Punting the problem: 2008 Legislative Session ends with a short-term solution

In the 2008 Legislative Session, policymakers were faced with the challenge of solving a projected $935 million deficit for the FY 2008-09 biennium and a $1.1 billion deficit for the FY 2010-11 biennium ($2.1 billion when the costs of inflation are included). Unfortunately, the final agreement between the Legislature and the Governor focused on some short-sighted solutions.

- Policymakers relied on budget reserves and other one-time revenues to solve nearly 60 percent of the deficit in the FY 2008-09 biennium, leaving fewer resources available to solve future deficits.
- The heavy reliance on short-term solutions also means policymakers did little to solve future deficits – the final agreement still left a $946 million deficit for the FY 2010-11 biennium (before including the cost pressures of inflation).
- Health and human services was reduced by $230 million, or 21 percent of the final budget-balancing agreement, leaving fewer resources to help Minnesota's most vulnerable weather the current recession.

This report takes a close look at the outcomes of the 2008 Legislative Session, focusing on how policymakers relied heavily on one-time resources to solve the deficit, as well as the impact on individual areas of the state's budget.

2008 Legislative Session began with a stormy forecast

$935 million deficit for the 2008 Legislative Session... and more in the future

The release of the February Forecast early in the 2008 Legislative Session showed what many already expected: Minnesota's economy had taken a turn for the worse. **The state's revenue collections had declined, resulting in a budget deficit of $935 million for the current FY 2008-09 biennium, or about three percent of the state's biennial budget.** And the future promised even greater challenges with a $2.1 billion deficit projected for the FY 2010-11 biennium (when the costs of inflation are included).[1]

Several circumstances made fixing this deficit particularly challenging.

- Policymakers only had a limited amount of time in which to resolve the deficit. The state constitution requires that our budget be balanced by the end of the biennium on June 30, 2009. The first year of the biennium – FY 2008 – would be nearly complete by the time the legislative session ended. Therefore, policymakers had to resolve the $935 million deficit in a single fiscal year (FY 2009) instead of softening the impact of any spending reductions by spreading them over a two-year biennium.
- During times of deficit, policymakers have three potential tools for bringing the budget back into balance: using budget reserves or other one-time measures, reducing spending and raising revenues. Governor Tim Pawlenty, however, has consistently taken the third option – raising revenues – off the table. This forces policymakers to rely more heavily on spending cuts and budget reserves.
- In addition, the Governor promised to avoid cuts to certain large areas of the budget – like K-12 classroom funding and aids to local governments – leaving a much smaller portion of the budget to absorb the spending reductions.

After years of budget deficits and severe limits on any broad-based revenue increases, policymakers have been 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.

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

	Governor	House	Senate	Final*
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$266 million	-$165 million	-$214 million	-$168 million
Spending increases	$64 million	$133 million	$110 million	$133 million
Refinancing TANF & HCAF	-$139 million	-$49 million	-$42 million	-$80 million
Reserves and other one-time resources (negative numbers reduce the deficit)				
Transfers from other accounts to GF	-$270 million	-$44 million	-$82 million	-$131 million
Budget reserve	-$250 million	-$250 million	-$104 million	-$500 million
Cash flow account	$0	-$350 million	-$350 million	$0
Revenue changes (positive numbers reduce the deficit)				
Revenues in tax bills	$45 million	$196 million	$150 million	$141 million
Revenues in other budget areas	$31 million	$29 million	$98 million	$53 million
Total (negative numbers reduce the deficit)	-$939 million	-$948 million	-$931 million	-$940 million

* The figures in this table include the fiscal impact of the Omnibus Supplemental Budget Bill (HF 1812), as well as other bills such as the I-35W victims compensation legislation, both bonding bills and the health care reform bill.

2008 Legislative Session ends with a large deficit still on the horizon

Final solution relies heavily on using reserves and other one-time resources

The Governor released his supplemental budget proposal in early March 2008, outlining a way to solve the shortfall for the FY 2008-09 biennium. The House and Senate passed their own solutions for solving the budget deficit by the beginning of April. Despite this early legislative action, the Governor and legislators did not agree upon a final budget until the closing minutes of the session on May 18.

The proposals on the table during the 2008 Legislative Session 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 relied more heavily on spending reductions (41 percent of the solution), 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 relied less on spending reductions (20 percent and 25 percent, respectively), focusing instead on other available tools – revenue increases and use of one-time resources (see Figure 2).

