Rev	\$0	\$0	\$0	\$0

Utility Value Replacement Transition Aid

Provides relief to some local governments whose property tax revenues are adversely affected by a recent rule change regarding the valuation of utility property. The aid will reduce pressure to increase homeowner property taxes in those cities, towns, and school districts most affected by the rule change. This is a three-year transitional aid that would end in fiscal year 2012.

Agency: Revenue Department

2. <u>Fund: General Fund</u>	Exp	\$0	\$(4,700)	\$(4,600)	\$(4,450)
	Rev	\$0	\$0	\$0	\$0

Property Tax Refund Interactions

The Governor's original recommendations contained a number of items designed to reduce property tax growth pressures. These include an increase in local government aid for cities, levy limits, increasing the equalizing factor for the operating capital levy, and enhancing the homeowner market value credit program. Reduced growth in local property taxes will mean lower expenditures for the property tax refund program relative to February forecast assumptions.

Agency: Finance Non-Operating

3. <u>Fund: General Fund</u>	Trnsf	\$100,000	\$0	\$0	\$0
	Rev	\$0	\$0	\$0	\$0

Increase Budget Reserve

Increases Budget Reserve Account to \$800 million in FY 2008 to recognize risks inherent in the state forecast. This is an increase of \$100 million above the Governor's January recommendation. At the recommended level, the budget reserve would be equal to approximately 4.5 percent proposed FY 2009 general fund spending.

Area - Higher Education**Agency: Office of Higher Education**

4. <u>Fund: General Fund</u>	Exp	\$(6,548)	\$(6,548)	\$(6,548)	\$(6,548)
	Rev	\$0	\$0	\$0	\$0

ACHIEVE II

Reduces the original cost of the proposal by the amounts shown. Original estimates mistakenly included high school graduates who go to college in a reciprocity state. The estimates have been corrected to include only high school graduates attending college in Minnesota.

5. <u>Fund: General Fund</u>	Exp	\$(11,650)	\$(11,400)	\$(11,400)	\$(11,400)
	Rev	\$0	\$0	\$0	\$0

Financial Aid: State Grant Savings

The Federal Pell grant award maximum increases effective July 2007. This Pell increase will result in projected unspent state funds in the State Grant financial aid program of \$10.9 million each year. Forecasted increases in household incomes also affect estimates for State Grant spending. February forecast increases in projected household incomes led

to the remaining reported small decreases in projected spending for the state grant program of \$750,000 in FY 2008 and \$500,000 each year in FY 2009 through FY 2011.

6. <u>Fund: General Fund</u>	Exp	\$10,500	\$10,500	\$10,500	\$10,500
	Rev	\$0	\$0	\$0	\$0

Financial Aid: Lower Assigned Student Responsibility by 1.5%

Provides additional financial aid by lowering the percentage of the recognized cost of attending a postsecondary institution for which each student is responsible by 1.5% (from the current 46% down to 44.5%).

Area – Health and Human Services

Agency: Human Services

7. <u>Fund: General Fund</u>	Exp	\$0	\$0	\$0	\$0
	Rev	\$2,600	\$41,300	\$64,500	\$30,500
<u>Fund: Health Care Access</u>	Trnsf	\$2,600	\$41,300	\$64,500	\$30,500
	Rev	\$0	\$0	\$0	\$0

Health Care Enrollment Transfer

Transfers funds from the health care access fund to the general fund to offset the cost of enrollment of MinnesotaCare recipients with the implementation of HealthMatch. The proposal also adjusts the end of year health care access fund balance transfer in FY 2011.

8. <u>Fund: General Fund</u>	Exp	\$24,629	\$26,502	\$ (0)	\$ (0)
	Rev	\$36,245	\$37,778	\$33,510	\$34,569

Disproportionate Share Hospitals

Changes the Disproportionate Share Hospital (DSH) claiming methodology in order to maximize federal funds. The proposal also eliminates most hospital payments that are contingent upon receipt of DSH match in FY 2008-09.

