



Minnesota

FY 2006 - 07

Budget Summary and Policy Highlights

Governor Pawlenty's Proposed Budget



STATE OF MINNESOTA

Office of Governor Tim Pawlenty

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

January 25, 2005

To the people of Minnesota and their 2005 Legislature:

This letter conveys my recommendations for the state budget for the coming biennium. Today, the budget is much healthier than it was when I took office. But, despite strong employment and tax revenue growth, we are again responding to a projected budget shortfall. The problem lies not in poor revenue growth, but in rapidly growing spending – particularly reflected in spiraling public health care costs.

The budget I am submitting today responds to that challenge and builds upon the positive changes we've made in the last two years. It funds priorities important to Minnesotans and keeps government both affordable and accountable.

Our proposed FY2006-07 budget is balanced. This has been done without increasing taxes. It is a budget that reflects not only Minnesotans' priorities, but also a commitment to reform that we began two years ago. There should be little surprise in most of the proposals included in the budget. We have communicated many of the ideas and discussed alternatives in a variety of public forums over the past year and a half.

The budget does increase spending. Proposed general fund spending for the next two years is \$29.667 billion, a \$1.6 billion increase. This is a 5.8% increase over the current budget. Total spending from all sources, including federal funds, will reach \$49 billion. \$2.8 billion more than we are currently spending – a 6.2% increase.

The priorities of this budget reflect traditional Minnesota values: promoting quality education, protecting our children and at-risk populations, maintaining safe and livable communities, and a concern for the environment. The significant increases in general fund spending provided in this budget correspond to these values.

- \$369 million package to increase classroom funding and teacher improvement and accountability reforms in our K-12 education system;
- \$232 million to increase the quality and competitiveness of our higher education institutions;
- \$90 million for Public Safety programs to provide funding for prisons, courts, and programs dealing with new criminal and security threats we face;
- \$656 million increase in general fund spending for Health and Human Services to meet our commitments to our children, elderly, disabled and at-risk populations to provide a stable safety net;
- \$11 million in new benefits for our military personnel that recognizes the sacrifices they are making.

Beyond the standard budget numbers and percentages, however, this budget also reflects fundamental change. It links reforms to increases in spending. We insist that new spending add *value*, not just increased costs. As you review the details, you will find recommendations that reallocate resources and make significant investment to meet our most important responsibilities. You will also find spending reductions in lower priority programs. In all cases, this budget builds upon policy reforms and new partnerships begun over the last two years - ranging from changes in health care financing, incentives to create better teachers and better students, sexual predator and sentencing reform initiatives, and economic development partnerships.

This budget also confronts the harsh reality that nationally, increasing health care costs are far outpacing states' tax revenue growth. Matched with our other reform initiatives designed to reduce prescription drug costs, creating competition and choice in health care, and developing health care partnerships – this budget requires measured changes in eligibility in human services programs to reduce welfare health care costs which are spiraling out of control and limiting our ability to fund other priorities.

My budget recommendations do not include tax increases. Over the last decade, yearly state general fund spending has grown from \$8.6 billion to \$14.4 billion, nearly a 70% increase. Minnesota currently ranks 6th highest in state and local taxes per capita. Maintaining a stable tax climate and favorable climate for job growth remains essential to Minnesota's long-term economic growth and quality of life.

This budget does, however, take additional steps to ensure that all pay their fair share. Tax compliance, revenue collection initiatives and other tax changes that stalled in the 2004 session, will add \$282 million to general fund revenues. Proposed licensing of a state cooperative agreement for casino gambling will yield \$200 million in additional revenue. The budget also holds the line on new fees. Targeted increases in criminal justice surcharges and other fees are limited, adding \$26 million in new revenues.

We have listened to citizens in putting together this budget. Minnesotans want government that works. They also demand more value for the tax dollars they are already paying. We are committed to improving outcomes for our citizens, at less cost. This budget delivers on that promise. This year, we must come together to adopt policies and a budget plan that will serve us well into the future.

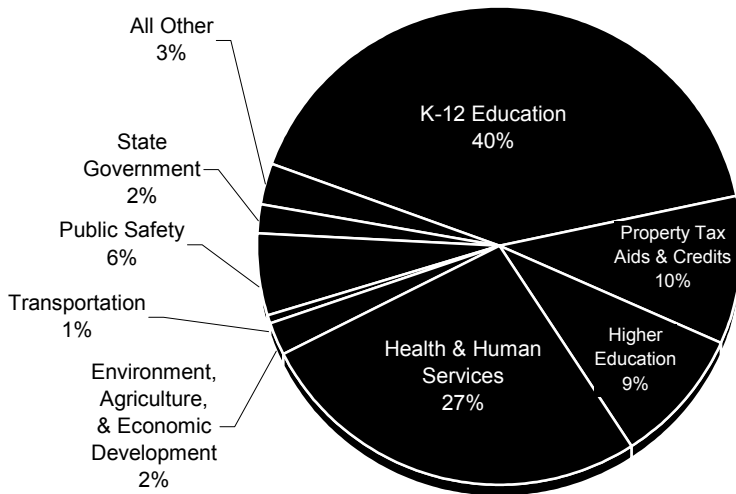
Sincerely,



Governor Tim Pawlenty

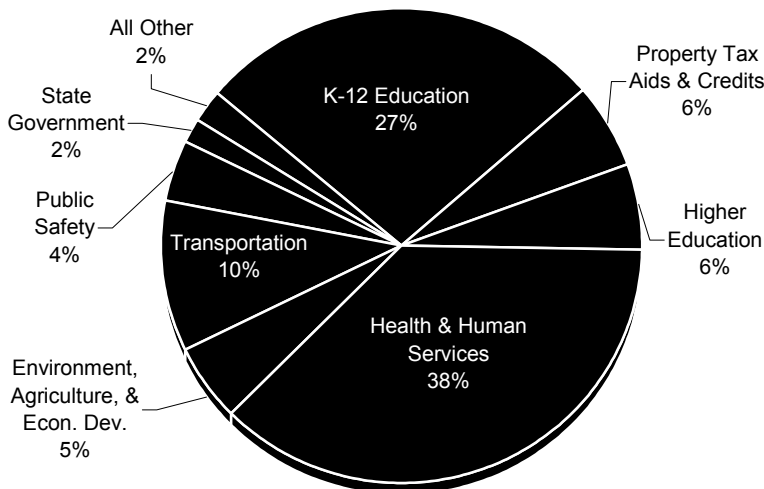


FY2006-07 General Fund Budget Distribution of Expenditures



Category	Dollars in Millions
K-12 Education	\$12,236
Property Tax Aids & Credits	2,890
Higher Education	2,774
Health & Human Services	7,901
Environment, Agriculture, & Economic Development	647
Transportation	159
Public Safety	1,668
State Government	555
All Other	837
Total	\$29,667

All Funds: General, Special Revenue, Federal Distribution of FY2006-07 Spending



Category	Dollars in Millions
K-12 Education	\$13,468
Property Tax Aids & Credits	2,875
Higher Education	2,836
Health & Human Services	18,337
Environment, Agriculture, & Economic Development	2,530
Transportation	5,043
Public Safety	2,031
State Government	810
All Other	1,101
Total	\$49,031



Highlights: The Governor's 2006-07 Budget

A Growing Budget, Solving the Shortfall

The Governor's proposed budget for FY2006-07 presents a plan to fund essential services and make investments in state priorities. To resolve the projected \$700 million budget shortfall, the Governor directed that budget problems be solved without tax increases, that spending be concentrated on essential state services - and that a balanced budget be maintained through restructuring, reducing or eliminating lower priority state programs.

This budget defines how the Governor intends to use state resources to provide priority services to citizens at an affordable cost. The budget plan pays for core state services and provides a prudent plan to restore Minnesota's financial stability.