The final agreement closed the $935 million deficit for the FY 2008-09 biennium by drawing on reserves and one-time resources for more than half the solution (59 percent). The final level of spending reductions was closer to the House and Senate proposals, accounting for 23 percent of the solution.

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

	Governor	House	Senate	Final*
Reserves and one-time resources	52%	60%	51%	59%
Spending reductions	41%	20%	25%	23%
Revenue increases	7%	24%	24%	18%

* The figures in this table include the fiscal impact of the Omnibus Supplemental Budget Bill (HF 1812), as well as other bills such as the I-35W victims compensation legislation, both bonding bills and the health care reform bill.

2008 Session ends with $946 million deficit left for FY 2010-11

Turning to reserves and one-time resources as a major portion of the budget-balancing solution allowed legislators to avoid more severe spending reductions in the FY 2008-09 biennium. However, it guaranteed that the state would face a significant budget deficit in the 2009 Legislative Session with fewer resources to address the problem. **The final agreement only reduced the FY 2010-11 deficit by $140 million, leaving next biennium's deficit at $946 million at the end of the 2008 Legislative Session.**

Figure 3. Net Impact of the Omnibus Supplemental Budget Bill, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812*
Health and Human Services	-$526 million	-$131 million	-$147 million	-$230 million
E-12 Education	-$2.4 million	$23 million	-$1.1 million	$26 million
Higher Education	-$52 million	-$19 million	-$23 million	-$22 million
Economic Development	-$1.3 million	-$24 million	-$19 million	-$14 million
Environment, Energy and Commerce	-$33 million	-$27 million	-$61 million	-$48 million
Transportation	-$32 million	-$200,000	-$17 million	-$21 million
Agriculture, Veterans and Military Affairs	$6.2 million	-$1.2 million	-$5.6 million	-$4.6 million
Public Safety and Judiciary	-$16 million	-$11 million	-$19 million	-$13 million
State Government	-$23 million	-$22 million	-$47 million	-$33 million
Budget Reserves, Cash Flow Account	-$250 million	-$600 million	-$454 million	-$500 million
Total (negative numbers reduce the deficit)	-$930 million	-$813 million	-$792 million	-$860 million

*This column only includes budget changes made in HF 1812, the Omnibus Supplemental Budget Bill.

Use of one-time resources delays tough choices until 2009 Legislative Session

Budget reserves cut in half to cover the shortfall

The most significant short-coming of the 2008 Legislative Session was the heavy reliance on one-time resources to solve the budget deficit, doing little to solve the state's long-term fiscal problems. The legislature and Governor all proposed utilizing important one-time resources – including the budget reserve, Cash Flow Account, Health Care Access Fund and Temporary Assistance for Needy Families dollars – to resolve a significant portion of the budget deficit.

Policymakers have worked to rebuild the state's budget reserves after they were depleted back in the 2003 Legislative Session. At the beginning of the 2008 Legislative Session, the state had $653 million in the budget reserve and an additional $350 million in the Cash Flow Account.[2] Together, this added up to just over $1 billion in reserves, or about three percent of the state's general fund biennial budget. This fully funded our state budget reserves under current law, although the State's Council of Economic Advisors recommends a reserve level of five percent of the state's general fund biennial budget.

A healthy level of reserves allows policymakers 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 appropriately be used to help bridge the gap when implementing a long-term solution to a budget crisis.

Unfortunately, the Governor, House and Senate use the state's reserves simply to delay finding a real solution to our long-term budget troubles. **The final agreement utilized $500 million from the state's budget reserve, leaving just $153 million in the budget reserve and $350 million in the Cash Flow Account.**

$50 million "loan" from the Health Care Access Fund

Another source of one-time resources used to balance the budget in 2008 was the state's Health Care Access Fund (HCAF), which is an account funded through health care provider taxes and premiums paid by MinnesotaCare enrollees. Created in 1992, the HCAF funds low-cost health insurance for working Minnesotans, so use of these dollars for other purposes is controversial. However, the HCAF is a popular place to look for additional resources whenever the state faces a budget deficit.

