

Surprise Resolution to Legislative Session Leaves Long-term Deficits

Governor Pawlenty turns to unallotment to balance budget

Current budget deficit is resolved, but more problems loom in the future

The 2009 Legislative Session ended in May with the job only partially done. Legislators and the Governor spent the session attempting to negotiate a solution to a \$4.6 billion state budget deficit for the FY 2010-11 biennium. As the legislature reached the constitutionally prescribed adjournment date on May 18, a \$2.7 billion deficit still remained. After the session concluded with no negotiated agreement, the Governor exerted his authority to unilaterally “unallot” spending to resolve the remaining deficit and bring the budget into balance.

In the end, the FY 2010-11 budget deficit was resolved using a combination of spending reductions and one-time budget-balancing measures. Broad-based revenue increases were rejected by the Governor. The decision to rely heavily on one-time measures to fix the current deficit will have long-term implications as Minnesota is facing persistent budget deficits. Back in February, the state’s economic forecast not only predicted a deficit for the FY 2010-11 biennium, but also another \$5.1 billion deficit for FY 2012-13.

The actions by the legislature and Governor only reduced the deficit in the FY 2012-13 deficit to about \$3.1 billion. And that deficit could increase substantially, depending on a number of factors:

- If delayed payments to school districts are repaid, the deficit would increase by up to \$1.8 billion.
- If General Assistance Medical Care is restored, a public health care program for very low-income adults without children, the deficit would increase by up to \$890 million.
- If the impact of inflation is taken into account, the deficit would increase by \$1.4 billion.
- If the economy does not improve as was forecasted back in February, the deficit could increase by an unknown amount.

When the state’s next economic forecast is released – likely in early December – Minnesota could easily find itself facing another huge budget deficit for FY 2012-13 and may also see an additional deficit open up for the current biennium, FY 2010-11. Policymakers, however, will have fewer resources to solve future deficits, especially since there is unlikely to be any additional federal assistance forthcoming.

As policymakers consider their future budget-balancing options, it is important to understand the impact of decisions from this session. This analysis begins with a brief overview of the major elements of the solution to the FY 2010-11 budget deficit, then goes into greater detail to explain the budget proposals from the Governor, House and Senate and the final decisions that were reached.

\$2.6 billion in federal stimulus funds help reduce Minnesota’s deficit

Federal stimulus bill lowered state’s budget deficit

When the state’s February Economic Forecast was released in early March, policymakers learned that state was facing a \$6.4 billion deficit for FY 2010-11 – equal to 17 percent of the state’s general fund budget. Congress, however, passed the American Recovery and Relief (ARRA) act in February which had an

*Governor's veto of
balanced budget left
\$2.7 billion deficit for
FY 2010-11*

important impact on the state's budget deficit. Minnesota automatically qualified for a portion of the federal stimulus dollars – approximately \$1.8 billion in increased Medicaid funds – reducing the size of the state's budget deficit to \$4.6 billion.

Minnesota was also eligible for an additional \$816 million in state "fiscal stabilization funds." About 80 percent of the funds were required to be used for K-12 and higher education. The rest of the funds, approximately \$149 million, were available for any purpose. The legislature and Governor agreed to use \$500 million for K-12 education, \$168 million for higher education (\$31 million of which backfilled a December 2008 unallotment to higher education), \$110 million for health and human services and \$38 million for public safety. These fiscal stabilization resources were largely used to replace state general fund spending. In other words, instead of providing additional resources for these areas, the federal funds helped to minimize spending cuts.

Governor signs budget bills, vetoes tax bill

Although the federal stimulus funding helped to reduce the state's budget deficit, there still remained a significant budget gap to fill. In the final days of the legislative session, the Governor signed omnibus budget bills that reduced the deficit by about \$1.5 billion. As described above, some of these cuts were backfilled with federal fiscal stabilization dollars. The net result for FY 2010-11 included:

- No net change in funding for E-12 education,
- \$63 million in cuts to higher education,
- \$537 million in cuts to health and human services,
- \$61 million in changes to public safety, including \$47 million in court-related fee increases, and
- \$42 million in changes to state government, including \$41 million in new revenues through increased tax compliance.

The Governor also made some line-item vetoes prior to passing the budget bills, including eliminating General Assistance Medical Care, for an additional \$381 million cut to health and human services.

The use of the federal stimulus dollars (about \$2.6 billion), the passage of all the omnibus budget bills (about \$700 million) and the impact of the Governor's line-item vetoes (about \$400 million) still left the state with a \$2.7 billion deficit for the FY 2010-11 biennium.

During the session, the House and Senate passed two separate omnibus tax bills that included revenue increases to help bring the state's budget into balance. One bill, which came in the final minutes of the session, would have resolved the remaining deficit largely by shifting state aid payments to schools and raising alcohol and income taxes. The Governor vetoed the bill, as he had the previous tax bill, leaving the state with the \$2.7 billion hole.

With a deficit remaining, Governor turns to unallotment

With the omnibus budget bills in place before the end of the legislative session, the state avoided the possibility of a government shutdown. However, the Governor's refusal to approve any major revenue increases not only left the state with an unbalanced budget at the end of the legislative session, it also significantly limited the legislature's ability to address the state's long-term deficit problems by taking off the table one of the most important budgeting tools.

*Governor's use of
unallotment
unprecedented*

Normally, if the legislative session ends with an unresolved deficit, the governor and legislature continue to work on a compromise. Once a compromise is reached, the governor would call a special session to allow the legislature to pass the negotiated solution.