General Fund Taxes, Other Revenues & Resources

The budget is based on a forecast of general fund revenues of \$29.448 billion, an increase of 2.8% over the current biennium. However, forecast tax revenues are expected to grow slightly over \$2 billion, or 7.9 percent. Taxes represent 90% of all general fund revenues. Forecast non-tax revenues are expected to contribute \$1.8 billion, 10% of total revenues. Non-tax revenues and transfers decline \$1.2 billion from FY2004-05 due to one-time balances used in 2003 budget actions that do not recur.

The Governor's budget addresses general fund revenues, including the following highlights:

- **Requires action on revenue provisions from the 2004 session** to increase revenue compliance for payment of sales taxes on car and small truck leases and cigarette tax collections. Also expands tax compliance efforts by the Department of Revenue. In total, these proposals will yield \$168 million in new revenue in FY2006-07.
- **Maintains alcohol and car rental sales taxes** scheduled to sunset in FY2006 adding \$104 million to revenues.
- **Provides \$40 million in one-time resources** by transferring \$10 million from excess balances in special revenue funds, and gaining \$30 million by reducing the holding period on securities in unclaimed property.
- **Licenses a cooperative venture of casino gaming** that will provide an upfront license fee of \$200 million in FY2006, and ongoing state revenues in excess of \$100 million annually beginning in FY2008.
- **Reduces general fund revenues** by redirecting \$287 million from existing medical assistance surcharges and current law transfers into the health care access fund to accommodate restructuring of health care program financing. The budget also redirects \$25 million of existing solid waste sales taxes into the Environmental fund as part of restructuring related environmental protection spending.



General Fund Spending

Proposed general fund spending for FY2006-07 is \$29.667 billion. This is \$1.6 billion over the current biennium, a 5.8% increase.

- **Provides a \$369 million K-12 education package** to fund an increase in dollars going into the classrooms and accountability reforms. K-12 revenues per student will increase from \$8,323 in FY2005 to \$8,501 (1.7%) in FY2006 and \$8,954 (5.3%) in FY2007 – with the possibility for significantly larger increases if districts participate in the Governor's QComp plan. The K-12 education budget will total \$12.4 billion, an increase of 1.5% over the current biennium. However, because current law already had a 1.5% decrease built in to the FY2006-07 budget (reflecting declining K-12 enrollment), the Governor's budget actually increases K-12 spending by 3.1% over the forecast for FY2006-07.
- **Provides a \$232 million increase in Higher Education funding** to invest strategically in Minnesota's education and economic growth priorities. Provides a total of nearly \$2.8 billion in state funding, an 8.4% increase from current levels. The Governor's plan funds many of the strategic priorities requested by the University of Minnesota and the MnSCU system.
- **Reduces forecast growth in Health and Human Services spending** providing general fund spending of \$7.9 billion, an increase of \$656 million over the current biennium. Measured changes address the public health care cost pressures that have made this the fastest growing area of state spending. While general fund spending is reduced from forecast levels, health care financing restructuring moves part of program costs and revenues into the state health care access fund. Combined spending will increase \$1.138 billion over current levels, and overall program growth will be reduced from 18% to 15%.
- **Maintains current funding for Local Government Aid (LGA)** that assist Minnesota communities with basic services. Nearly \$2.9 billion is provided, representing a 2.9% increase over the current budget. No cuts are recommended in LGA, and no reductions are made to county aid programs.
- **Provides Increased funding for sex offender, meth programs, prisons and courts** providing a \$90 million package to address threats to the safety of Minnesota communities. Spending for public safety will reach \$1.668 billion, a 16.1% increase over the current biennium. A major portion of the increase is directed to dealing with increasing numbers of prison inmates and to fund the likely impact of sentencing changes proposed by the Governor.
- **Maintains current funding for agricultural programs** and fully funds current agricultural programs in the Department of Agriculture, Board of Animal Health, and Agricultural Utilization Research Institute.
- **Creates a new Department of Environmental Protection**, merging the Pollution Control Agency and the Office of Environmental Assistance.
- **Continues funding for economic development programs**, targeting existing monies to job training and workforce development, while eliminating funding for lower priority programs.
- **Provides increased funding for a military personnel initiative** designed to support our troops that includes an increase of \$11 million for additional tuition reimbursement and reenlistment incentives. Provides increases in state grant funding to veterans organizations that serve our men and women in uniform.



- **Makes further reductions in state government's administrative overhead** by varying cuts in state administrative agencies' budgets. The budget proposes 2.5% reductions for constitutional offices and the legislature – the same percentage reduction the Governor has recommended for his own office.

Reserves, Financial Management

- **Maintains the budget reserve of \$653 million**, 2.2% of proposed spending, to manage risks inherent in the forecast for the next two years. Maintains current law provisions that require any additional forecast balances during the biennium be used to buy back school accounting shifts enacted in 2003.
- **Maintains a general fund cash flow account of \$350 million** to manage the significant differences in timing of state revenue collections and payments to school districts, other units of government, individuals and vendors to avoid state short-term borrowing.
- **Provides a structural balance** for budget projections through FY2009. This year (FY2005) the state will spend \$226 million more than it will collect. The recommendations provide for a positive structural balance of \$224 million in FY2008, and \$541 in FY2009. This corrects a current mismatch in state revenues and spending, and provides a cushion for future revenue risks or spending growth.



K-12 Education

The K-12 Education budget provides state aid to school districts for elementary and secondary schools, as well as funding for early childhood education, libraries, community education and operating funds for the Department of Education, the Residential Academies for the Blind and the Deaf in Faribault, and the Perpich Center for Arts Education in Golden Valley.

K-12 Education is financed through a combination of state aid, property taxes, federal aid, and local non-tax receipts. As in most states, federal funds supply a relatively small – though growing -- portion of the money coming to schools in Minnesota.

K-12 Education Funding			
(\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$12,230	\$12,414	1.5%
Aid Payment/Property Tax Adjs.	(\$330)	(\$178)	NA

As the table indicates, the Governor's state general fund budget for K-12 Education increases by 1.5%, or \$184 million, compared to the last budget. However, because current law already had a 1.5% decrease built in to the FY2006-07 budget (reflecting declining K-12 enrollment and other factors), the Governor's budget actually increases K-12 spending by 3.1% - \$369 million – over the forecast for FY2006-07.

State funding is only part of the picture for schools, however. Revenue per student—including state and local funds—is often viewed as more relevant, as it removes the effect of shifts between state and local sources (such as property tax reform), eliminates distortion due to payment shifts (such as the aid payment changes and the property tax recognition shift), and also controls for changes in the number of students.

School District General Fund Revenue Per Student, FY2002-2007

Fiscal Year	Revenue per Student (includes state aid and local levies)	Percent Change Over Current Law
2006 – Gov Rec: Non Qcomp District	\$8,501	1.7%
2007 -- Gov Rec: Non Qcomp District	\$8,954	5.3%
2006 – Gov Rec: QComp District	\$8,726	4.9%
2007 – Gov Rec: QComp District	\$9,179	8.0%

The impact on individual districts will vary, depending on factors such as passage of referenda, tax base changes and program utilization. Because the Governor's proposal for the Quality Compensation program (or "QComp") would have a major impact on the funding for nearly half the students in the state, the revenue per student increases are shown both for a district that does not participate in QComp and for a district that does.



Key Elements of the Budget Recommendations

The Governor's budget recommendations for K-12 education include both significant funding increases and groundbreaking accountability reforms in Minnesota's public schools.

