Tough Decisions in the 2008 Legislative Session leave even tougher choices for 2009

February Forecast sets a stormy stage for session

$935 million deficit now and more in the future

The release of the February Forecast early in the 2008 Legislative Session showed what many had already expected: Minnesota's economy has taken a turn for the worse. The state's revenue collections have been declining, resulting in a budget deficit of $935 million for the current biennium, or about 3% of the state's biennial budget. And the future brings even greater challenges with a $2.1 billion deficit for the FY 2010-11 biennium (when the costs of inflation are included).[1]

During times of deficit, policymakers have three potential tools for bringing the budget back into balance: using reserves or other one-time measures, reducing spending and raising additional revenues. Governor Pawlenty has consistently taken the third option – raising revenues – off the table, ensuring that each time Minnesota faces a deficit, the state must cut back on key areas of the budget.

This session, the situation is further complicated by the limited amount of time legislators have to resolve the deficit. The state constitution requires that our budget be balanced by the end of this biennium on June 30, 2009. The first year of the biennium – FY 2008 – will be nearly complete by the time the legislative session ends. Therefore, policymakers must resolve the $935 million deficit in a single fiscal year instead of being able to soften the impact of any spending reductions by spreading it over a two-year biennium.

In addition, the Governor promised to avoid cuts to certain areas of the budget – like K-12 classroom funding and local government aid – leaving a much smaller portion of the budget to absorb any spending reductions. Since the Governor is opposed to any broad-based revenue increases, that means policymakers will need to make larger cuts to the remaining areas of the budget.

Figure 1. Supplemental Budget Proposals, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$273 million	-$174 million	-$273 million
Spending increases	$32 million	$78 million	$53 million
Refinancing TANF & HCAF	-$139 million	-$49 million	-$42 million
Spending increases in other bills	$38 million	$65 million	$52 million
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	-$270 million	-$39 million	-$65 million
Budget reserve	-$250 million	-$250 million	-$100 million
Cash flow account	$0	-$350 million	-$350 million
Revenue changes (positive numbers reduce the deficit)			
Revenues in tax bill	$45 million	$190 million	$150 million
Revenues in other budget areas	$31 million	$29 million	$62 million
Total (negative numbers reduce the deficit)	**-$937 million**	**-$938 million**	**-$937 million**

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May 2008

Unsatisfactory proposals reflect the difficult choices facing policymakers

The Governor released his supplemental budget proposal in early March, outlining a way to solve the shortfall for this biennium. The House and Senate passed their own solutions for solving the budget deficit in early April. Policymakers now have until the legislative session ends on May 19th to negotiate a compromise.

After years of budget deficits and severe limits on any broad-based revenue increases, policymakers are finding it increasingly difficult to trim the budget in ways that do not significantly interfere with Minnesota's ability to support important priorities ranging from health care for seniors to access to affordable higher education.

The proposals on the table reflect how difficult it has become to find mutually acceptable ways to solve the state's budget shortfalls (see Figure 1). The Governor's proposal relies more heavily on spending reductions, asking Minnesota's most vulnerable – our low-income families, children, elderly and people with disabilities – to bear a large share of balancing the budget. The House and Senate plans include fewer spending reductions, turning instead to the other available tools – revenue increases and one-time resources (see Figure 2).

Figure 2. How Proposals Use the Three Tools, FY 2008-09

	Governor	House	Senate
Spending reductions	36%	9%	22%
Reserves and one-time resources	55%	68%	55%
Revenue increases	8%	23%	23%

All three solutions leave a large deficit for FY 2010-11

All three proposals rely on reserves and one-time resources for at least one-half of their budget-balancing solutions. Because broad-based revenue increases are off the table, this reliance on one-time resources does allow legislators to avoid more severe spending reductions in the current biennium. However, it guarantees that the state will continue to face a significant budget deficit in the 2009 Legislative Session – and it will leave us with fewer resources to address the problem.

The Governor's proposal leaves a $676 million hole for the FY 2010-11 biennium. The size of that deficit grows by roughly another $1 billion if the cost of inflation is included. The House and Senate proposals also leave a budget deficit for the next biennium: $765 million in the Senate proposal and $549 million in the House proposal. Once again, inflation increases the size of these deficits by another $1 billion.

As the Governor and legislators negotiate the final outcome to this legislative session, they must balance two important concerns: making budget decisions that will improve Minnesota's long-term fiscal health without asking our most vulnerable residents to sacrifice the most.