Instead, this year the Governor surprised most people by asserting his unallotment authority. Unallotment refers to the power of the governor to reduce state spending in order to bring the state budget into balance. Although gubernatorial authority to unallot has been in place 70 years in Minnesota, there have been only five recorded uses of the power – two of them by Governor Pawlenty (in 2003 and 2008).

The Governor's decision to unallot after the close of the 2009 Legislative Session is his third use of the power, and is also a dramatic change from the traditional use of unallotment. In the past, governors have exercised the unallotment authority when an unexpected budget shortfall occurred, usually at least midway through the budget year. This is the first time a governor has used the unallotment power at the beginning of a biennium to balance the budget. It is also by far the largest amount ever unallotted.

The Governor announced the details of his \$2.7 billion unallotment plan in late June. The unallotment order, which took effect July 1, 2009, included mimicking a delay of payments to school districts (\$1.8 billion) and spending cuts in higher education (\$100 million), health and human services (\$210 million), aid to local governments (\$300 million), and the renters' credit (\$51 million).

The rest of this analysis provides a side-by-side comparison of the major budget proposals from the Governor, House and Senate, as well as the solutions that were ultimately approved.

Table of Contents

Health and Human Services...page 4

Public Safety...page 15

E-12 Education...page 18

Higher Education...page 20

Affordable Housing and Homelessness Prevention...page 24

Workforce Development...page 26

Tax and Aids to Local Governments...page 29

Health and Human Services

The Governor's budget proposal would have cut spending for health and human services by about \$2.2 billion for FY 2010-11 (including all funds). His budget proposal would have significantly impacted eligibility for public health care programs, services for people with disabilities, supports for low-income families participating in the Minnesota Family Investment Program (MFIP) and funding for health care and human service providers. One of the significant differences between the Governor's initial budget proposal and the revised budget he released in March was that many of his proposed reductions in health care were delayed until FY 2011 in order to meet the requirements of the federal stimulus package.

The House budget proposal, on the other hand, cut a much smaller \$407 million from health and human services for FY 2010-11. The House proposal did not include any cuts to eligibility, avoided cuts in health care benefits and actually would have increased access to health care coverage for 60,000 children. The House proposal, however, did adopt many of the Governor's reductions to services for people with disabilities, supports for low-income families on MFIP and funding for human service providers.

The Senate budget proposal would have reduced spending for health and human services by \$628 million in FY 2010-11. The Senate proposal avoided the Governor's cuts to health care benefits and eligibility and also protected, and in some cases expanded, supports for low-income families on MFIP. The Senate proposal also increased access for health care for more than 20,000 children. The Senate proposal, however, did include cuts to health care providers and services for persons with disabilities.

The final legislation passed by the House and Senate (and signed by the Governor) reduced spending for health and human services by \$491 million. The bill included cuts to most health care providers, including nursing homes, long-term care facilities, hospitals and specialty care providers. There were few changes to MFIP and child care benefits, but the cuts to services for people with disabilities were included. The final agreement also includes provisions to increase access for health care for thousands of children.

Although the Governor signed the health and human services bill, he used his line-item veto authority to eliminate funding for General Assistance Medical Care in the second year of the biennium, cutting an additional \$381 million from the budget. Furthermore, in June, the Governor announced his unallotment plan, which includes \$210 million in additional cuts to health and human service programs.

	Governor's Proposal	House Proposal	Senate Proposal	Final Legislation (including line-item vetoes and unallotments)
Health care for adults without children	The Governor proposed to eliminate eligibility for MinnesotaCare for adults without children, impacting about 60,000 people. The only childless adults who would still have been covered under public programs were the elderly, people with disabilities and a small group of people in extreme poverty (below 75 percent of federal poverty guidelines, or \$8,123 annually for a single individual).	No proposal.	No proposal.	Not adopted.
General Assistance Medical Care (GAMC)	The Governor proposed to restructure General Assistance Medical Care (GAMC) to cover only outpatient benefits. Inpatient services would not have been covered by GAMC; instead, hospitals would have sought reimbursement for their expenses from an uncompensated care pool. The pool would have been capped and the Minnesota Department of Human Services (DHS) acknowledges it would not have been sufficient to meet all the costs incurred by GAMC enrollees.	No proposal.	No proposal.	Not adopted in the final legislation. The Governor, however, used his line-item authority to eliminate funding for GAMC in the second year of the biennium. Between 31,000 and 35,000 very low-income Minnesotans are enrolled in the program in an average month. In addition to being very poor, GAMC enrollees are known to suffer significant health issues, including chronic illness, chemical dependency and mental health issues. The Governor's unallotment plan moves up the end of GAMC one and one-half months earlier to March 1, 2010.

Health insurance for parents	The Governor proposed to remove all parents from MinnesotaCare, the state's subsidized health insurance program for low- and moderate-income working families. This proposal would have left approximately 24,000 individuals without public health insurance coverage.	No proposal.	No proposal.	Not adopted.
Outreach incentives	The Governor proposed to eliminate funding for the outreach incentive program that ensures eligible parents and children are getting enrolled in public health care programs.	No proposal.	No proposal.	Not adopted in the final legislation. The Governor's unallotment plan, however, temporarily suspends the general fund appropriation for this program for a savings of \$7.6 million. Funding from the Health Care Access Fund is not impacted.
Health care services	The Governor proposed to eliminate coverage for the following services for adults on public health care programs: dental (except emergency services and services for pregnant women), chiropractic, podiatry, occupational therapy, speech-language therapy, physical therapy and audiology services. This proposal would have impacted 33,000 individuals.	No proposal.	No proposal.	Not adopted in the final legislation, although the bill does include a more limited dental benefit set for non-pregnant adults and more detailed guidelines for children's dental coverage.
MNCare premiums	The Governor proposed to maintain MinnesotaCare premiums at current levels rather than allowing a planned reduction to take effect.	No proposal.	No proposal.	Not adopted in the final legislation, so the planned reductions in premiums will take effect.