Specific elements of the Governor's proposal include:

- **QComp.** The Governor's budget includes \$60 million for a performance pay proposal that makes districts eligible for extra funding if their teachers are paid for performance rather than the traditional structure of pay based on seniority. The plan would cover almost 50% of Minnesota's students when fully implemented. The QComp plan has several elements, including:
 - Establishing multiple career paths for teachers, creating master and mentor teacher positions to encourage gifted teachers to stay in the classroom
 - Developing a rigorous evaluation and review system, so that beginning teachers can get the feedback they need to thrive and more experienced teachers can continue to sharpen their skills
 - Replacing outdated "steps and lanes" with pay increases tied to growth in student achievement, not just time on the job
 - Customizing and revitalizing staff development so that it better reflects the specific needs of a district, school or teacher
- **Formula Increase.** A 2% increase on the general education formula in each of the next two years, adding \$100 per student in FY2006 and \$102 per student in FY2007. Districts that participate in the QComp plan could earn an additional 3% in general fund revenues and will also be eligible for a local Qcomp Levy.
- **Get Ready, Get Credit.** The Governor's budget includes \$6.6 million for a two-pronged proposal that aims to revitalize 11th and 12th grade by encouraging schools to offer college level courses in high school for which students would "get credit." Younger students would "get ready" for college through earlier assessment of their skills by taking the ACT "EPAS" test at no charge.
- **Additional Flexibility with Local Levies.** Under the Governor's proposal, several specific local option levies are replaced by more general and flexible levies, available to all districts at their local board's option. These levies are partially equalized, in order to address differences in property wealth between districts, and are subject to reverse referendum. The Governor is also proposing to increase the current cap on local referenda from 18.6% of the general education formula to 28 percent.
- **The Governor recommends creating a pilot project for measuring the effects** of school choice scholarships for poor and academically challenged students. The project will be funded by granting tax credits for contributions to scholarship organizations that will administer the program.
- **Alternative Teacher Preparation Program.** The Governor recommends \$500,000 each year beginning in FY2007 to establish a teacher-training program for qualified professionals. This initiative will establish partnerships with higher education institutions to create alternative preparation programs leading to a standard entrance license for mid-career professionals entering the teaching profession in high need subject areas.



Higher Education

The higher education budget provides funds for the University of Minnesota, the Minnesota State Colleges and Universities system (MnSCU), and the Higher Education Services Office (HESO). It also includes the Higher Education Facilities Authority and grants to the Mayo Foundation. Higher education is financed through a mix of state appropriations, federal funds, tuition, and private and institutional funds.

Higher Education Funding (\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$2,559	\$2,774	8.4%

The Governor's general fund budget for higher education totals \$2.774 billion – an 8.4% increase over the current biennium.

Key Elements of the Budget Recommendations

Current law automatically funnels \$205 million into enrollment adjustments for the University of Minnesota and MnSCU without regard to the strategic needs of the systems or the state. In his budget, the Governor has redeployed and enhanced these funds in order to advance Minnesota's education and economic development needs and priorities. In total, the Governor's FY 06-07 recommendation for higher education increases spending for higher education \$215 million over the FY 04-05 budget, and \$21 million over the forecast base.

For the **University of Minnesota**, the Governor recommends a total of \$1.221 billion from the general fund, a \$113 million and 10.3% increase over the University's FY 04-05 budget. The University receives the Governor's support for its efforts to advance the U's strategic advantage in key research activities, including:

- \$36 million to fully fund the University's Bioscience Initiative that aims to develop new products through biotechnology, to improve food safety and security, to research remedies for diet related diseases and to support further translational research in this area;
- \$15 million to fully fund a Competitive Compensation pool that provides the University with flexible funds to retain and reward select faculty members beyond the standard compensation package;
- \$19.5 million to fully fund the University's "Preparing Students for the 21st Century" proposal, which serves to strengthen the University's undergraduate and graduate research efforts, including support for Honors programs, graduate assistant pay and stipends, undergraduate research and science scholarships;
- \$35 million to fully fund the University's Research Support initiative to help the University remain competitive in its efforts to recruit and retain world-class research talent to the University.

The Governor's budget recommendation also includes funding to continue the Minnesota Partnership for Biotechnology and Medical Genomics between the University, the Mayo Foundation and the state. This Partnership is a unique venture that is designed to position Minnesota as a leader in biotechnology and the development of new applications in medical genomics. The budget includes \$7.5 million for the University and an equal amount for its partnering organization, the Mayo Foundation, for a total recommendation for the partnership of \$15 million.



Higher Education

For the **Minnesota State Colleges and University System (MnSCU)**, the Governor recommends \$1.203 billion from the general fund, a \$107.5 million and 8.5% increase over MnSCU's FY 04-05 appropriations. The Governor's budget for MnSCU emphasizes the importance of targeting resources to select programs and activities to bring focus to the missions of the member institutions, and to ensure that new funds increase value rather than simply add cost.

Specific elements of the Governor's budget for MnSCU include:

- \$50 million to complete MnSCU's implementation of the allocation model MnSCU uses to distribute state appropriations to its member institutions. The model is a critical step in completing MnSCU's transition from a system still largely built on the formulas and structures of the three former systems to one that is integrated. Full implementation of the allocation model supports the Governor's desire to strengthen the link between performance and funding, and to reward program efficiency and productivity at the campus level.
- \$20 million to create and support "Centers of Excellence" in fields such as manufacturing technology, science and engineering, health care, information technology, business and teacher education. The Governor believes that by establishing flagship programs in specific areas of study, with more easily recognizable areas of expertise and excellence, MnSCU and the state will be better positioned to attract students and faculty from across the state, region, and country. Under this proposal, the MnSCU Board of Trustees would use a competitive process to select programs of excellence. Once selected, the programs would receive funds to pay for planning, capacity building and teaching and learning equipment.
- An additional \$5 million in compensation funds to be used specifically to support the faculty and staff at Centers of Excellence.
- \$5.5 million to fully support MnSCU's proposal for an "Innovations Fund," that would provide seed money to quickly support and develop emerging programs and curriculum, matching community and private sector funds when they become available.
- \$14 million to continue to strengthen MnSCU's pioneering efforts in distance and on-line learning. Through Minnesota Online, MnSCU institutions now offer more than 80 programs and more than 3,500 courses. These funds would further enhance these offerings and related support activities.
- \$10 million to support MnSCU's initiative to meet critical state needs in nursing by increasing enrollment in nursing programs, recruiting more nursing faculty and expanding distance learning in nursing and healthcare.
- \$3 million to support full time farmers and small business owners in management education programs through individualized instruction offered at varying times and locations and through scholarship aid.

The Governor recommends \$3.2 million to establish an **independent, publicly incorporated postsecondary education institution in Rochester**. The existing University Center at Rochester is a partnership between the University of Minnesota and two MnSCU campuses, Rochester Community and Technical College (RCTC) and Winona State University, with the three institutions offering more than 150 programs of study and enrolling approximately 20,000 students in credit and noncredit education.

As impressive as this collaborative effort is, community leaders have expressed concern that the needs of the Rochester community could be better met through an integrated structure. The Governor's budget recommends design of a single institution that provides high quality programs focused on the specific technical educational needs of the community. Of the amount recommended, \$200,000 is for initial implementation and program development, with the remaining \$3 million used for the further development of the institution.

The **Higher Education Services Office (HESO)** has assumed a broader role in the development and delivery of statewide higher education policy, as a result of changes enacted in the FY2003 session. The



Higher Education

Governor's budget acknowledges this expanded role, with recommendations to further consolidate state higher education administration, policy development and oversight in HESO.

- Chief among the changes, the Governor recommends an increase of \$400,000 to HESO to develop and implement a higher education accountability measurement system that will provide a statewide reference point for all public and private institutions that offer postsecondary education in Minnesota. HESO would establish a planning group comprised of a broad range of stakeholders, with HESO drawing on the experience and expertise of nationally recognized individuals and groups that have developed such systems in other states.
- Administration and funding of the Higher Education Facilities Authority (HEFA), an agency that assists nonprofit higher education institutions to finance capital projects by issuing tax-exempt debt, will be consolidated into HESO.
- In order to address the larger budget challenges, several items are reduced in HESO's budget, including \$1.0 million in funding for library technology and \$5.2 million for tuition reciprocity funds that are not anticipated to be needed under the existing reciprocity agreements.

Within the HESO budget, the Governor also recommends mitigating two earlier budget-balancing reductions to the state's financial aid program, by increasing the Living and Miscellaneous Expense allowance by \$75 per student and by changing the calculation of aid in the state grant program from one based on *average* tuition and fees to *actual* tuition and fees. These changes are funded by reinvesting \$14 million of projected savings in the state grant program that will result from a recent adjustment in how eligibility for the federal Pell grants is determined.