9. <u>Fund: General Fund</u>	Exp	\$0	\$0	\$0	\$0
	Rev	\$0	\$0	\$0	\$0

Medicaid Cost Limit for Government Providers

Gives DHS the authority to take certain actions to limit the loss of federal revenue pending the approval of final federal regulations related to payments to public providers. The authority would include requirements for cost reporting for government providers and limiting Medical Assistance payments to cost for the same providers.

Area – Public Safety

Agency: State Courts

10. <u>Fund: General Fund</u>	Exp	\$5,500	\$6,500	\$6,500	\$6,500
	Rev	\$0	\$0	\$0	\$0

Judicial Branch Increase

Provides additional funding to earlier Governor's recommendation. This funding would be proportioned among the Supreme Court, the Trial Courts, and the Court of Appeals.

Agency: Board on Judicial Standards

11. <u>Fund: General Fund</u>	Exp	\$110	\$0	\$0	\$0	\$0
	Rev	\$0	\$0	\$0	\$0	\$0

FY 2007 Deficiency Appropriation

Increases recommended FY 2007 deficiency appropriation from \$90,000 to \$200,000 for costs of judicial disciplinary proceedings already in progress.

Agency: Public Safety Dept.

12. <u>Fund: Special Revenue</u>	Exp	\$3,330	\$1,800	\$1,800	\$1,800
	Rev	\$0	\$0	\$0	\$0

Fire Safety Account Spending Increase

Increases recommended spending authority for fire safety training to reflect higher estimated revenue from new surcharge.

Area – Environment and Natural Resources**Agency: Natural Resources**

13. <u>Fund: General Fund</u>	Exp	\$420	\$840	\$840	\$840
	Rev	\$0	\$0	\$0	\$0
<u>Fund: Natural Resources</u>	Exp	(\$420)	(\$840)	(\$840)	(\$840)
	Rev	(\$420)	(\$840)	(\$840)	(\$840)

Land-Based Invasive Species

The Governor's original budget recommendation relied on vehicle-related surcharges to fund land-based invasive species management. Due to administrative difficulties, the Governor now proposes to fund this program out of the general fund. This appropriation would allow DNR to expand annual land-based invasive species inventories of state lands from 3,000 acres to 9,000 acres and increase associated management activities from 300 acres to 900 acres annually.

Area – Economic Development**Agency: Commerce**

14. <u>Fund: General Fund</u>	Exp	\$0	\$0	\$0	\$0
	Rev	(\$48)	(\$48)	(\$48)	(\$48)

Residential Mortgage Lending Reform – Fee

The Governor's original recommendation called for strengthened regulation of licensed mortgage loan originators. This change adds fee increases for residential mortgage originators to help discourage fraud and sham businesses from entering or continuing in the market. This is a non-dedicated fee and the increase has the support of the trade groups.

Agency: Commerce

15. <u>Fund: New Fund</u>	Exp	\$9,900	\$9,900	\$9,900	\$9,900
	Rev	\$9,900	\$9,900	\$9,900	\$9,900

Demand Efficiency Program

This is part of the Governor's energy package. It creates offsetting revenues and expenditures in the special revenue fund and collects money that utilities are currently required to spend outside the state system for low-income energy programs and research and development projects, and reroutes them through state accounts. Having a single point of oversight will provide greater efficiency, effectiveness and avoid redundant projects.

Agency: Public Utilities Commission

16. <u>Fund: General Fund</u>	Exp	\$47	\$48	\$48	\$48
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Rev	\$47	\$48	\$48	\$48
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Credit Trading Systems Cost

Provide funding to hire 0.5 FTE to develop and implement the renewable energy credit trading system and review the renewable transmission reports included in the Governor's renewable energy package. Provides an appropriation with offsetting billing authority.

Area – Transportation

Agency: Transportation Dept.

17. <u>Fund: Special Revenue</u>	Exp	600	600	600	600
	Rev	600	600	600	600

Truck Weights

Adjusts truck weight limits so that trucks with more axels can have heavier payloads, and also charges increased fees that will address road costs related to bridge inspections and erecting signs.

Area – State Government

Agency: Administration Dept.