Governor's supplemental budget proposed transferring $250 million outright from the HCAF to the general fund to help solve the budget deficit. The Governor's budget would have also drawn additional money out of that fund by paying for a transitional health insurance program using funds from the HCAF instead of using general fund dollars (this is called "refinancing"). In total, the Governor would have used $399 million over the next three years from the HCAF to resolve the budget deficit.

The House and Senate proposals would not have used any HCAF resources to address the budget deficit for the FY 2008-09 biennium.

The final agreement included a $50 million "loan" from the HCAF. The money will be repaid to the HCAF if separately enacted health care reforms result in general fund savings.

Resources redirected away from helping low-income families

Temporary Assistance for Needy Families (TANF) is a federal block grant to states that provides resources to help move families from poverty to self-sufficiency. The Governor originally proposed using all $92 million in funds available in the TANF account to help solve the budget deficit, leaving no additional resources to aid low-income families during the economic downturn.

The final agreement utilized close to $80 million in Temporary Assistance for Needy Families (TANF) dollars to balance the budget – which is more than the $42 million in the Senate proposal and $49 million in the House proposal.

Positive balances in other funds transferred to general fund

The Governor, House and Senate all proposed transferring one-time money from other special funds to help solve the budget deficit. The Governor proposed transfers from special funds totaling $20 million, the House transferred $44 million and the Senate transferred $82 million. Some of the largest additional transfers proposed included:

- $25 million from the Workers' Compensation Assigned Risk Plan (proposed by the Senate). This fund 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).

The final agreement included $131 million in transfers from other funds, including:

- $10 million from the Worker's Compensation Assigned Risk Plan.
- $15 million from the State Airport Fund.

Reductions to health and human services total 21 percent of the budget balancing solution

Health and human services is the second largest area of the state's general fund budget, accounting for 28 percent of the total. As a result, it is frequently targeted for cuts during times of deficit. Unfortunately, these cuts mean fewer services to help the elderly, children, people with disabilities and low-income working families during an economic downturn when these populations are most likely to need assistance.

The 2008 Legislative Session was no exception. Including the transfer of funds from the Health Care Access Fund and refinancing TANF resources, the Governor's supplemental budget targeted health and human services for 53 percent of his solution for balancing the budget.

The House and Senate proposals avoided many of the Governor's more significant reductions to this budget area. Nonetheless, health and human services still accounted for 19 percent of the Senate's budget-balancing solution and 14 percent of the House's plan.

The final agreement reduced spending in health and human services by $87 million and used another $151 million in transfers, reserves and refinancing to help balance the budget (see Figure 4). As a result, this area of the budget alone contributed 21 percent of the solution to the budget deficit.

Individuals with disabilities lose access to services

The final agreement reduced services available to individuals with disabilities. One provision froze enrollment in the Minnesota Disability Health Options program, which offers expanded health services and improved care coordination for persons with disabilities. Another provision limited growth in two programs that enable people with disabilities to avoid institutionalization and remain in community settings. Reductions in state funding in this area means Minnesota will lose matching funds from the federal government.

In an attempt to offset some of the negative impacts, the agreement provided some of these individuals with access to assistance in securing and paying for independent housing.

Figure 4. Health and Human Services, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812*
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$136 million	-$88 million	-$87 million	-$87 million
Spending increases	$2.0 million	$8.9 million	$22,000	$8.4 million
Refinancing	-$139 million	-$49 million	-$42 million	-$80 million
Reserves and other one-time resources (negative numbers reduce the deficit)				
Transfers from other accounts to GF	-$253 million	-$2.7 million	-$18 million	-$71 million
Revenue changes (positive numbers reduce the deficit)				
Revenues	$0	$0	$0	$0
Total (negative numbers reduce the deficit)	-$526 million	-$131 million	-$147 million	-$230 million

*This column only includes budget changes made in HF 1812, the Omnibus Supplemental Budget Bill.

Holding the line on prevention efforts

The final agreement avoided some of the Governor's proposals to repeal early intervention initiatives, such as Fetal Alcohol Syndrome grants, the Minnesota Youth Tobacco Prevention Initiative and lead assessment and cleanup. However, the final agreement eliminated the MN ENABLE program, which encourages teens to postpone sex until marriage.

Strengthening supports for low-income families

The House and Senate both proposed using some of the available TANF funds to improve services for Minnesota's low-income families. Recommendations included repealing the "family cap" policy that denies a family additional cash benefits if they have a child while on assistance, providing additional funding to counties for supported work opportunities, and grants to Community Action agencies to help repair or replace cars for low-income working families.