Health and Human Services

The Health and Human Services budget includes appropriations for the Department of Human Services, Department of Health, Veterans Homes, and related boards. This portion of the budget pays for hospital visits, nursing home care, welfare payments, job training, care at state institutions, regulatory activities, public health, and other services. Funding and delivery of these services is a shared responsibility of the state, the federal government, and Minnesota's 87 counties.

Health & Human Services Funding (\$ in millions)				
	FY2004-05	FY2006-07	Change	% Change
General Fund	\$7,245	\$7,901	\$656	9%
Health Care Access	580	1,063	438	83%
GF/HCAF Total	7,825	8,964	1,139	15%
All Operating Funds	\$16,869	\$18,337	\$1,468	9%

The Governor's general fund budget recommendations for Health and Human Services slow the rate of biennial growth that was forecast under current law. Recommended general fund spending totals \$7.9 billion, an increase of \$656 million from the current biennium. However, because the budget includes significant re-alignment of health care program spending, a more accurate portrayal of the biennial change is the combined total of the general fund and the health care access fund (HCAF). Under this measure, the 2006-07 budget recommendations reduce biennial growth from a forecast level of 18% to 15% under the Governor's plan. Much of the anticipated growth is due to enrollment growth that will occur in health care programs, even after changes in eligibility are made under the recommended budget.

Key Elements of the Budget Recommendations

The Governor's budget reduces spending below forecast levels but preserves the safety net components of the state's health care programs as well as the state's core public health functions. While this plan does change eligibility levels for health care programs, much of the savings in the budget occur from freezing or limiting growth, as opposed to reductions from existing levels of service or eligibility.

Budgetary savings are redirected toward key priorities in Health & Human Services. Increases are proposed for supportive housing as part of the effort to end long-term homelessness, improving mental health benefits with a focus on children, efforts for Indian Child Welfare and teens aging out of foster care, as well as grants to effectively implement the new Medicare prescription drug benefit, and a new Positive Alternatives grant program at the Health Department. Additional funds are also recommended to increase nursing facility rates by 2% and implement a new payment system that encourages and financially rewards higher quality. The growing problem of methamphetamine abuse is also addressed by providing targeted funds for methamphetamine treatment with a focus on women with children and pregnant women.

The Governor's budget provides funding to ensure public safety through increases for forensics services at the Department of Human Services. Greater resources are required due to the rising numbers of civil commitments of both sex offenders and those who are mentally ill and dangerous.

The budget also includes proposals to improve health care purchasing in public programs by enhancing the cost effectiveness of pharmaceutical purchasing and providing intensive care management to those with chronic conditions.



Health and Human Services

Due to the need to reduce the growth of health care spending, eligibility changes are proposed for MinnesotaCare. Adults without children will no longer be eligible for MinnesotaCare under the Governor's budget, and coverage for parents on MinnesotaCare will change from 275% of the federal poverty guidelines (FPG) to 190% of FPG. In light of these changes, the Governor's budget bolsters the safety net within General Assistance Medical Care (GAMC) by re-instating a "spend-down" that was part of the program prior to the current biennium. This will ensure that a safety net will be available to those with greatest needs.

This budget recommends re-aligning health care spending and resources by moving the GAMC program into the health care access fund and requires the Department of Human Services to work toward a comprehensive reform of financing the state's health care programs for the next biennial budget.

The Governor's budget achieves additional savings by both holding programs at their current payment levels and managing the growth of new enrollees in some selected waiver programs. Freezing child care rates and a reduction in hospital rates are also included as recommendations, as is a two-year delay in the implementation of projects of regional significance.

Finally, the Governor has recommended funding to transition the Department of Human Services and the Health Department to their new respective facilities in 2005.



Property tax aids and credits are paid to local governments (public schools, cities, counties, towns and special districts) to reduce the local costs of service delivery, defray the costs of state mandates or reduce local property taxes. These payments reduce local property tax burdens by substituting state funds for revenues that would otherwise have to be raised through the local property tax.

Most aids and credits are based on complex formulas written into law. To make the appropriate payments, the Department of Revenue collects local assessment and levy information, calculates levy limits, forecasts aid payments required and makes most property tax aid payments to the local governments. In the case of school-related aids, the Department of Education makes the payments to local school districts.

A small portion of the payments are made directly to individuals as property tax refunds to homeowners and renters. These are included because they reduce the net property tax paid by the taxpayer. Other payments to individuals, such as political contribution refunds, are not related to property taxes, but also are included in this portion of the budget.

Property Tax Aids & Credits Funding (\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$2,810	\$2,890	2.8%

Key Elements of the Budget Recommendations

The Governor recommends \$2.9 billion for these programs – a 2.8% increase over the current biennium. These programs represent 10% of the total general fund budget.

The Governor’s budget makes no reductions in local government aid or county program aids, fully funding current formulas. Only marginal adjustments to property credit programs are proposed. These recommended changes are highlighted below:

Aid and Credits Changes (\$ in millions)		
	FY2006	FY2007
Adjust Renters’ Credit	0	(30,800)
Delay Market Value Credit Reimbursement	(19,300)	(19,000)
Correct MVC Calculation	0	(500)
Expand Senior Deferral Program	0	19
Discontinue Political Contribution Refund Program	(4,000)	(6,500)

- The formula by which property tax refunds for renters are calculated would be adjusted to ensure that the percentage of rent assumed to be attributable to property taxes more closely reflects the actual tax paid. Under the current formula, property taxes are considered as 19% of rent. Tax reforms enacted in 2001, however, resulted in class rate reductions for most rental property. Analysis now indicates that property taxes now constitute, on average, less than 15% of rent paid. The Governor, therefore, recommends that the percentage of rent attributable to property tax, for the purpose of calculating property tax refunds, be reduced to 16% in FY2007 and 15% in FY2008 and beyond.



Aids & Credits

- Temporary reductions in market value credit reimbursements to 103 cities would be extended for two additional years. The reduction is equal to the reduction absorbed by these cities in the current biennium as part of local governments' contribution to the state's deficit reduction package adopted in 2003. Full market value credit reimbursements will resume beginning with credits granted in 2007 and reimbursed in 2008.
- A small correction to the market value homestead credit calculation is recommended to ensure that those who own only a portion of homesteaded property are not afforded more benefit under the law than those who are full owners.
- Senior citizens eligible for the senior deferral program would receive a small additional benefit under the Governor's budget. Under current law, qualified senior citizens may defer a portion of their homestead property tax that exceeds 3% of their income until the time the house is sold. The proposed change would allow the qualified homeowners to defer special assessments and other charges listed on their property tax statement in addition to the tax itself.
- The Governor recommends discontinuing the Political Contribution Refund Program through which political contributions made to qualifying candidates up to \$50 per person (\$100 per couple) in any calendar year can be refunded to the contributor from the state's general fund.



Environment and Agriculture

The Environment and Agriculture budget provides funding for the Pollution Control Agency (PCA), the Department of Natural Resources (DNR), the Department of Agriculture, the Office of Environmental Assistance, the Board of Soil and Water Resources and other small agencies and boards. Their mission is to protect and enhance the quality of the environment, and human and animal health.

The state invests in this area to balance the many interests of Minnesota citizens. Preserving our natural heritage for future generations while also providing quality trails, water access sites, and fishing, hunting, and camping resources for the recreation of a growing population is a major responsibility. At the same time, the state manages its forest and mineral resources for the economic benefits of citizens, communities, and industries, it also spends money to support ethanol, promote agricultural products, and protect consumers through the regulation and inspection of products for human and animal consumption. Funding in this area is complex, with 33% of spending coming from the general fund, and 67% from a wide variety of user fees and other resources.