Transitional health care for children	The Governor proposed to repeal a reform that helps children transition seamlessly from Medical Assistance to MinnesotaCare as their family's income increases. This proposal would have resulted in more than 21,000 children losing access to public health care.	No proposal.	No proposal.	Not adopted.
Enrollment reforms	The Governor proposed to repeal certain reforms in the health care enrollment process, resulting in more than 1,000 children losing access to coverage.	No proposal.	No proposal.	Not adopted.
Health care coverage for children	No proposal.	The House proposal would have insured an additional 60,000 children by improving the process for applying for public health care programs. The changes would have qualified Minnesota for increased federal dollars under the Children's Health Insurance Program Reauthorization Act.	The Senate proposal would insure an additional 20,000 children by providing additional time to document eligibility for MinnesotaCare, allowing children above 275 percent of the federal poverty guidelines (FPG) to buy in to MinnesotaCare, providing automatic eligibility for children leaving foster care or a juvenile facility, eliminating premiums and other barriers for children with household income at or below 200 percent of FPG, and providing automatic renewal of MinnesotaCare for children.	The final legislation adopts Senate proposal, except for the provision allowing additional time to document eligibility for MinnesotaCare.

Funding for health care providers	<p>The Governor proposed reductions in state funding for most health and human service providers, including inpatient hospitals, mental health inpatient hospitals, basic care, transportation providers, pharmacies, nursing homes, disability services and other long-term care providers.</p>	<p>The House proposed reductions in state funding for inpatient hospitals, mental health inpatient hospitals, basic care, transportation providers, pharmacies, disability services and other long-term care providers. The House, however, exempted nursing homes and primary care services from rate reductions.</p>	<p>The Senate proposed reductions in state funding for most health and human service providers, including transportation providers, inpatient hospitals, pharmacies, specialist physicians, nursing homes, disability services and other long-term care providers. The Senate, however, exempted physicians, inpatient hospital services, mental health services, dental services and some other services from rate reductions.</p>	<p>The final legislation includes reductions in state funding for most health and human service providers, including long-term care facilities, hospitals and specialty care providers, although some providers are exempted from the rate reductions. Nursing homes will experience a delay in the evaluation of their payment rates, or “rebasing.” The Governor’s unallotment plan implements the delay in nursing facility rebasing a year earlier and further reduces fee-for-service payments for non-primary care and specialist services.</p>
Health Care Access Fund	<p>The Governor proposed to merge the Health Care Access Fund (HCAF) into the state’s general fund. The HCAF largely pays for MinnesotaCare, a subsidized public health care program for low- to moderate-income working Minnesotans. Funds for the HCAF are raised through health care provider taxes and premiums paid by MinnesotaCare enrollees. The proposal directed several hundred million dollars per year in provider taxes and health care premiums straight into the general fund.</p>	<p>No proposal.</p>	<p>No proposal.</p>	<p>Not adopted.</p>

Personal Care Assistance services	<p>The Governor proposed several negative modifications to Personal Care Assistance (PCA), which provides more than 14,000 Minnesotans with disabilities and over 4,000 seniors with in-home assistance. The changes included increasing the level of disability required in order to qualify for services, restricting the use of PCA services, instituting new provider standards and tighter requirements, and requiring those who receive PCA services to move in with the person designated to oversee those services. As a result, thousands of individuals who need assistance to manage the basics of life – such as dressing and feeding themselves – would have lost access to PCA services.</p>	<p>The House proposal also instituted new criteria to qualify for receiving PCA services, although the criteria were less stringent than the Governor’s proposal. As a result, 500 individuals would have been cut from services, rather than 2,100 under the Governor’s proposal. The proposal would also have reduced the PCA service hours available for thousands of current recipients.</p>	<p>The Senate proposed to phase in the Governor’s increase in the level of disability required to qualify for PCA services. The Senate also adopted the Governor’s proposal requiring those who receive PCA services to move in with the person designated to oversee those services. As a result, over 400 additional people would have lost PCA services, including some of Minnesota’s highest need adults and seniors.</p>	<p>The final legislation includes the Senate’s phase-in of tighter eligibility requirements for PCA services over the next biennium, cutting eligibility for over 500 persons in January 2010 and another 1,600 in July 2011. About \$8 million of the savings realized in FY 2012-13 is reserved for the development of alternatives for those who lose PCA services. The final legislation also includes the Governor’s proposal to change how PCA hours are provided, resulting in an average cut of two hours per day for over 7,000 PCA recipients. The Governor’s unallotment plan further cuts this program by reducing the number of hours a PCA can work in a month.</p>
Waivered services for people with disabilities	<p>The Governor proposed to cap the number of slots for waived services, impacting thousands of seniors and people with disabilities. These waivers – including Community Alternatives for Disabled Individuals (CADI), Developmental Disabilities (DD) and Traumatic Brain Injury (TBI) – allow people to access home-based Medicaid services instead of being moved into a more expensive and confining institutional setting.</p>	<p>Adopted Governor’s proposal.</p>	<p>Adopted Governor’s proposal.</p>	<p>Adopts Governor’s proposal.</p>