18. <u>Fund: General Fund</u>	Exp	\$185	\$171	\$90	\$90
	Rev	\$0	\$0	\$0	\$0

Veterans Procurement Preference

Provides funding to enable the state to certify small veteran-owned and operated businesses as eligible to participate in Minnesota's targeted group purchasing program. Eligible companies can receive a bid preference of up to 6% in competing for state contracts.

19. <u>Fund: General Fund</u>	Exp	\$885	\$(0)	\$(0)	\$(0)
	Rev	\$0	\$0	\$0	\$0

Relocation Funding for the Department of Public Safety's Emergency Operations Center

Provides funding for relocation of the Homeland Security and Emergency Management (HSEM) Division of the Department of Public Safety. HSEM's current location in downtown St. Paul does not comply with the Federal Department of Homeland Security operational and security requirements, and their current lease will expire in October, 2008.

Agency: Campaign Finance Board

20. <u>Fund: General Fund</u>	Exp	150	\$0	\$0	\$0	\$0
	Rev	\$0	\$0	\$0	\$0	\$0

FY 2007 Deficiency Appropriation

Provides supplemental funding in FY 2007 of \$150,000 to pay attorney fees and expenses for an adverse ruling in a court case decided in February 2007.

Agency: Debt Service

21. <u>Fund: General Fund</u>	Exp	\$69	\$743	\$641	\$844
	Rev	\$0	\$0	\$0	\$0

Debt Service Costs of Additions to the Governor's Capital Budget

Provides funding to cover the cost of additional debt service for the following revisions to the Governor's recommendations for capital budget items in 2007: \$10 million to BWSR for RIM Reserve conservation easements; \$20 million additional to the Rural Finance Authority for their user-financed loan programs and \$32,000 to cover bond sale expenses on the revised recommendations.

**Governor's 2008-09 Budget - Errors and Omissions
All Funds (\$ in Thousands)**

<u>Item Description</u>		<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
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Area – K-12 Education**Agency: Education**

1. <u>Fund: General Fund</u>	Exp	\$(0)	\$(0)	\$(0)	\$(0)
	Rev	\$0	\$0	\$0	\$0

Funding Realignment

Eliminate tax base replacement aid (TBRA) as a stand-alone budget activity and roll funding into the General Education appropriation. Move Value Added Index assessment base funding from Agency Operations to Statewide Testing budget activity.

Area – Higher Education**Agency: Mayo Clinic**

2. <u>Fund: General Fund</u>	Exp	\$0	\$0	\$0	\$4
	Rev	\$0	\$0	\$0	\$0

Mayo Family Medical Residency

Corrects data entry error that understated FY 2011 change item cost by \$4,000.

Area – Health and Human Services**Agency: Emergency Medical Services**

3. <u>Fund: General Fund</u>	Exp	\$(10)	\$(19)	\$(19)	\$(19)
	Rev	\$0	\$0	\$0	\$0

Compensation Adjustment

Corrects cost of compensation adjustment that had been overstated at 3.25 percent per year. Adjusted costs now reflect 2.0 percent per year.

Area – Transportation**Agency: Transportation Dept.**

4. <u>Fund: Federal</u>	Exp	\$500	\$500	\$(0)	\$(0)
	Rev	\$500	\$500	\$0	\$0

Value Pricing

Adjustment to reflect federal grant that was included in federal funds summary, but was not included on agency fiscal pages.

Area – Economic Development**Agency: Historical Society**

5. <u>Fund: General Fund</u>	Exp	\$(34)	\$34	\$(34)	\$34
	Rev	\$0	\$0	\$0	\$0

Minnesota Military Museum

Corrects allocation of change item amounts by year. No change in total costs.

Agency: Public Utilities Commission

6. <u>Fund: General Fund</u>	Exp	\$0	\$0	\$(9)	\$(9)
	Rev	\$0	\$0	\$0	\$0

Error Correction

Correct out-year costs for change item for additional staffing. Display in budget documents was correct, affect general fund statements only.

Area – State Government

Agency: Administration Dept.