Environment and Agriculture Funding			
(\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$405	\$369	(9.0%)
All Operating Funds	\$1,131	\$1,132	0%

The Governor's general fund budget for Environment and Agriculture totals \$369 million - an 8.9% decrease from the current biennium. The budget for all funds totals \$1.132 billion, nearly unchanged from total spending for FY2004-05.

Key Elements of the Budget Recommendations

- The Governor is recommending the creation of a new Department of Environmental Protection, by combining existing staff and authorities of the Pollution Control Agency with those of the Office of Environmental Assistance. The creation of the new department would involve the further dedication of the solid waste tax. The portion of the tax that is deposited into the environmental fund would be increased from 50% to 70%. This additional revenue will be used for environmental activities, such as SCORE recycling grants and replaces general fund appropriations currently provided for the Office of Environmental Assistance.
- In an effort to maintain an invigorated agricultural sector, the Governor is recommending no reductions in the agricultural programs of the Department of Agriculture, the Board of Animal Health, or the Agricultural Utilization Research Institute.
- The Department of Agriculture budget includes \$34 million in funding for the ethanol development program. This maintains current law funding for those producers eligible to receive ethanol payments.
- A limited number of fee adjustments for the Department of Agriculture are included in the budget. These increases are necessary for the agency to continue to recover the cost of the programs and activities being supported by these fees.
- The proposed budget includes a general fund reduction of \$11.6 million for the Department of Natural Resources. The budget includes a broad based reduction across a number of programs. However,



Environment and Agriculture

the budget also includes additional spending from the natural resources fund and the game and fish fund to maintain services at current levels for many programs. The proposed budget makes no reductions in general fund spending in operations relating to state parks and trails.

- In the continued effort to privatize the Minnesota Conservation Corps, the Governor is recommending eliminating the Corps general fund appropriation for FY2006-07 but continuing the current level of funding from the natural resources fund. State support for the Corps will continue in the form of workers compensation insurance and project contracting.



Economic Development

The Economic Development budget includes funding for the departments of Commerce, Employment and Economic Development, Labor and Industry, the Minnesota Housing Finance Agency, Minnesota Historical Society as well as many small agencies and boards. This is a diverse set of agencies whose general goals include improving productivity, increasing economic opportunity, and promoting equity. They provide services such as financing business expansions, promoting tourism, regulating financial services and utilities, promoting safe work environments, providing employment services and job training, providing affordable housing programs, and preserving historically significant sites and documents.

Economic Development Funding			
(\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$334	\$278	(17%)
All Operating Funds	\$1,522	\$1,398	(8%)

Economic efforts are financed from the general fund, other state funds, and federal funds. Other state funds include money generated from user fees and special taxes. Federal funds are largely spent on wastewater and drinking water systems, community development block grants, unemployment insurance, employment and training services, and housing subsidies.

The Governor's general fund budget for Economic Development totals \$278 million for FY2006-07 -- a reduction of 17% from spending for the current biennium. The budget for all funds totals \$1.4 billion in FY2006-07, or 8% below current spending for FY2004-05.

Key Elements of the Budget Recommendations

- By reducing the retention period before the sale of securities as unclaimed property, the general fund will realize a one-time revenue increase of \$30 million in FY2006-07.
- The Governor is recommending a \$14.2 million reduction in the general fund programs for the Department of Employment and Economic Development. The three major areas of this reduction are the elimination of funding for the youth programs and the Minnesota Investment Fund along with significant reductions in administrative costs.
- The budget includes a \$15 million reduction for the Housing Finance Agency (MHFA). Of this reduction, \$10 million is intended to be redirected to the Department of Human Services to provide additional support services for homeless Minnesotans. The MHFA also proposes to redirect \$4 million to the Housing Trust Fund program as part of the Governor's initiative to end homelessness.
- The budget proposes that the entire cost of the renewable energy production incentive payment be made from the Renewable Development Fund, a savings of \$9 million for the general fund, and no reduction in incentive payments to those enrolled in the program.



Transportation

The Transportation budget supports the Minnesota Department of Transportation, Metropolitan Council Transit, and transportation-related functions of the Department of Public Safety. This funding supports the design, construction, maintenance, and management of state highways and bridges, financing of county state aid and municipal state aid roads, state aid for metropolitan and Greater Minnesota transit operations, and the development and maintenance of airports, the State Patrol, driver and vehicle services, traffic safety, and pipeline safety.

The largest share of funding for this area of the budget is in the form of dedicated motor fuel and registration taxes deposited in the highway user tax distribution (HUTD) Fund. The general fund supports only 3.7% of the funding for the activities in this area.

Transportation Funding (\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$159	\$159	0%
All Operating Funds	\$4,829	\$5,043	4.4%

The Governor's general fund budget for Transportation totals \$159 million – approximately the same as the current biennium. The budget for all funds totals just over \$4.8 billion, an increase of 4.4%.

Key Elements of the Budget Recommendations

- The budget for the Department of Transportation includes \$1.8 billion for major capital projects – the reconstruction of aged infrastructure and the construction of new roads, bridges, interchanges and other transportation infrastructure. Much of this funding is made possible by the Pawlenty-Molnau transportation funding package that accelerated the construction of major projects across the state.
- The budget includes an increase of \$8.6 million in trunk highway spending each year for maintenance and operations and restores a base budget of \$4 million per year for small buildings.
- The budget for the driver and vehicle services includes a \$3.5 million general fund reduction that is replaced by new fee revenues. Additional revenues will result from a \$3.00 increase in the drivers license fee and a vehicle title transfer fee increase of \$2.50, with an additional increase of \$1.50 in the filing fee. Funding for driver and vehicle services will move to a dedicated fee-for-service approach.



The Public Safety budget provides funding for Minnesota's criminal justice system. Ensuring public safety requires many federal, state and local agencies working together to investigate crime, apprehend suspects, adjudicate criminal cases, assist crime victims, and lock up and supervise offenders to reduce the future risk of crime. This section of the budget includes funding for the Department of Corrections, the criminal justice-related portions of the Department of Public Safety, the Courts, the Board of Public Defense, and the Department of Human Rights. The financing for Public Safety agencies comes from the general fund, federal grants, and other state funds.

Public Safety Funding (\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$1,437	\$1,668	16%
All Operating Funds	\$1,878	\$2,031	8%

The Governor's general fund budget recommendations for Public Safety agencies demonstrate the high priority of this important role of state government. Along with addressing the costs of rising inmate populations at the Department of Corrections, the budget includes a number of targeted initiatives to address public safety threats from sex offenders and from the use and manufacturing of methamphetamine. Overall, the Governor's Public Safety budget for FY2006-07 totals \$1.67 billion, an increase of 16% over the 2004-05 biennium.

Key Elements of the Budget Recommendations

The Governor's budget increases funding for correctional institutions by \$89 million over FY2004-05 levels to accommodate increasing numbers of inmates and to fund the likely impact of sentencing changes being proposed by the Governor.

An increase in funding for judicial branch agencies is proposed for a number of reasons. The ongoing costs related to the co-payment deficiency at the Board of Public Defense are included, as is an increase of \$20 million to address cost pressures from rising caseloads for both the Courts and the Public Defender. The budget includes \$22.2 million for the judicial branch for projected costs related to recommended sentencing changes.

The Governor's budget makes a number of significant investments to improve the state's ability to deal effectively with sex offenders as well as the scourge of methamphetamine, including:

- Increases resources for sex offender treatment—both inmates and parolees—and for supervised housing options for sex offenders.
- Increases funding to address meth and sex offenders, including 10 new narcotics agents at Public Safety to assist local law enforcement with investigations and additional Corrections Department funding for probation agents to provide intensive supervised release agents and GPS monitoring of offenders.
- Provides additional resources for the Department of Public Safety's Predatory Offender System to enhance monitoring of sexual predators and funding to allow analysis of all DNA samples for felon offenders.



Public Safety

The importance of technology for public safety is further recognized in the Governor's recommendations, with resources provided to upgrade the Automated Fingerprint Information System (AFIS), implement audit trail functionality into the Criminal Justice Information System (CJIS), and to renew the Livescan equipment that allows for electronic submission of fingerprints to the BCA.