Group residential housing allowances	The Governor proposes to reduce the personal needs allowance for the elderly and persons with disabilities living in a group residential housing (GRH) situation. These are funds residents are allowed to use for discretionary spending, such as purchasing clothing. Some individuals will have their monthly allowance reduced 26 percent – from \$121 to \$89 per month.	Adopted Governor’s proposal.	Adopted Governor’s proposal.	The final legislation adopts the Governor’s proposal. The Governor’s unallotment plan makes additional changes to the GRH program by reducing the state’s supplementary service rate by five percent, impacting homeless shelters, board and lodge homes with special services, and housing for long-term homeless individuals and families.
Child care assistance	The Governor proposed a three percent reduction in the maximum rates paid to child care providers and a three percent increase in most parental copayments.	The House proposed using \$22 million in federal stimulus dollars to increase the reimbursement rate for child care providers by two percent and maintain parental copayments at current levels. In addition, the House would continue the School Readiness Connections pilot and reduce the waiting list for the Basic Sliding Fee child care program.	The Senate proposed using nearly \$23 million in federal stimulus dollars to pay for the increase in the Minnesota Family Investment Program (MFIP) childcare caseload.	The final legislation uses nearly \$9 million in federal stimulus dollars to reduce the waiting list for child care assistance and continue funding for the School Readiness Connections pilot. The compromise also uses nearly \$15 million in federal stimulus dollars to pay for the increase in the MFIP childcare caseload.

<p>Basic Sliding Fee unallocated funds and child care quality</p>	<p>Due to the difficulties of predicting child care usage through the year, some counties have not spent their entire Basic Sliding Fee (BSF) allocation at the end of the year. Typically, the state reallocates these child care funds to counties with waiting lists. The Governor, however, proposed using a portion of the \$5.2 million in unallocated BSF funds to continue the School Readiness Connections and ParentAware quality rating system pilot, with the remainder used to reduce the state's general fund budget deficit.</p>	<p>The House proposed using the \$5.2 million in unallocated BSF funds for several literacy programs. The House also proposed using federal stimulus funds targeted for child care quality improvement to continue the Family, Friend and Neighbor pilot program, the ParentAware quality rating system pilot, and to provide resources to providers to improve their quality.</p>	<p>The Senate proposes using the \$5.2 million in unallocated BSF funds to help solve the state's budget deficit.</p>	<p>The final legislation adopts the Senate proposal to use the \$5.2 million in unallocated BSF funds to help solve the state's budget deficit. The final legislation also adopts the House proposal to use federal stimulus dollars to continue the Family, Friend and Neighbor pilot program, the ParentAware quality rating system pilot, and to provide resources to providers to improve their quality.</p>
<p>MFIP and Supplemental Security Income</p>	<p>The Governor proposed that families participating in the Minnesota Family Investment Program (MFIP) who have at least one disabled person in their household who qualifies for Supplemental Security Income (SSI) have their MFIP cash grant reduced by \$125 per month. This would have impacted about 7,700 families. Most of these families are headed by disabled parents unable to replace the lost assistance with earnings.</p>	<p>The House proposed to reduce cash grants by \$70 per month for households that have a member receiving SSI.</p>	<p>No proposal.</p>	<p>Not adopted.</p>

MFIP and housing subsidy	The Governor proposed that families who receive a housing subsidy have their MFIP cash grant reduced by up to \$100 per month (under current law, the grant is reduced by up to \$50 per month).	Adopted Governor's proposal.	No proposal.	Not adopted.
MFIP training	The Governor proposed to make it much more difficult for parents participating in MFIP to pursue education or training by requiring them to be employed at least 20 hours per week in order to pursue post-secondary education.	No proposal.	No proposal.	Not adopted.
MFIP exit level	The Governor proposed to lower the income at which families lose MFIP assistance from 115 percent of federal poverty guidelines (FPG) to 110 percent of FPG.	Adopted Governor's proposal.	No proposal.	Not adopted.
Work participation bonus	The Governor proposes to reduce the work participation bonus for families who have found employment and left MFIP for low-wage work from \$75 per month to \$50 per month.	Adopted Governor's proposal.	Adopted Governor's proposal.	Adopts Governor's proposal.
MFIP consolidated fund	The Governor proposes to cut funding that counties use for emergency assistance and for services to families on MFIP. The number of individuals requiring assistance is forecasted to grow by 16 percent because of growing levels of unemployment.	Adopted Governor's proposal.	No proposal.	Adopts the Governor's proposal, but limits cuts to administrative services.

Integrated Services	The Governor eliminates the Integrated Services Projects, regional projects using a multidisciplinary approach to serve the most challenged families participating in MFIP.	Adopted Governor's proposal.	No proposal.	Adopts Governor's proposal.
MFIP time limit	No proposal.	No proposal.	The Senate proposed to exempt from the 60 month time-limit any MFIP cash assistance received between July 1, 2009 and June 30, 2011. The Senate also created an emergency extension beyond five years for any families who have already reached the limit. In order to "stop the clock" for families, the Senate freed up general fund resources to pay for these families during the exempted time period.	Not adopted.
Supported work grants	No proposal.	No proposal.	The Senate proposes to use federal funds in FY 2011 to provide short-term paid work experiences for MFIP parents who are unable to find work in the competitive labor market.	The final legislation adopts the Senate proposal, including \$9 million in federal resources for these "stepping stone" jobs.
Emergency assistance	The Governor proposed to use federal stimulus dollars to make \$16 million available to counties to provide emergency assistance (such as rental assistance, damage deposits, utility expenses and other financial issues) to families in crisis.	Adopted Governor's proposal.	The Senate proposes to use federal stimulus dollars to make \$25 million available to counties to provide emergency assistance to families in crisis.	Adopts Senate proposal.