Policymakers are unlikely to agree on a satisfactory solution this legislative session. But our state's future rests on whether our leaders can begin to work cooperatively to find solutions that overcome the growing disparities in our communities and ensure that we are investing in the human and physical infrastructure we need to prosper in a changing world.

Use of one-time resources delays tough choices until next year

Budget reserve and Cash Flow Account tapped to cover the shortfall

Policymakers have worked to rebuild the state's budget reserves after they were depleted back in the 2003 Legislative Session. Currently, the state has $653 million in the budget reserve and an additional $350 million in the Cash Flow Account.[2] Together, this adds up to just over $1 billion in reserves, or about 3%

of the state's general fund biennial budget.

The purpose of building up a healthy level of reserves is to allow policymakers the opportunity to implement thoughtful and deliberative solutions in the face of challenging economic circumstances. It takes time to allow spending reductions to phase in or for the state to begin collecting the money if additional revenues are raised. Budget reserves can help bridge that gap.

All three proposals use the state's reserves as an important element to balance the budget in the short term. Now that the state is facing a deficit, it is an appropriate time to draw on our budget reserve in a responsible way. However, instead of using the reserves as part of a long-term solution, these proposals use the reserves to delay finding a real solution.

The Governor and the House both tap $250 million of the state's $653 million budget reserve. The Senate proposal uses only $100 million from the budget reserve. However, both the House and Senate empty the state's Cash Flow Account – using all $350 million. Although the state's Cash Flow Account is a potential source of one-time revenues, it seems unwise to completely drain this cash management tool.

Governor uses $399 million from the Health Care Access Fund

The Health Care Access Fund (HCAF) collects money through health care provider taxes and premiums from MinnesotaCare enrollees. Created in 1992, the HCAF was intended to provide low-cost health insurance for working Minnesotans, so use of these funds for other purposes is controversial. However, the HCAF is a popular place to look for additional resources whenever the state faces a budget deficit.

This year is no exception. The Governor's supplemental budget draws $250 million outright from the HCAF and transfers it to the general fund to help solve the budget deficit. And the Governor's budget draws an additional $48 million in this biennium (and another $101 million in the FY 2010-11 biennium) from the HCAF by "refinancing" how the state pays for a transitional health insurance program for adults without children. Refinancing means changing which fund pays for a particular program. This health insurance program has been funded from the general fund since it was implemented during the 2005 Legislative Session. The refinancing would reduce resources available in the HCAF by $149 million over the next three years without making any improvements in access to health care for working Minnesotans, and the Governor actually cancels some scheduled improvements. In total, the Governor draws $399 million over the next three years from the HCAF to resolve the budget deficit.

The House and Senate do not use any funds from the HCAF to address the budget deficit in the FY 2008-09 biennium. Instead, both have approved a separate health care reform bill that would use some of the resources available in the HCAF to improve health care coverage for working Minnesotans.

Temporary Assistance for Needy Families redirected away from helping low-income families

The Governor's proposal also refinances close to $92 million in Temporary Assistance for Needy Families (TANF) dollars. These are federal resources intended to help families move from poverty to self-sufficiency. The Governor would use all the reserves currently available in the TANF account, leaving no additional resources to help low-income families during the economic downturn.

The House and Senate both refinance a portion of the available TANF funds to help solve the budget deficit. The House uses $49 million and the Senate uses $42 million in TANF to free up general fund resources.

Surpluses in other funds transferred to general fund

In addition to utilizing funds from some major resources – including the budget reserve, Cash Flow Account, HCAF and TANF – all three proposals make transfers from various other funds to obtain some one-time revenues. The Governor's additional transfers total $20 million, the House transfers $39 million and the Senate transfers $65 million. Some of the largest additional transfers include:

- $25 million from the Workers' Compensation Assigned Risk Plan proposed by the Senate. This fund, which is estimated to have a $41 million surplus, is used to provide workers' compensation insurance to employers who are unable to obtain it elsewhere.
- $14 million from the Workers' Compensation Special Fund proposed by the House.
- $8 million from the Workforce Development Fund proposed by the Governor, House and Senate.

Health and Human Services

Including the transfer of funds from the Health Care Access Fund and refinancing TANF resources, the Governor's supplemental budget targets Health and Human Services for 56 percent of his solution for balancing the budget. Although this is the second largest area of the state budget and might be expected to face a larger percentage of the total spending reductions, the result is that there will be fewer resources available for the services intended to help low-income families and other vulnerable populations weather the current economic downturn.