The Governor's budget includes funding to continue the operation of the Gang Strike Force and enhance cooperation with Narcotic Task Forces. The budget includes an increase for crime victims assistance grants at DPS. The Governor recommends an increase in the 911 fee to address prior obligations to telephone utility companies and to continue progress on the statewide public safety radio system. The Governor also recommends an increase in reimbursements to local governments for peace officer training.



The State Government budget includes the constitutional officers and the Legislature, the four major staff agencies (Administration, Employee Relations, Finance, and Revenue) as well as Military Affairs, Veterans Affairs, and a number of other smaller agencies. Collectively, these offices and agencies provide the basic infrastructure for state policy development and business operations. This area of the budget is financed largely through the general fund, internal service fund charges to state agencies, and other fees.

State Government Funding (\$ in millions)			
	<u>FY2004-05</u>	<u>FY2006-07</u>	<u>Percent Change</u>
General Fund	\$580	\$555	(4%)
All Operating Funds	\$828	\$810	(2%)

Key Elements of the Budget Recommendations

Military Initiatives

- Reflecting the Governor's bedrock commitment to supporting our troops, significant initiatives are proposed for the Military Affairs Department and Veterans organization, including a \$7.7 million increase in the tuition reimbursement program and \$3 million for re-enlistment incentives.
- The Governor's budget fully funds requests from the Disabled American Veterans, the Veterans of Foreign Wars, the Military Order of the Purple Heart and the Vietnam Veterans of America, to help expedite claims processing and improve service levels that these organizations can offer.

Operating Budgets

- To help balance the budget, the Governor is recommending reductions of varying levels for the State Government agencies after assessing the effect of the proposed reductions on the level and quality of services provided to each agency's customers, with an average reduction of 9 percent.
- Although the Governor does not make specific recommendations regarding funding for the other constitutional officers or the legislature, in order to submit a balanced budget, the Governor's FY 06-07 budget recommendations include a 2.5% reduction for each constitutional officer and the legislature, the same level recommended for the Governor's own office.
- The Governor's budget recommendations for the major staff agencies reflect his interest in minimizing administrative overhead and preserving core functions:
 - In the Department of Administration, restructuring is proposed in Local Planning Assistance and the Land Management Information Center (LMIC), because other public and private sector entities can provide support for these activities. With the same goal of meeting changing state needs, restructuring is also planned for the Office of Technology.
 - The budget for the Department of Employee Relations recommends restructuring of executive and line activities in addition to leveraging technology to fulfill their responsibilities on affirmative action and pay equity.



State Government

- The Finance Department's budget recommendations include several reductions that will have a manageable impact on the department's ability to deliver quality services.
- The Governor's budget invests additional resources in tax compliance activities at the Department of Revenue, expected to yield a significant return to the general fund. At the same time, Revenue will return some savings to the state budget through a delay in technology purchases and reduced rents.



Revenue Changes

The Governor's budget is financed by \$29.765 billion of general fund revenues. State taxes will generate \$27.7 billion, 93% of the total. Non-tax revenues will provide \$2.017 billion, 7% of total resources for the biennium. Non-tax revenues include fees, fines, surcharges intergovernmental revenues, third party collections, investment earnings, dedicated revenues and transfers from other state funds.

The Governor's budget results in little net change in projected revenues for the state general fund. Proposed changes will add a net \$197 million, 0.6%, from current law revenues forecast in November. There are, however, significant changes that act to increase state revenue collections and also measures that will reduce receipts by directing a portion of general fund taxes and transfers to other state funds.

Key Elements of the Budget Recommendation:

The Governor recommends no new taxes. Rather, he is proposing a significant package of targeted tax relief for Minnesota taxpayers, focused tax incentives to stimulate investment in key sectors of the state's economy, more efficient and effective collection of taxes owed, and continuation of two existing taxes.

The Governor's proposal provides selective tax cuts for businesses and individuals:

- \$3 million for conforming to federal tax changes,
- Nearly \$7 million for investment tax policy changes to stimulate business development

The budget plan increases state revenue collections:

- \$76 million from tax streamlining and compliance changes proposed in 2004, but stalemated in the 2004 session
- \$104 million from maintaining the alcohol and car rental taxes
- \$90 million from new compliance and collection initiatives
- \$200 million from new gaming licensing
- \$26 million in new fee revenue
- \$40 million from one-time monies from other funds and unclaimed property

Funding for certain state programs will be restructured, affecting both general fund revenues and spending:

- Restructuring health care financing between the general fund and health care access fund, will reduce general fund revenues and transfers by \$220 million.
- Restructuring environment protection agency funding will reduce general fund solid waste sales tax receipts and related expenditures by \$26 million.

Tax Relief

- Significant changes in the federal tax code in 2003 and 2004 created opportunities for additional tax relief for Minnesota taxpayers. The Governor recommends a package that would net \$3.4 million in tax relief by conforming Minnesota's tax code to the following federal tax changes:
 - 2003 Federal Tax Amendments related to Health Savings Accounts
 - 2003 Federal Tax Amendments related to military family tax relief
 - 2003 Federal Tax Amendments related to prescription drug plans
 - 2004 American Job Creation Act (48 provisions)
 - 2004 Working Family Relief Act (6 provisions)



Stimulate Investment

- Multi-state corporations are an increasingly important segment of the state's economy. Determining how they should be taxed has consequences both for state revenues and companies' willingness to invest in Minnesota. Under current law, the portion of their total corporate income determined to be subject to state taxes is based on a three-part formula including factors for sales, payroll and property within the state. The Governor proposes moving toward a single-factor formula based solely on the percent of a company's total sales that are transacted within the state. This formula change will be phased in over an eight-year period. Seven other states, including Iowa and Wisconsin, have adopted such a formula. This action will encourage businesses to expand within the state.
- Minnesota's dairy industry faces significant economic challenges that cause farmers to be reluctant to make capital investments essential to growth. The Governor's proposed Livestock Investment Credit would offer a 10% tax credit, capped at \$30,000 over a six-year period, for new investments in qualifying dairy farms.
- Targeted investment in key economic growth areas is the focus of the Governor's recommendations to make additional tax credits available in approved Bio Technology and Health Science Industry Zones, as well as to offer new credits to establish an International Development Zone in the vicinity of the Minneapolis-Saint Paul airport.

Streamlining Tax Collections/Tax Compliance Initiatives

- Shifting the point at which a sales tax is collected improves the effectiveness of the collection process and allows the state to collect a tax sooner than it might otherwise. The Governor proposes that the sales tax on leased motor vehicles be collected at the time the lease is signed rather than in monthly installments over a 24-36 month period. He also proposes that existing cigarette sales taxes be collected at the distributor level rather than at the retail level. Together, these two changes would yield \$63.7 million for the biennium. Both changes were proposed in the 2004 session, but not acted on.
- Establishing appropriate tax withholding for the full range of taxpayers to improve the efficiency and effectiveness of the tax system. The Governor recommends two initiatives: (a) a percentage of wages paid to self-employed subcontractors should be withheld and remitted by construction contractors; and (b) non-resident partnerships and S-Corporations should be required to pay non-resident withholding on a quarterly, rather than annual, basis. These changes would ensure timely collection and enhance tax compliance efforts.
- Existing tax law frequently requires interpretation and clarification as new industries emerge. The Governor recommends three measures to clarify the intent of Minnesota law: (a) Clarify that stop-loss insurance policies purchased by companies that are largely self-insured are subject to tax; (b) Establish that companies that primarily transport gas are not engaged in industrial production and, therefore, do not qualify for capital equipment refunds and industrial production exemptions; and (c) Require that state agencies making internet and catalogue purchases from out-of-state vendors contract only with vendors who collect and remit Minnesota's use tax.
- The Governor is also recommending modifications to the foreign operating corporation statutes commonly referred to as FOC. The original FOC provisions were enacted in 1988 to ensure tax equity for domestic corporations with significant foreign operating income. The changes being recommended by the Governor will help insure that the FOC designation will continue as a tax equity issue for the intended businesses and not be used as a tool to help corporations with limited or no foreign operating presence to simply avoid Minnesota corporate tax.