MFIP caregivers	No proposal.	No proposal.	The Senate proposes to expand the current policy of exempting a parent with a baby 12 weeks or younger from work requirements to parents with a baby 12 months or younger. This saves the state expensive infant child care costs.	Adopts Senate proposal.
Community Action agencies	The Governor proposed cutting state funding for Community Action agencies in half for the next two years, about \$4 million for the biennium. This reduction would be offset by approximately \$12 million in federal stimulus funding for Community Action agencies in Minnesota. State funding would return to original levels in FY 2012-13 – approximately \$8 million for the biennium – once the temporary federal stimulus dollars expire.	The House proposal cuts funding for Community Action agencies by \$3.6 million for the FY 2010-11 biennium only. This reduction is would be offset by approximately \$12 million in federal stimulus funds.	The Senate proposal only cut funding in FY 2011, for a total of about \$2 million.	Adopts the House proposal.
Senior nutrition programs	No proposal.	The House proposal temporarily reduces state funding for senior nutrition programs by \$500,000 in FY 2010-11. The state will be receiving \$1.5 million in federal stimulus dollars for senior nutrition, so the net increase in funding for FY 2010-11 would still be \$1 million.	Adopted House proposal.	Adopts House proposal.

Homeless youth	No proposal.	The House proposal included \$238,000 for the Runaway and Homeless Youth Act in FY 2010-11, which provides shelters, drop-in centers, community outreach and transitional housing for youth.	The Senate set aside \$2.5 million in federal stimulus dollars for the FY 2010-11 biennium for the Runaway and Homeless Youth Act.	The final legislation includes \$218,000 for the Runaway and Homeless Youth Act in FY 2010-11 and \$119,000 per year in FY 2012-13.
Food shelves	No proposal.	The House proposal included \$275,000 in FY 2010-11 for food shelf programs.	No proposal.	Not adopted.

Public Safety

Citing protecting public safety programs as one of his top budget priorities, the Governor did not include any significant budget cuts to the Department of Corrections and Department of Public Safety operations in his initial budget proposal. Most other areas of public safety faced reductions, including the court system, civil legal services and the Board of Public Defense.

The House and Senate budget proposals both included cuts to the courts, civil legal services, the Office of Justice and the Board of Public Defense. The House proposed smaller percentage reductions than the Senate. The House also included fee increases that would have been used to offset the state's budget deficit, while the Senate proposed fee increases that would have been used to offset budget cuts to the court system. The Governor did not propose any fee increases.

The final legislation passed by the House and Senate, and signed by the Governor, includes cuts ranging from one to five percent to the court system, Office of Justice programs, civil legal services and the Board of Public Defense. The final legislation also includes \$39 million in fee increases that will be used to offset the state's budget deficit.

In an effort to reduce expenses for counties, the Governor proposed to repeal the requirement that short-term offenders serve their sentences in county jails. The House adopted this proposal, while the Senate did not. The final legislation includes this provision to move short-term offenders to a Department of Corrections facility.

The public safety portion of the budget was not subject to any line-item vetoes or unallotment proposals.

	Governor's Proposal	House Proposal	Senate Proposal	Final Legislation (including line-item vetoes and unallotments)
Office of Justice	No proposal.	The House proposed to reduce funding for the Office of Justice by close to \$2 million for the FY 2010-11 biennium, or three percent. This office serves victims of crime and domestic abuse.	The Senate proposed to reduce funding for the Office of Justice by close to \$5 million for the FY 2010-11 biennium, or seven percent.	The final legislation reduces funding for the Office of Justice by \$3.4 million, or nearly five percent.
Court systems	The Governor proposed a three percent budget reduction to the state Supreme Court, Court of Appeals and Trial Courts. The judicial branch, however, estimates that it needs a \$53 million increase in funding for the FY 2010-11 biennium to preserve core functions.	The House proposed a reduction of about one percent to the state Supreme Court, Court of Appeals and Trial Courts.	The Senate proposed a seven percent reduction to the state Supreme Court and Court of Appeals and a six percent reduction to the Trial Courts.	The final legislation reduces funding for the state Supreme Court by two percent and the Court of Appeals and Trial Courts by about one percent.
Civil Legal Services	The Governor proposed to cut civil legal services by five percent. Civil legal services provides legal assistance to Minnesota's most vulnerable populations – low-income families, the elderly, people with disabilities and children. Currently, more than 20,000 people who are eligible for services are turned away each year due to lack of funding. The Governor's proposal would have lowered funding to below FY 2006 levels and an estimated 5,000 additional families would have gone without needed legal assistance.	The House proposed to reduce funding for civil legal services by about one percent in FY 2010-11.	The Senate proposed to reduce funding for civil legal services by two percent in FY 2010-11.	The final legislation reduces funding for civil legal services by about one percent in FY 2010-11.

Board of Public Defense	The Governor proposed to cut the Board of Public Defense by five percent in FY 2010-11. The Board had requested a nearly \$20 million increase for the biennium to maintain core services. Caseloads are already well above American Bar Association standards and the lack of public defenders is creating significant delays in the court system.	The House proposed to reduce funding for the Board of Public Defense by about two percent in FY 2010-11. The House reduced this percentage cut by proposing an increase in the attorney license fee and dedicating the proceeds to the Board.	The Senate proposed to reduce funding for the Board of Public Defense by three percent in FY 2010-11. The Senate adopted the House proposal to increase the attorney license fee, reducing the percentage cut to just under two percent.	The final legislation reduces funding for the Board of Public Defense by three percent in FY 2010-11. The bill also raises about \$3 million by increasing the attorney license fee and then reduces the percentage cut to the Board to one percent.
Fees	The Governor did not propose any fee increases.	The House proposed approximately \$24 million in court-related fee increases that would have been used to offset the state's general fund budget deficit.	The Senate proposal included close to \$32 million in court-related fee increases that would be deposited into a special revenue account and could have been used to offset budget cuts to the court system.	The final legislation raises approximately \$39 million in court-related fees that are used to offset the state's general fund budget deficit.
Short-term offenders	The Governor proposed repealing a requirement that short-term offenders serve their sentences at the local level, relieving some pressure on counties which have been paying most of the costs for their incarceration. All current and future offenders would serve their sentence at a Department of Corrections facility.	The House adopts the Governor's proposal, but allows those currently serving at the county level to finish their sentences in county jails. All new offenders would serve their sentence at a Department of Corrections facility. This modification reduces the cost of the proposal.	No proposal.	Adopts House proposal.