The legislature and Governor agreed to refinance close to $80 million of the $92 million TANF balance, leaving few additional funds to help low-income families during the current economic downturn. However, the final agreement did include $14 million over two years for paid supported work experiences for families participating in the Minnesota Family Investment Program.

The final agreement also includes some additional funds for the state's food shelf programs and long-term homelessness supportive services (about $500,000 for each program).

Some steps backwards for low-income families and health care providers

Not all of the provisions agreed to by the Governor, House and Senate are steps forward for low-income families. The final agreement transfers $9.2 million in unspent funds for the Basic Sliding Fee child care program into the general fund. These funds could have been used to help reduce the waiting list for child care assistance, estimated at nearly 5,800 families by the Department of Human Services in August 2008.

With health and human services absorbing the majority of the spending reductions, significant cuts in funding to health care providers were inevitable. The final agreement included significant cuts to hospitals, although at the last minute a small cost of living increase was added for nursing home workers.

The final agreement also implemented a Senate proposal to reduce all state-funded grant programs operated by the Department of Health and the Department of Human Services by 1.8 percent. The cut affects grants ranging from local public health programs to refugee services. Mental health services for children and adults are exempted.

E-12 education budget gets one-time increase for classrooms

Small increases for K-12 classrooms

Funding for E-12 education makes up the largest part of our general fund budget, accounting for 40 percent of spending. Over the last two decades, however, investment in E-12 education has been fairly flat. Funding approved during the 2007 Legislative Session was insufficient to keep up with inflation.

In 2008, the final agreement implemented a one-time $51 per pupil funding increase to school districts in FY 2009. The increase is partially paid for by limiting growth in the Governor's "Q-Comp" initiative for two years.

Figure 5. E-12 Education, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$7.0 million	-$22 million	-$34 million	-$20 million
Spending increases	$4.6 million	$45 million	$32 million	$46 million
Reserves and other one-time resources (negative numbers reduce the deficit)				
Transfers from other accounts to GF	$0	$0	$0	$0
Revenue changes (positive numbers reduce the deficit)				
Revenues	$0	$0	$0	$0
Total (negative numbers reduce the deficit)	**-$2.4 million**	**$23 million**	**-$1.1 million**	**$26 million**

The final agreement 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 final agreement eliminates this subtraction beginning in FY 2010, increasing funding to schools by $29 million in the first year. Other K-12 education programs that received a boost in funding include the Kindergarten milk program and health and development screening.

Higher education institutions experience budget cuts and caps on tuition

Public colleges and universities targeted for budget cuts

Post-secondary education and training performs a critical function in sustaining a robust state economy: preparing and educating Minnesota's future workforce. 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.

The final budget agreement cut total general fund dollars to higher education by $22 million for FY 2008-09. This is a slightly smaller reduction than proposed by the Governor, but higher than the level of cuts initially proposed by the House and Senate.

The bill also prohibits the MnSCU and University of Minnesota systems from passing on the cuts in the form of new tuition increases. MnSCU is limited to increases of no more than two percent at colleges and three percent at universities. Both systems have publicly promised that they will absorb the cuts without additional tuition increases beyond those already planned.

Figure 6. Higher Education, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$54 million	-$19 million	-$25 million	-$22 million
Spending increases	$2.1 million	$0	$2.0 million	$720,000
Reserves and other one-time resources (negative numbers reduce the deficit)				
Transfers from other accounts to GF	$0	$0	-$118,000	-$118,000
Revenue changes (positive numbers reduce the deficit)				
Revenues	$0	$0	$0	$0
Total (negative numbers reduce the deficit)	**-$52 million**	**-$19 million**	**-$23 million**	**-$22 million**

The 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 topped $10,000 for in-state students in the 2008-09 academic year.[3] Meanwhile, the average state financial aid grant amount has dropped seven percent since 2000, after adjusting for inflation.[4]

The final agreement also cuts the Office of Higher Education (OHE) operating budget by four percent. The OHE administers state and federal financial aid to postsecondary students, as well as other programs.