The House and Senate proposals avoid many of the Governor's more significant reductions to this budget area. Health and Human Services accounts for 21 percent of the Senate's budget-balancing solution and 14 percent of the House's plan.

Figure 3. Health & Human Services, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$140 million	-$92 million	-$153 million
Spending increases	$6.0 million	$13 million	$4.2 million
Refinancing TANF & HCAF	-$139 million	-$49 million	-$42 million
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	-$253 million	-$3.6 million	-$6.5 million
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$0	$0	$0
Total (negative numbers reduce the deficit)	**-$526 million**	**-$131 million**	**-$197 million**

Governor would increase the number of uninsured

In response to the large budget deficit in the 2003 Legislative Session, policymakers made dramatic cutbacks in health care for low- to moderate-income Minnesotans. This included increased verification requirements for MinnesotaCare recipients, eliminating coverage for some populations, raising premiums and co-payments and limiting the types of health care services covered. By 2007, an estimated 50,000 fewer Minnesotans had publicly-funded health care than if those changes had not been made.

The Governor claims that his supplemental budget proposal does not cause anyone to lose eligibility for public health insurance that currently has it. But his proposal eliminates several planned increases in health care coverage that were carefully negotiated in the 2007 Legislative Session but have not yet taken effect.

- Changes were made to assure children a smoother transition from Medical Assistance to MinnesotaCare as their parents' income increases. The Governor would repeal this additional coverage, meaning 20,000 children would lose their health insurance.
- Policymakers also approved a significant investment in outreach grants to ensure that people who are eligible for public health care programs actually get enrolled. The Governor would eliminate this outreach program, meaning an estimated 10,000 people will go uninsured.
- Eligibility for MinnesotaCare for adults without children was expanded from 200% of the federal poverty guidelines (FPG) to 215% of FPG. The Governor repeals this expansion, leaving an estimated 990 adults without health insurance.

The House and Senate do not adopt these provisions, leaving the state's public health insurance programs intact.

Individuals with disabilities lose access to services

The Governor, House and Senate proposals would all reduce services available to individuals with disabilities. One provision would freeze enrollment in the Minnesota Disability Health Options program, which offers expanded health services and improved care coordination. Another provision limits growth in two programs that enable people with disabilities to avoid institutionalization and remain in community settings. The Governor also includes cuts to employment services for people with disabilities in the economic development area of the budget. In an attempt to offset some of the negative impacts, all three proposals would provide some of these individuals with access to assistance in securing and paying for independent housing.

Stepping back from prevention efforts

Investing in the health and education of our children can prevent long-term harm and larger costs down the road. Unfortunately, the Governor's budget claims savings by repealing several early intervention initiatives that were passed in the 2007 Legislative Session.

- Eliminating an increase for Fetal Alcohol Syndrome Grants to provide prevention and intervention activities.
- Reducing the Minnesota Youth Tobacco Prevention Initiative, which provides grants to local communities.
- Eliminating an increase for the lead grant program, which provides lead assessment and cleanup services for qualified families.

The House and Senate do not adopt these provisions. The Senate does eliminate general fund support for Minnesota ENABL, a program that encourages teens to postpone sex until marriage.

Strengthening supports for low-income families

Although the Governor refinances all of the available TANF reserve funds to help solve the state's general fund deficit, both the House and Senate use some TANF funds to improve services for Minnesota's low-income families.

- The House and Senate would repeal a policy that prevents families on the Minnesota Family Investment Program (MFIP) who have a new baby from getting a grant increase, the so-called "family cap."
- The Senate would also provide additional funding to counties for work support grants to provide individuals with paid work opportunities.
- The Senate would provide grants to Community Action agencies to help repair or replace cars for low-income working families.

The House also includes a $619,000 increase in general fund support for food shelves. The demand at Minnesota food shelves has been increasing dramatically in recent years as families struggle with rising expenses. Second Harvest Heartland reports that the number of people served by their agencies has risen more than 45 percent since 2001.[3]

Unfortunately, not all the legislative proposals are steps forward for low-income families. The Senate transfers $9.2 million in unspent funds for the Basic Sliding Fee child care program into the general fund. These funds could be used to help reduce the number of families on the waiting list for child care assistance, currently estimated at 3,700.