E-12 Education

A healthy early childhood, elementary and secondary school system (E-12 education) is critically important to the state’s economic vitality and quality of life. Minnesota, however, has become an average state in terms of its investments in education. The state has significant work to do to ensure that all children have the opportunity to succeed: low-income children are twice as likely to not be ready for kindergarten as children from families with the highest incomes.

The Governor, House and Senate had to reconcile vastly different approaches to balancing the E-12 education budget. Both the Governor and the House avoided cuts by delaying more than \$1 billion in payments to school districts and utilizing one-time federal stimulus money. The Senate did not use the payment shift budget gimmick and followed its formula, applied across all budget areas, of cutting spending by seven percent. The Senate then reduced this to a three percent cut through the use of one-time federal stimulus money.

The final compromise signed by the Governor keeps E-12 spending roughly flat for the FY 2010-11 biennium, using \$500 million in federal stimulus money to backfill cuts in state spending. The compromise does not implement the delay in payments to school districts and the Governor did not line-item veto any bill provisions.

In June, however, the Governor announced his intent to use his unallotment power to implement a \$1.8 billion delay in payments to school districts. There is some question, however, as to whether the Governor has the authority to pay school districts back in the future. So, unless the legislature acts, this could be a \$1.8 billion cut in funding to schools.

	Governor’s Proposal	House Proposal	Senate Proposal	Final Legislation (including line-item vetoes and unallotments)
Overall funding	The Governor would have slightly increased state spending for K-12 education in FY 2010-11 (after factoring in federal money).	The House held state spending for K-12 education at FY 2008-09 levels through the FY 2010-11 biennium (after factoring in federal money).	The Senate proposed a three percent reduction in state E-12 spending in FY 2010-11 (after factoring in federal money).	The final legislation holds state spending for K-12 education at FY 2008-09 levels through the FY 2010-11 biennium (after factoring in federal money).
Federal stimulus dollars	The Governor proposed using \$424 million in one-time federal stimulus dollars in FY 2010-11 for E-12 education. Of that, \$320 million would have been used to backfill spending cuts in K-12 education and \$64 million would have been used to backfill spending cuts in special education. The result would have been a \$40 million net increase in funding for K-12 education.	The House proposed cutting state funding for K-12 education by \$265 million in FY 2010-11, backfilling the reduction with \$276 in federal stimulus dollars. The result would have been an \$11 million net increase in funding.	The Senate proposed cutting state funding by \$973 million in FY 2010-11, partially backfilling the reduction with \$520 million in federal stimulus dollars.	The final legislation cuts state funding by \$500 million in FY 2010-11, backfilling the reduction with \$500 million in federal stimulus dollars. The result is no net change in funding.

Aid payments to schools	The Governor proposed delaying education aid payments to school districts, saving the state \$1.3 billion in FY 2010-11. Normally, schools get 90 percent of state aid in one year and a 10 percent settle-up payment in the following year. The Governor would have changed this to 80/20 percent split.	The House delayed \$1.8 billion in state aid to school districts, which would have changed it to a 73/23 percent split.	No proposal.	Not adopted. However, the Governor's unallotment plan simulates a \$1.8 billion shift in payments to school districts.
Q-Comp	The Governor proposed expanding the Q-Comp program to all school districts in Minnesota. The state would have contributed \$42 million in FY 2011 and \$111 million in FY 2012-13 towards the cost of this expansion. Funding would also have come from higher local property taxes. The Q-Comp program is a 2005 initiative from the Governor that restructures teacher pay and professional development.	No proposal.	No proposal.	Not adopted.
Summer of Success	The Governor proposed \$10 million in one-time funding for FY 2010-11 for a new pilot program to set up an intensive summer school for 8th graders that are not yet proficient in math or reading. This pilot program would have reached 2,000 students in FY 2010 and 4,000 students in FY 2011.	No proposal.	The Senate adopted the Governor's proposal, although with smaller level of funding: \$4.5 million in one-time funding for FY 2010-11.	Not adopted.

Maintenance of effort requirements	No proposal.	The House proposed reducing various maintenance of effort requirements, allowing school districts to have greater flexibility in where they spend money. The House also extended the ability of school districts to transfer money from their operating capital account to the general fund for another two years.	The Senate eliminated maintenance of effort requirements for certain aspects of the safe schools levy. The Senate also lessened the required spending levels for libraries and would have allowed school districts to use learning and development revenue for general education purposes for FY 2010 and 2011 only.	The final legislation lessens the maintenance of effort requirements, or required spending levels, for libraries and for the safe schools levy. The bill also extends the ability of school districts to transfer up to \$51 per pupil from their reserved operating capital account to their unreserved general fund for another two years.
------------------------------------	--------------	--	--	--

Higher Education

Post-secondary education and training contributes greatly to a strong economy in Minnesota by preparing and educating workers. Despite the recognized value of higher education, state general fund investment in higher education funding in FY 2009 was 16 percent lower than at the start of the decade (adjusted for inflation). One of the consequences has been tuition in Minnesota has skyrocketed while state financial aid funding has stagnated. This disinvestment in higher education was further exacerbated in December 2008, when the Governor used his unallotment authority to cut an additional \$40 million from the state’s colleges and universities to help close the state’s budget deficit.