7. <u>Fund: General Fund</u>	Exp	\$(100)	\$(100)	\$(125)	\$(125)
	Rev	\$0	\$0	\$0	\$0

Error Correction

Change item for public broadcasting inadvertently rolled into Department of Administration recommended appropriations in budget document and general fund statement.

Agency: Public Broadcasting

8. <u>Fund: General Fund</u>	Exp	\$100	\$100	\$100	\$100
	Rev	\$0	\$0	\$0	\$0

Error Correction

Change item amount for public broadcasting recommendation inadvertently presented in Department of Administration fiscal pages and on general fund statement.

Agency: Veterans Affairs

9. <u>Fund: General Fund</u>	Exp	\$(0)	\$(0)	\$(200)	\$(200)
	Rev	\$(0)	\$(0)	\$(0)	\$(0)

County Veteran Service Officers Grants

CVSO grants sunset in Laws 2006 was not correctly reflected in appropriations base for FY 2010-11. Revised figures reflects sunset after FY 2009..

Agency: Racing Commission

10. <u>Fund: Special Revenue</u>	Exp	\$(0)	\$(0)	\$(0)	\$(0)
	Rev	\$(61)	\$(61)	\$(0)	\$(0)

Departmental Earnings Correction

FY 2008 departmental earnings revenues were incorrectly entered in agency revenue summary as \$868,000. The amount has been corrected to \$807,000.

11. <u>Fund: Special Revenue</u>	Exp	\$(0)	\$(0)	\$(0)	\$(0)
	Rev	\$(25)	\$(25)	\$(0)	\$(0)

Non-dedicated Receipts Correction

FY 2007-09 non-dedicated revenues were incorrectly entered in agency revenue summary as \$246,000. The amount has been corrected to \$221,000 for the three fiscal year period, including \$25 in FY 07.

Agency: Chicano-Latino Council

12. <u>Fund: General Fund</u>	Exp	\$(0)	\$(0)	\$(9)	\$(9)
	Rev	\$(0)	\$(0)	\$(0)	\$(0)

Operations Change Item

FY 2010-11 on-going costs were overstated in original budget submission. FY 2010-11 costs have been reduced by the amounts shown based on the Governor's FY 2008-09 recommendations.



STATE OF MINNESOTA

Office of Governor Tim Pawlenty

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

March 8, 2007

Senator Larry Pogemiller
Majority Leader
235 State Capitol
Saint Paul, Minnesota 55155

Representative Margaret Anderson Kelliher
Speaker of the House
463 State Office Building
Saint Paul, Minnesota 55155

Senator David Senjem
Minority Leader
147 State Office Building
Saint Paul, Minnesota 55155

Representative Marty Seifert
Minority Leader
267 State Office Building
Saint Paul, Minnesota 55155

Dear Legislative Leaders:

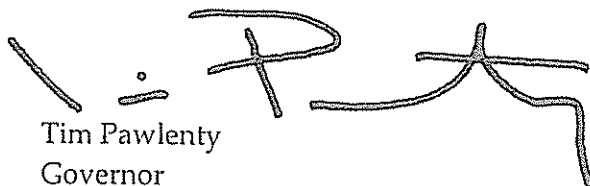
As required by Minnesota Statute 16A.1522, I am submitting a plan for rebating the \$1.013 billion positive unrestricted budgetary general fund balance that was designated by the Commissioner of Finance as available for rebate for the end of the FY 2006-07 biennium.

If a rebate option is pursued, my recommended plan is a sales tax rebate similar to the one enacted in 2001. This form of rebate is preferred because it reaches the largest number of taxpayers; approximately 2.7 million taxpayers would be eligible for such a rebate. In addition, a sales tax rebate would not generally result in federal income tax liability for those who itemize deductions, unlike property or income tax rebates.

However, as outlined in my January budget proposal, it is my recommendation that these funds instead be appropriated for permanent tax reductions, property tax relief, and increased appropriations to fund key state spending priorities such as education, health care and renewable energy.

Thank you for your consideration.

Sincerely,



Tim Pawlenty
Governor