The Senate also includes a 1.7 percent reduction to all grants in the Department of Human Services and the Department of Health. This cut would affect grant programs ranging from local public health programs to refugee services.

Reductions to health care providers

With Health and Human Services absorbing the majority of the spending reductions, significant cuts in funding to health care providers are unavoidable. The Governor's budget proposal includes a number of reductions to health care providers, including hospitals, pharmacists and counties. The Senate proposal also reduces or delays funding for counties, hospitals, pharmacists, nursing home facilities and other community-based service providers. The House plan would also reduce funding for hospitals, but it does provide nursing homes with a two percent cost of living increase in FY 2009.

E-12 Education

Small increases for K-12 classrooms

Historically, Minnesota has prioritized investment in education. This is the largest part of our budget, accounting for 40 percent of general fund spending. However, budget deficits and legislative actions have damaged the state's investment in education. After subtracting building debt and special education expenditures, inflation-adjusted school district revenue per student grew by 1.4 percent per year between 1984 and 2004.[4] During the 2007 Session, the legislature ultimately approved, and the Governor signed, a K-12 education bill that included a two percent increase in the first year of the biennium and a one percent increase in the second year in the basic formula for funding K-12 education, an increase that will be insufficient to keep up with inflation.

Figure 4. E-12 Education, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$7.0 million	-$22 million	-$34 million
Spending increases	$4.6 million	$45 million	$32 million
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	$0	$0	$0
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$0	$0	$0
Total (negative numbers reduce the deficit)	**-$2.4 million**	**$23 million**	**-$1.1 million**

In his FY 2008-09 supplemental budget, the Governor proposes a small cut of $2.4 million in total general fund expenditures for K-12 education. The House proposal, on the other hand, would increase total funding for K-12 education, including a one-time $51 per pupil funding increase to school districts. The House proposal would also allow school districts to transfer $51 per pupil from their capital reserve funds to their general operating budget, on a one-time basis. The House partially pays for this increase by freezing the Governor's "Q-Comp" initiative for one year.

Although the Senate proposal would slightly decrease overall funding for K-12 education, this hides some significant changes within the budget. Like the House, the Senate proposal would freeze the Governor's "Q-Comp" initiative.

But instead of one year, the Senate freezes funding for five years. The Senate proposal also includes an indirect funding increase for schools. Currently, the state subtracts from general education formula payments the revenues schools receive from the Permanent School Fund. The Senate would eliminate this subtraction, increasing the revenues going to schools by $29 million in FY 2009. The Senate proposal also includes cuts in funding for college preparatory opportunities such as Advance Placement/International Baccalaureate programs and Get Ready/Get Credit, areas that have generally seen large funding increases in recent years.

Higher Education

Colleges and universities targeted for budget cuts

Post-secondary education and training performs a critical function for a robust state economy: preparing and educating Minnesota's future workforce. Higher education institutions are also the place where students and professors investigate social problems, discover cures to diseases and develop new foods and crops.

The State of Minnesota invests in higher education by providing funding to the University of Minnesota system and Minnesota State Colleges and Universities (MnSCU), the state's system of community colleges, state universities and technical colleges. The state also provides financial aid to students at both public and private colleges who demonstrate need.

Figure 5. Higher Education, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$54 million	-$19 million	-$25 million
Spending increases	$2.1 million	$0	$2.0 million
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	$0	$0	$0
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$0	$0	$118,000
Total (negative numbers reduce the deficit)	**-$52 million**	**-$19 million**	**-$23 million**

The Governor, House and Senate all propose a 4 percent cut to the Office of Higher Education (OHE) operating budget. The OHE administers state and federal financial aid to postsecondary students, as well as other programs. There is currently a surplus in the state grant system due to some federal changes. All three proposals would reallocate the surplus within the state grant program.

The Governor's proposal includes significant cuts in funding to both MnSCU and the University of Minnesota – about $27 million a year each, beginning in FY 2009. The House and Senate propose significantly smaller reductions. The House cuts funding by $6.2 million each to MnSCU and the University of Minnesota beginning in FY 2009. The Senate cuts funding for the University of Minnesota by $5 million beginning in FY 2008, and $6.6 million for MnSCU beginning in FY 2009. The House and Senate also include limits on tuition increases, while the Governor does not.