The House, Senate and Governor all proposed varying degrees of cuts in state spending for the state’s higher education systems (the University of Minnesota and Minnesota State Colleges and Universities). The Governor also proposed cuts to several financial aid programs, but used one-time federal economic stimulus dollars to slightly increase the state grant award. Both the House and Senate proposed increases in the resources available for financial aid.

The final compromise signed into law cuts total state spending for higher education in FY 2010-11 by \$201 million. One-time federal stimulus dollars bring the level of cuts down to \$63 million. These figures include several line-item vetoes by the Governor. He line-item vetoed all state funding for the TEACH program, which improves the quality of child care by providing scholarships for child care providers to obtain a degree in early education. He also line-item vetoed \$2 million in FY 2010-11 for the Power of You program and all state funding (\$40,000) for the Cook County Higher Education Board, which provides local access to higher education and training on the North Shore.

The Governor’s unallotment plan includes an additional \$100 million in cuts to higher education in FY 2010-11, including a \$50 million reduction to the Minnesota State Colleges and University System and a \$50 million reduction to the University of Minnesota.

	Governor's Proposal	House Proposal	Senate Proposal	Final Legislation (including line-item vetoes and unallotments)
Federal fiscal stabilization dollars	The Governor proposed to cut state funding for higher education by \$400 million in FY 2010-11 and partially backfill those reductions with \$362 million in one-time federal fiscal stabilization funds.	The House proposed to cut state funding for higher education by \$385 million in FY 2010-11 and partially backfill those reductions with \$362 million in one-time federal fiscal stabilization funds.	The Senate proposed to cut state funding for higher education by \$221 million in FY 2010-11 and partially backfill those reductions with \$118 million in one-time federal fiscal stabilization funds.	The final legislation cuts higher education funding by \$198 million in FY 2010-11 and partially backfills reductions with \$138 million in one-time federal fiscal stabilization funds. This means a net cut of \$60 million in FY 2010-11. The Governor's unallotment plan cuts higher education by an additional \$100 million.
University of Minnesota	After accounting for one-time federal dollars, the Governor proposed a \$9 million cut to the University of Minnesota in FY 2010-11. The cuts increased to \$151 million in FY 2012-13, or an 11 percent cut.	After accounting for one-time federal dollars, the House proposed a net reduction of \$9 million for the University of Minnesota in FY 2010-11, then increased the cut to \$62 million in FY 2012-13.	After accounting for one-time federal dollars, the Senate proposed a net reduction of \$55 million for the University of Minnesota in FY 2010-11 and \$112 million in FY 2012-13.	After accounting for one-time federal dollars, the final legislation cuts state funding for the University of Minnesota by \$30 million in FY 2010-11. The cuts increase in FY 2012-13 to \$65 million. The Governor's unallotment plan cuts an additional \$50 million from the University of Minnesota in FY 2011.
MnSCU	After accounting for one-time federal dollars, the Governor proposed a \$31 million cut for Minnesota State Colleges and Universities (MnSCU) in FY 2010-11. The Governor's proposed reductions increased to \$146 million in FY 2012-13.	After accounting for one-time federal dollars, the House proposed a net reduction of \$31 million for the MnSCU system in FY 2010-11, then increased the cut to \$54 million in FY 2012-13.	After accounting for one-time federal dollars, the Senate proposed a \$44 million cut for the MnSCU system in FY 2010-11. In FY 2012-13, the cuts increased to \$107 million.	In the final legislation, after accounting for one-time federal dollars, state funding for the MnSCU system is cut by \$19 million in FY 2010-11. The reduction increases to \$53 million in FY 2012-13. The Governor's unallotment plan cuts an additional \$50 million from the MnSCU system in FY 2011.

Financial aid	An increase in the federal Pell Grant program resulted in a \$70 million increase in funding for the state grant program. The Governor proposed reallocating this money within the state grant program to increase the cost of living adjustment and maximum tuition award to more realistically reflect the cost of attending college.	The House reallocates money within the state grant program to increase the cost of living adjustment, decrease the student share of tuition responsibility and extend eligibility.	The Senate proposed to reallocate money within the state grant program to increase the cost of living adjustment, increase the maximum tuition award and decrease the amount of tuition the family is responsible for.	The final legislation reallocates money within the program to more realistically reflect the cost of attending college, including increasing the cost of living adjustment and the maximum tuition award.
Tuition caps	The Governor recommended a “firm cap” on tuition increases for the University of Minnesota and MnSCU systems.	The House directed MnSCU to cap tuition increases at five percent per year and directed them to use federal resources to further limit tuition increases to two percent. The House also recommended a \$300 per year cap on tuition increases at the University of Minnesota.	The Senate directed MnSCU and the University of Minnesota to use federal economic recovery funds to mitigate the need to raise tuition and fees.	The final legislation caps tuition increases at three percent a year for MnSCU schools and at \$300 a year for the University of Minnesota system.
TEACH	The Governor proposed eliminating state funding for the TEACH program, which improves the quality of child care by providing scholarships for child care providers to obtain a degree in early education.	The House proposed increasing state funding for TEACH by \$100,000 in FY 2010-11, but eliminated funding in FY 2012-13.	No proposal.	The final legislation did not change funding for the TEACH program. The Governor, however, line-item vetoed all state funding for the TEACH program.
Work study	The Governor proposed cutting state work study funding by five percent in FY 2010-11. This program funds 75 percent of the wages of 11,900 work study students at colleges and universities.	The House proposed to increase funding for the state work study program by 25 percent.	No proposal.	The final legislation increases funding for work study by \$5 million in FY 2010-11, or 20 percent.