Economic development special accounts tapped for one-time resources

Fund transfers would reduce resources for jobseekers

The state invests in a number of services intended to promote a strong state economy. During the 2007 Legislative Session, policymakers agreed on a 20 percent increase in FY 2008-09 general fund appropriations for workforce development. The Governor's supplemental budget proposal would have increased spending further by adding approximately $12 million in spending on various new economic development initiatives. However, he simultaneously proposed cuts to employment services for people with disabilities and to the operating budgets for several state agencies engaged in economic development activities, resulting in a net reduction in this area.

Figure 7. Economic Development, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$392,000	-$677,000	-$2.1 million	-$862,000
Spending increases	$12 million	$4.7 million	$3.3 million	$3.0 million
Reserves and other one-time resources (negative numbers reduce the deficit)				
Transfers from other accounts to GF	-$13 million	-$28 million	-$20 million	-$16 million
Revenue changes (positive numbers reduce the deficit)				
Revenues	$0	$0	$0	$0
Total (negative numbers reduce the deficit)	**-$1.3 million**	**-$24 million**	**-$19 million**	**-$14 million**

The final agreement rejected the vast majority of the Governor's new initiatives, adopting only a few items related to support for veterans and workforce development.[5]

Instead, most of the changes in this budget area involved transferring resources to the general fund, including money from the Workforce Development Fund and 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 programs reduced through cuts and transfers

The 2007 Legislature passed a number of important environmental initiatives into law, including a renewable energy standard and the Clean Water Legacy Act to preserve Minnesota's waters. The Governor's 2008 supplemental budget proposal would have cut funding for Clean Water Legacy, parks and recreation, and various environmental protection programs. Although the House and Senate also included many of these cuts, they offset some of them by substituting funds from alternative revenue sources.

The final agreement reduces general fund resources for environmental and energy programs by $27 million for FY 2008-09. Reductions to programs include a $230,000 one-time cut to the Clean Water Legacy initiative and staff reductions in several agencies. On the spending side, the legislature allocates $200,000 to the Como Zoo to help cover the funding gap left by the Governor's line-item veto of their 2008 bonding bill appropriation.

Figure 8. Environment, Energy and Commerce, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$6.7 million	-$7.3 million	-$9.5 million	-$8.5 million
Spending increases	$800,000	$1.2 million	$803,000	$1.4 million
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	-$20 million
Revenue changes (positive numbers reduce the deficit)				
Revenues	$21 million	$12 million	$21 million	$21 million
Total (negative numbers reduce the deficit)	**-$33 million**	**-$27 million**	**-$61 million**	**-$48 million**

The final agreement also raised close to $21 million in revenues through the

Commerce Department by repealing a cap on securities registration fees collected from mutual funds.

Veterans' services get an increase in funding

The Governor's initial budget proposal included $6.2 million in additional funding for military and veterans affairs programs, as well as significant new funding for responding to bovine tuberculosis (this issue was eventually resolved in a separate bill).

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

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$102,000	-$12 million	-$11 million	-$11 million
Spending increases	$6.2 million	$11 million	$5.5 million	$5.8 million
Reserves and other one-time resources (negative numbers reduce the deficit)				
Transfers from other accounts to GF	$0	$0	$0	$0
Revenue changes (positive numbers reduce the deficit)				
Revenues	-$100,000	$0	-$100,000	-$100,000
Total (negative numbers reduce the deficit)	**$6.2 million**	**-$1.2 million**	**-$5.6 million**	**-$4.6 million**

The final agreement includes additional resources for veterans programs, including emergency cash assistance, grants to counties for veterans' services officers, assistance for homeless veterans, community-based casework services and educational benefits.

Transportation funding largely untouched in final budget bill

The 2008 Legislature passed a comprehensive transportation bill earlier in the session, successfully overriding the Governor's veto to make it law. Therefore, the final budget agreement included few provisions that impacted general fund spending on transportation; the most significant provision was a $21 million transfer from the rail service improvement account and the state airports fund to the general fund to help reduce the budget deficit.

Figure 10. Transportation, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$32 million	-$200,000	-$353,000	-$255,000
Spending increases	$0	$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	-$21 million
Revenue changes (positive numbers reduce the deficit)				
Revenues	$0	$0	$10 million	$0
Total (negative numbers reduce the deficit)	**-$32 million**	**-$200,000**	**-$17 million**	**-$21 million**

Across-the-board reductions for most areas of public safety and judiciary

The final budget agreement reduces FY 2009 general fund appropriations for public safety by just over $13 million. This includes across-the-board reductions to the courts, public defenders and civil legal services, with an average cut of one percent.