The proposed cuts to MnSCU and the University of Minnesota system come at a time of skyrocketing tuition and stagnant state financial aid. For the first time in University of Minnesota history, annual tuition will likely top $10,000 for in-state students in the 2008-09 academic year.[5] Meanwhile, the average state financial aid grant amount has actually dropped 7% since 2000, after adjusting for inflation. Public college and universities have become less affordable in the 2000s, and these cuts could worsen this troubling trend.

Fund transfers would reduce resources for jobseekers

Economic Development

The state invests in a number of services intended to promote a strong state economy. The Governor, House and Senate proposals would impact everything from training for unemployed workers to technical assistance for businesses.

Figure 6. Economic Development, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$3.0 million	-$6.3 million	-$7.2 million
Spending increases	$12 million	$4.6 million	$3.3 million
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	-$10 million	-$22 million	-$15 million
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$0	$0	$0
Total (negative numbers reduce the deficit)	**-$1.3 million**	**-$24 million**	**-$19 million**

The 2007 State Legislature passed and the Governor signed into law an increase of about $11 million, or a 20 percent increase, in FY 2008-09 general fund appropriations for workforce development. The Governor's supplemental budget proposal would increase spending further by adding approximately $12 million in spending on various new economic development initiatives. However, he simultaneously proposes cuts to employment services for people with disabilities and to the operating budgets for several state agencies engaged in economic development activities. The House and Senate reject the vast majority of the Governor's new initiatives, adopting only a few items related to support for veterans and workforce development.[6]

Most of the changes in the House and Senate proposals involve transferring resources from other accounts to the general fund, including the Workforce Development Fund, the Workers Compensation Special Fund and a cancellation from the Jobs Skills Partnership. While it may help to reduce the state's general fund deficit, the use of these specialized resources – coupled with the refinancing of TANF funding – reduces the state's ability to help Minnesotans get and keep jobs in a struggling economy.

Environment and Energy

The 2007 State Legislature passed a number of important environmental initiatives into law, including a renewable energy standard and the Clean Water Legacy Act. The 2008 budget proposals would move backwards on some of these initiatives. The Governor includes reductions in areas including Clean Water Legacy, parks and recreation and various environmental protection programs. Although the House and Senate also include many of these cuts, they offset some of them by using funds from alternative revenue sources.

Figure 7. Environment and Energy, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$6.7 million	-$7.3 million	-$9.5 million
Spending increases	$800,000	$1.2 million	$803,000
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	-$6.0 million	-9.3 million	-$31 million
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$21 million	$12 million	$21 million
Total (negative numbers reduce the deficit)	**-$33 million**	**-$27 million**	**-$61 million**

A significant portion of the savings in this budget area is because the Governor and Senate bills include a $21 million increase in revenues by lifting a cap on mutual fund registration fees. The House bill also includes a variation of this provision that raises just $12 million.

Transportation

The 2008 Legislature passed a comprehensive transportation bill earlier in the session, successfully overriding the Governor's veto to make it law. Therefore, the House and Senate budget proposals include few transportation provisions. The Governor's proposal, however, includes significant funding reductions to Metropolitan Council transit funding equal to the amount that is expected to be raised through the new local sales tax in the comprehensive transportation bill.

Figure 8. Transportation, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$32 million	-$200,000	-$353,000
Spending increases	$0	$0	$0
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	$0	$0	-$6.0 million
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$0	$0	$10 million
Total (negative numbers reduce the deficit)	**-$32 million**	**-$200,000**	**-$17 million**

Agriculture, Veterans and Military Affairs

The Governor's proposal includes significant new funding for responding to bovine tuberculosis (this funding is now moving in a separate bill, HF 4075), as well as $6.2 million in additional funding for military and veterans affairs programs. The House and Senate also propose additional funding for bovine tuberculosis and some military and veterans affairs programs. However, their increases in veterans programs are offset by utilizing a surplus in another area, resulting in a net reduction in general fund dollars for veterans and military affairs.