Continue Existing Taxes

- The most significant financial recommendation reflecting a \$104 million increase in revenue, does not reflect a change in policy or priority. It does, however recommend continuing current taxes on alcohol (2.5%) and car rentals (6.2%) that are scheduled to sunset on December 31, 2005. The sunset dates were established to conform to provisions of the Streamline Sales Tax Project (SSTP). At the time, the legislative history clearly indicated that these two taxes were to be replaced with comparable taxes that conformed to SSTP. In the case of the car rental tax, the SSTP policies have been amended to exempt car rental taxes from the conformity requirements. The long-standing tax on alcohol would be restructured, under the Governor's recommendation, from a sales tax to a gross receipts tax so that it would both comply with SSTP policies and yield an equal return to the state.

Other Tax Revenue Changes

- The budget creates a single new Department of Environmental Protection, merging the Pollution Control Agency and the Office of Environmental Assistance. To support restructuring of funding, the portion of the solid waste tax deposited in the environmental fund will be increased from 50% to 70%. This will reduce solid waste taxes deposited in the general fund by \$11.7 million each year of the biennium. A corresponding shift of expenditures, however, reduces net loss to the general fund to less than \$1 million.
- The Governor's new transportation package proposes a constitutional amendment to fully dedicate the Motor Vehicle Sales Tax revenues to transportation. The increase in the dedication would be phased over five years beginning in FY2008, and has no impact on the proposed revenues for FY2006-07. However, this will result in a reduction in general fund receipts from the motor vehicle sales tax of \$62.7 million in FY2008 and \$128.8 million in FY2009
- The budget also redirects revenue from existing Medical Assistance surcharges on hospitals and HMOs into the health care access fund, beginning in FY2007. This is recommended as part of restructuring health care program financing. This restructuring also substantially reduces the funds from the HCAF that are currently designated to transfer to the general fund. In total, this reduces general fund revenue by \$287 million for FY2006-07.

Non-Tax Revenue Changes

- The Governor is proposing a new tribal-state partnership relating to gaming. Under the proposal the state will negotiate and enter into an optional compact with those tribes that choose to participate. Those tribes that agree to participate in the optional compact would be eligible to be partners in a single metro area casino. The initial licensing fee by the managing entity would provide the state with \$200 million in new revenue in FY2006. The state share of the total revenues from the casino are estimated to be \$114 million annually beginning in FY2008.
- Fee increases will add \$26 million to general fund revenues. Recommended increases include \$11.4 million from a criminal/traffic surcharge increase, \$9.4 million from an increase in the motor vehicle transfer fee, and \$3million from an increase in the fee for electronic copies of drivers license records.
- One-time revenues will add \$40 million to the general fund under the Governor's budget plan. Of this amount, \$10 million will be transferred from excess balances in other state funds. An additional \$30 million in one-time receipts is expected from the Governor's proposal to reduce the holding period for the sale of securities the state holds as unclaimed property.



The following summary tables provide additional detail on the current and recommended level of general fund revenues and spending for the FY2006-07 budget.

The tables are presented to provide commonly requested comparisons and financial data for the general fund. The tables present information displayed by major legislative spending bills for the state's general fund.

- FY2006–07 Recommendations by Year
- Comparison: Governor's FY2006-07 Budget – Increase over Current Biennium (FY2004-05)
- Annual Percent Change (FY2005, FY2006, FY2007)
- Comparison: Governor's Budget FY2006-07 – November 2004 Forecast
- FY2008-09 Budget Planning Estimates

Complete detailed budget information on individual agency recommendations can be found in companion Governor's detailed budget books that are prepared for each omnibus appropriation area.

These documents and related background materials on the Governor's budget can be viewed on the web at: <http://www.finance.state.mn.us/>



**January 2005 Governor's Recommendations
General Fund
(\$ in thousands)**

	Gov Rec FY 2006	Gov Rec FY 2007	Gov Rec FY 2006-07
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	1,003,188	1,068,770	1,003,188
Current Resources:			
Tax Revenues	13,567,788	14,090,373	27,658,161
Non-Tax Revenues	707,325	708,099	1,415,424
Dedicated Revenue	37,384	37,301	74,685
Transfers In	139,232	149,919	289,151
Prior Year Adjustments	25,000	25,000	50,000
Budget Changes - Taxes	91,971	14,675	106,646
Budget Changes - Non-Taxes	143,723	(62,676)	81,047
Subtotal-Current Resources	14,712,423	14,962,691	29,675,114
Total Resources Available	15,715,611	16,031,461	30,678,302
<u>Actual & Estimated Spending</u>			
K-12 Education	6,146,288	6,268,076	12,414,364
Property Tax Recog/Payment Change	(119,937)	(57,035)	(176,972)
K-12 Forecast Buyback	(582)	(908)	(1,490)
Subtotal K-12 Education	6,025,769	6,210,133	12,235,902
Property Tax Aids & Credits	1,451,646	1,438,362	2,890,008
Higher Education	1,388,414	1,385,504	2,773,918
Health & Human Services	3,862,459	4,038,369	7,900,828
Environment, Agriculture & Economic Dev	324,470	322,277	646,747
Transportation	78,966	80,221	159,187
Public Safety	822,484	845,589	1,668,073
State Government	272,945	282,528	555,473
Debt Service	382,222	394,939	777,161
Capital Projects	5,082	0	5,082
Estimated Cancellations	(5,000)	(15,000)	(20,000)
Subtotal Expenditures & Transfers	14,609,457	14,982,922	29,592,379
Dedicated Expenditures	37,384	37,301	74,685
Total Expenditures & Transfers	14,646,841	15,020,223	29,667,064
Balance Before Reserves	1,068,770	1,011,238	1,011,238
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Budgetary Balance	65,770	8,238	8,238



Comparison: FY 2006-07 vs FY 2004-05
Governor's Recommendations - General Fund
(\$ in thousands)

	Gov Rec FY 2004-05	Gov Rec FY 2006-07	\$ Difference	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	368,922	1,003,188	634,266	171.9%
Current Resources:				
Tax Revenues	25,627,138	27,658,161	2,031,023	7.9%
Non-Tax Revenues	1,465,776	1,415,424	(50,352)	-3.4%
Dedicated Revenue	58,506	74,685	16,179	27.7%
Transfers In	1,456,362	289,151	(1,167,211)	-80.1%
Prior Year Adjustments	64,897	50,000	(14,897)	-23.0%
Budget Changes - Taxes	0	106,646	106,646	nm
Budget Changes - Non-Taxes	6,462	81,047	74,585	nm
Subtotal-Current Resources	28,679,141	29,675,114	995,973	3.5%
Total Resources Available	29,048,063	30,678,302	1,630,239	5.6%
<u>Actual & Estimated Spending</u>				
K-12 Education	12,230,445	12,414,364	183,919	1.5%
Property Tax Recog/Payment Change	(445,861)	(176,972)	268,889	nm
K-12 Forecast Buyback	116,323	(1,490)	(117,813)	nm
Subtotal K-12 Education	11,900,907	12,235,902	334,995	2.8%
Property Tax Aids & Credits	2,809,593	2,890,008	80,415	2.9%
Higher Education	2,559,102	2,773,918	214,816	8.4%
Health & Human Services	7,245,112	7,900,828	655,716	9.1%
Environment, Agriculture & Economic Dev	739,306	646,747	(92,559)	-12.5%
Transportation	158,721	159,187	466	0.3%
Public Safety	1,436,740	1,668,073	231,333	16.1%
State Government	580,229	555,473	(24,756)	-4.3%
Debt Service	589,027	777,161	188,134	31.9%
Capital Projects	0	5,082	5,082	nm
Deficiencies/Other	(4,225)	0	(4,225)	nm
Estimated Cancellations	(44,000)	(20,000)	24,000	-54.5%
Subtotal Expenditures & Transfers	27,970,512	29,592,379	1,621,867	5.8%
Dedicated Expenditures	74,363	74,685	322	0.4%
Total Expenditures & Transfers	28,044,875	29,667,064	1,622,189	5.8%
Balance Before Reserves	1,003,188	1,011,238	8,050	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	653,000	0	
Budgetary Balance	188	8,238	8,050	