Figure 11. Public Safety and Judiciary, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$17 million	-$9.4 million	-$16 million	-$11 million
Spending increases	$410,000	$410,000	$410,000	$410,000
Reserves and other one-time resources (negative numbers reduce the deficit)				
Transfers from other accounts to GF	$0	-$2 million	-$2 million	$2 million
Revenue changes (positive numbers reduce the deficit)				
Revenues	$0	$25,000	$1.2 million	$1.2 million
Total (negative numbers reduce the deficit)	-$16 million	-$11 million	-$19 million	-$13 million

Minnesota's understaffed courts could lose more employees

These reductions come as the courts were already struggling to keep up with caseloads with the previous level of funding. The Minnesota Board of Public Defense, which provides legal representation to people who cannot afford a lawyer, has a $4.7 million deficit and cannot fill 19 vacant attorney positions. With $1.3 million in new cuts, they now face additional staff cutbacks.

CrimNET, the state-level program that provides criminal justice records to state and local officials, was also cut, along with community services corrections programs.

State government budget raises more than $30 million through tax compliance initiatives

The final budget agreement includes across-the-board reductions ranging between three and four percent to the operating budgets for the legislature, constitutional officers, Department of Administration, Department of Finance and Department of Revenue. The Department of Employee Relations was eliminated as of June 30, 2008, and its responsibilities transferred to the Department of Finance. The combined departments are now known as Minnesota Management and Budget.

Figure 12. State Government, FY 2008-09 (General Fund Only)

	Governor	House	Senate	HF 1812
Spending changes (negative numbers reduce the deficit)				
Spending reductions	-$13 million	-$5.7 million	-$17 million	-$8.5 million
Spending increases	$545,000	$2.7 million	$4.4 million	$7.4 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	-$1.0 million
Revenue changes (positive numbers reduce the deficit)				
Revenues	$10,000	$17 million	$29 million	$31 million
Total (negative numbers reduce the deficit)	-$23 million	-$22 million	-$47 million	-$33 million

In order to raise some new money, the final agreement hires additional staff at the Department of Revenue to improve tax compliance. These activities are anticipated to generate nearly $24 million in revenues for FY 2009. The final bill also includes an effort to match the names of tax debtors to their accounts at financial institutions, allowing the state to increase revenue collections by an estimated $10 million per year.

The final agreement also includes a Senate proposal to achieve some savings by reducing expenditures for professional and technical contracts.

Tough decisions of the 2008 Legislative Session now overshadowed by ballooning deficits

Short-sighted solutions are costing Minnesota in the long-term

The state's most recent economic forecast, released in November 2008, highlights the serious consequences that can come of short-term budget solutions. After the 2008 Legislative Session solved the initial $935 million deficit for FY 2008-09, the 2008 November Forecast revealed that the state now faces an additional $426 million deficit for FY 2008-09. In addition, the FY 2010-11 deficit has grown from $946 million at the end of the 2008 Legislative Session to $4.8 billion, $5.5 billion when inflation is included.

The choices made during the 2008 Legislative Session – such as using significant amounts of one-time resources, avoiding any broad-based revenue increases and taking virtually no action to reduce the FY 2010-11 deficit – means legislators and the Governor face enormous challenges in balancing the state's budget in 2009.

This pattern of short-term solutions to long-term problems ensures returning deficits. Our state's future rests on whether our leaders can begin to work cooperatively to find solutions that end the cycle of deficits, while at the same time overcoming the growing disparities in our communities and ensuring that we are investing in the human and physical infrastructure that we need to prosper in a changing world.

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 staff. Special thanks to the Affirmative Options Coalition, Legal Services Advocacy Project and Child Care WORKS for their helpful contributions to early drafts of 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] "University of Minnesota annual tuition on pace to top $10,000 in 2008-09," *St. Paul Pioneer Press*, January 28, 3008.
[4] Minnesota Budget Project, *The Lost Decade: Taking a closer look at Minnesota's public investments in the 2000s*, December 2008.
[5] Some significant economic development provisions – such as the Governor's JOBZ program – are included in the tax bill, and so are not discussed here.