Figure 9. Agriculture, Veterans and Military Affairs, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$102,000	-$12 million	-$11 million
Spending increases	$6.2 million	$11 million	$5.5 million
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	$0	$0	$0
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	-$100,000	$0	-$100,000
Total (negative numbers reduce the deficit)	**$6.2 million**	**-$1.2 million**	**-$5.6 million**

Public Safety and Judiciary

Minnesota's understaffed courts could lose more employees

The Governor, House and Senate all propose across the board reductions to the courts, public defense and civil legal services, although the Governor's reductions of $12 million are significantly higher than the House ($5.2 million) and Senate ($5.8 million). The Minnesota court system is already understaffed and struggling to keep up with caseloads. The Governor's 4 percent cut to the courts could result in the loss of an additional 220 positions.[7]

The Governor also cuts funding for crime victim services, which includes grants to aid victims of crimes such as child abuse, sexual abuse and domestic violence. The Senate includes a general reduction to Office of Justice grants, which includes crime victim services. The House makes specific reductions to Office of Justice programs, but does not include crime victim services.

Figure 10. Public Safety and Judiciary, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$17 million	-$9.4 million	-$16 million
Spending increases	$410,000	$385,000	$410,000
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	$0	-$2,000	-$2,000
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$0	$0	$1.2 million
Total (negative numbers reduce the deficit)	**-$16 million**	**-$11 million**	**-$19 million**

State Government

The Governor, House and Senate propose across the board reductions to the operating budgets for the Legislature, constitutional offices, Department of Administration, Office of Enterprise Technology, Department of Finance, Department of Employee Relations and Department of Revenue, with the Governor usually recommending slightly larger reductions.

The Senate achieves more savings in this area by proposing to eliminate assistant commissioner positions and reduce the number of deputy commissioner positions throughout state agencies, for a savings of $3.7 million. The Senate also directs the Commissioner of Finance to achieve $5 million in savings by reducing expenditures for professional and technical contracts.

The Governor and House include $14 million as a guarantee for the Republican National Convention. This budget item is expected to be revenue neutral since the state will be reimbursed. The Senate does not include the guarantee in their proposal.

Figure 11. State Government, FY 2008-09 (General Fund Only)

	Governor	House	Senate
Spending changes (negative numbers reduce the deficit)			
Spending reductions	-$13 million	-$5.7 million	-$17 million
Spending increases	$545,000	$2.7 million	$4.4 million
Reserves and other one-time resources (negative numbers reduce the deficit)			
Transfers from other accounts to GF	$0	-$2.0 million	-$5.0 million
Revenue changes (positive numbers reduce the deficit)			
Revenues in other budget areas	$10,000	$17 million	$29 million
Total (negative numbers reduce the deficit)	**-$23 million**	**-$22 million**	**-$47 million**

In order to raise some additional revenue, the House and Senate include more money to hire additional audit staff at the Department of Revenue. This is anticipated to generate additional revenues by improving tax compliance. The Senate assumes that each additional dollar spent on tax compliance efforts will generate four dollars in revenue (raising $16 million), while the House assumes each dollar will generate three additional dollars (raising $6.7 million). All three proposals also include an effort to match the names of tax debtors to their accounts at financial institutions, allowing the state to increase revenue collections by $10 million per year.

The challenge before us

As policymakers seek to resolve the state's deficit for the current biennium, it is too easy to lose sight of the deficit that awaits us in the next biennium. However, the choices made this year – such as using significant amounts of one-time resources and avoiding any broad-based revenue increases – will mean legislators and the Governor will face even greater challenges in balancing the state's budget when they return next January.

Except where otherwise noted, the analysis in this report is based on data from budget documents prepared by the Minnesota Department of Finance and legislative research and fiscal analysis. Special thanks to the Affirmative Options Coalition, Legal Services Advocacy Project and Child Care WORKS for their helpful contributions to this report.

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[1] For more information on the February Forecast, refer to our analysis, *Revenue Shortfalls Mean Minnesota Faces Long-Term Budget Deficits*, www.mncn.org/bp/deficits08.pdf.

[2] The Cash Flow Account is intended to provide financial stability by ensuring there are resources to address short-term cash flow issues over the course of the year.

[3] "Free food, long line – a sign of the times," *St. Paul Pioneer Press*, May 1, 2008.

[4] House Fiscal Analysis Department, *School District Revenue History*, www.house.leg.state.mn.us/fiscal/files/06edrevhist.pdf.

[5] "University of Minnesota annual tuition on pace to top $10,000 in 2008-09," *St. Paul Pioneer Press*, January 28, 3008.

[6] Some significant economic development provisions – such as the Governor's JOBZ program – are included in the tax bill, and so are not discussed here.

[7] "Courting disaster: Courts feel budget pinch," *Minnesota Public Radio*, April 13, 2008.