**Annual Percent Change
Governor's Recommendations - General Fund
(\$ in thousands)**

	Gov Rec FY 2005	Gov Rec FY 2006	% Change	Gov Rec FY 2007	% Change
<u>Actual & Estimated Resources</u>					
Balance Forward From Prior Year	1,268,455	1,003,188	-20.9%	1,068,770	6.5%
Current Resources:					
Tax Revenues	13,107,097	13,567,788	3.5%	14,090,373	3.9%
Non-Tax Revenues	690,328	707,325	2.5%	708,099	0.1%
Dedicated Revenue	38,577	37,384	-3.1%	37,301	-0.2%
Transfers In	312,385	139,232	-55.4%	149,919	7.7%
Prior Year Adjustments	25,000	25,000	0.0%	25,000	0.0%
Budget Changes - Taxes	0	91,971	nm	14,675	nm
Budget Changes - Non-Taxes	6,462	143,723	nm	(62,676)	nm
Subtotal-Current Resources	14,179,849	14,712,423	3.8%	14,962,691	1.7%
Total Resources Available	15,448,304	15,715,611	1.7%	16,031,461	2.0%
<u>Actual & Estimated Spending</u>					
K-12 Education	6,092,147	6,146,288	0.9%	6,268,076	2.0%
Property Tax Recog/Payment Change	(21,857)	(119,937)	nm	(57,035)	nm
K-12 Forecast Buyback	116,323	(582)	nm	(908)	nm
Subtotal K-12 Education	6,186,613	6,025,769	-2.6%	6,210,133	3.1%
Property Tax Aids & Credits	1,370,871	1,451,646	5.9%	1,438,362	-0.9%
Higher Education	1,306,098	1,388,414	6.3%	1,385,504	-0.2%
Health & Human Services	3,734,089	3,862,459	3.4%	4,038,369	4.6%
Environment, Agriculture & Economic Dev	373,354	324,470	-13.1%	322,277	-0.7%
Transportation	81,098	78,966	-2.6%	80,221	1.6%
Public Safety	754,209	822,484	9.1%	845,589	2.8%
State Government	314,612	272,945	-13.2%	282,528	3.5%
Debt Service	323,321	382,222	18.2%	394,939	3.3%
Capital Projects	0	5,082	nm	0	nm
Deficiencies/Other	6,274	0	nm	0	nm
Estimated Cancellations	(44,000)	(5,000)	-88.6%	(15,000)	200.0%
Subtotal Expenditures & Transfers	14,406,539	14,609,457	1.4%	14,982,922	2.6%
Dedicated Expenditures	38,577	37,384	-3.1%	37,301	-0.2%
Total Expenditures & Transfers	14,445,116	14,646,841	1.4%	15,020,223	2.5%
Balance Before Reserves	1,003,188	1,068,770		1,011,238	
Cash Flow Account	350,000	350,000		350,000	
Budget Reserve	653,000	653,000		653,000	
Budgetary Balance	188	65,770		8,238	



**Comparison: Governor's Budget vs November 2004 Forecast
General Fund
(\$ in thousands)**

	11-04 Fcst FY 2006-07	Gov Rec FY 2006-07	\$ Change	% Change
<u>Actual & Estimated Resources</u>				
Balance Forward From Prior Year	1,003,000	1,003,188	188	
Current Resources:				
Tax Revenues	27,658,161	27,658,161	0	
Non-Tax Revenues	1,405,540	1,415,424	9,884	
Dedicated Revenue	74,685	74,685	0	
Transfers In	289,151	289,151	0	
Prior Year Adjustments	50,000	50,000	0	
Budget Changes - Taxes	0	106,646	106,646	
Budget Changes - Non-Taxes	0	81,047	81,047	
Subtotal-Current Resources	29,477,537	29,675,114	197,577	0.7%
Total Resources Available	30,480,537	30,678,302	197,765	
<u>Actual & Estimated Spending</u>				
K-12 Education	12,045,122	12,414,364	369,242	3.1%
Property Tax Recog/Payment Change	(76,041)	(176,972)	(100,931)	nm
K-12 Forecast Buyback	0	(1,490)	(1,490)	nm
Subtotal K-12 Education	11,969,081	12,235,902	266,821	2.2%
Property Tax Aids & Credits	2,966,359	2,890,008	(76,351)	-2.6%
Higher Education	2,752,758	2,773,918	21,160	0.8%
Health & Human Services	8,683,916	7,900,828	(783,088)	-9.0%
Environment, Agriculture & Economic Dev	735,014	646,747	(88,267)	-12.0%
Transportation	162,735	159,187	(3,548)	-2.2%
Public Safety	1,568,535	1,668,073	99,538	6.3%
State Government	563,243	555,473	(7,770)	-1.4%
Debt Service	721,055	777,161	56,106	7.8%
Capital Projects	0	5,082	5,082	nm
Estimated Cancellations	(20,000)	(20,000)	0	0.0%
Subtotal Expenditures & Transfers	30,102,696	29,592,379	(510,317)	-1.7%
Dedicated Expenditures	74,685	74,685	0	0.0%
Total Expenditures & Transfers	30,177,381	29,667,064	(510,317)	-1.7%
Balance Before Reserves	303,156	1,011,238	708,082	
Cash Flow Account	350,000	350,000	0	
Budget Reserve	653,000	653,000	0	
Budgetary Balance	(699,844)	8,238	708,082	



**FY 2008-09 Budget Planning Estimates
General Fund
(\$ in thousands)**

	Gov Rec FY 2004-05	Gov Rec FY 2006-07	Gov Rec FY 2008-09
<u>Actual & Estimated Resources</u>			
Balance Forward From Prior Year	368,922	1,003,188	1,011,238
Current Resources:			
Tax Revenues	25,627,138	27,658,161	30,136,038
Non-Tax Revenues	1,465,776	1,415,424	1,386,023
Dedicated Revenue	58,506	74,685	74,560
Transfers In	1,456,362	289,151	176,203
Prior Year Adjustments	64,897	50,000	50,000
Budget Changes - Taxes	0	106,646	(207,672)
Budget Changes - Non-Taxes	6,462	81,047	231,542
Subtotal-Current Resources	28,679,141	29,675,114	31,846,694
Total Resources Available	29,048,063	30,678,302	32,857,932
<u>Actual & Estimated Spending</u>			
K-12 Education	12,230,445	12,414,364	12,416,945
Property Tax Recog/Payment Change	(445,861)	(176,972)	(102,789)
K-12 Forecast Buyback	116,323	(1,490)	(1,900)
Subtotal K-12 Education	11,900,907	12,235,902	12,312,256
Property Tax Aids & Credits	2,809,593	2,890,008	2,952,395
Higher Education	2,559,102	2,773,918	2,771,008
Health & Human Services	7,245,112	7,900,828	8,982,387
Environment, Agriculture & Economic Dev	739,306	646,747	662,984
Transportation	158,721	159,187	175,442
Public Safety	1,436,740	1,668,073	1,725,313
State Government	580,229	555,473	564,933
Debt Service	589,027	777,161	881,515
Capital Projects	0	5,082	0
Deficiencies/Other	13,175	0	0
Estimated Cancellations	(44,000)	(20,000)	(20,000)
Subtotal Expenditures & Transfers	27,970,512	29,592,379	31,008,233
Dedicated Expenditures	74,363	74,685	74,560
Total Expenditures & Transfers	28,044,875	29,667,064	31,082,793
Balance Before Reserves	1,003,188	1,011,238	1,775,139
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	653,000	653,000	653,000
Budgetary Balance	188	8,238	772,139