Child care	The Governor proposed a five percent reduction in child care assistance for people enrolled in post-secondary education.	The House proposed a slight increase in post-secondary child care assistance.	The Senate did not propose any changes to post-secondary child care assistance.	The final legislation increases funding for post-secondary child care assistance by \$1 million in FY 2010-11 and FY 2012-13.
Scholarships	The Governor proposed a five percent reduction to scholarships for low-income American Indian students and a 55 percent reduction to the Achieve Scholarships, which are designed to help overcome academic and financial barriers to college attendance.	The House proposal would have increased American Indian scholarships by 27 percent in FY 2010-11 and would have eliminated the Achieve Scholarships.	The Senate proposal did not recommend any changes to American Indian scholarships and would have reduced the Achieve Scholarships by 36 percent in FY 2010-11.	The final legislation slightly increases funding for American Indian scholarships and reduces funding for Achieve Scholarships 54 percent in FY 2010-11.
Summer school	No proposal.	No proposal.	The Senate proposed a new summer high school-to-college program and provided one-time grants to participating students.	Not adopted.
Technology	The Governor proposed a 10 percent cut in state funding for technology programs that support bandwidth for internet at campuses and allow higher education libraries to share books and electronic resources.	No proposal.	The Senate proposed a six percent cut in state funding for technology programs that support bandwidth for internet at campuses.	Not adopted.

Affordable Housing and Homelessness Prevention

Safe and affordable housing is a foundation for strong families and a healthy economy. A major medical expense or a job loss can tip a family already burdened with high housing costs into homelessness. In 2006, it was estimated that at least 9,200 Minnesotans were homeless on a single night, including over 3,000 children and youth.¹ Homeless shelters across Minnesota are reporting a surge in the number of families needing shelter, thanks in part to the economic recession. Though the need for affordable housing increased dramatically in the 2000s (as of 2006, 1 in 8 households was spending more than half of their income on housing), state funding to boost affordable housing and prevent homelessness has been inconsistent.²

The Governor’s budget proposal transferred more resources to fund the initiative to end long-term homelessness, but also cut state investment in affordable housing opportunities and services to vulnerable populations. The House proposal included several one-time spending increases in supportive housing services and one-time spending cuts in other housing programs. The Senate proposal would have cut state investment in affordable housing opportunities and services to vulnerable populations.

The final legislation that was signed into law reallocated some existing housing resources to fund the plan to end long-term homelessness and for rental assistance for families living in homeless shelters. In total, funding for affordable housing opportunities was reduced significantly over the last biennium. The Governor did not line-item veto any affordable housing or homelessness prevention provisions in the bill and did not recommend any unallotments.

	Governor’s Proposal	House Proposal	Senate Proposal	Final Legislation (including line-item vetoes and unallotments)
Long-term homelessness	The Governor proposes to increase base spending for the plan to end long-term homelessness by \$2 million per year using money previously allocated for the Housing Challenge Program.	Adopted Governor’s proposal.	Adopted Governor’s proposal.	The final legislation adopts the Governor’s proposal, but the additional funding is only for FY 2010-11.
Homeless prevention	The Governor allocates \$1.5 million for rental assistance for newly homeless families, but does so by draining the Disaster Relief Contingency Fund.	Adopted Governor’s proposal.	Adopted Governor’s proposal.	Adopts Governor’s proposal.

Challenge program	<p>The Governor proposed reducing base funding for the Challenge Program by more than \$8 million in FY 2010-11 (\$4 million of this was redirected to long-term homelessness prevention). In addition, he did not propose to renew \$15 million in one-time funding from FY 2008-09. The Challenge Program funds grants and low-cost loans for the development of affordable housing opportunities. The Governor's proposal would have resulted in a 69 percent cut from FY 2008-09 levels and would have resulted in about 1,000 fewer units being constructed.</p>	<p>The House proposed to cut the base budget for the Challenge Program by \$4 million in FY 2010-11 (redirected to long-term homelessness prevention) and did not renew the \$15 million in one-time funding from FY 2008-09. This funding reduction would have been partially offset by a \$1 million transfer from Homeownership Assistance Fund to the Challenge Program for FY 2010-11. The House also proposed cutting an additional \$2.3 million in base funding beginning in FY 2012-13.</p>	<p>Adopted Governor's proposal.</p>	<p>The final legislation reduces base funding for the Challenge Program by more than \$3 million for the biennium and redirects an additional \$4 million reduction to the long-term homelessness prevention program in FY 2010-11 only. The final legislation does not renew the \$15 million in one-time funding from FY 2008-09.</p>
High-risk adults	<p>No proposal.</p>	<p>The House provides one-time funding of \$500,000 in FY 2010-11 for a demonstration project for high-risk adults.</p>	<p>Adopted House proposal.</p>	<p>Adopts House proposal.</p>

Workforce Development

The State of Minnesota invests in a number of initiatives to train workers and promote a strong economy. Workforce development proposals made during the 2009 Legislative Session would have impacted everything from training and financial support for unemployed workers to loans and technical assistance for businesses.

Overall, the Governor proposed cutting a number of job training opportunities and services to help people with disabilities get job training and find work. The Governor also would have transferred resources from existing job skills training programs to fund a new workforce initiative. The Senate adopted many of the Governor’s proposals and transferred even more resources away from job skills training programs to fund other workforce development priorities. The House proposal also adopted many of the Governor’s proposals, but then used a temporarily increase in the Workforce Development Fund fee to backfill some of the Governor’s cuts in workforce development services.

The Governor initially vetoed the economic development omnibus bill passed by the legislature, but then signed an amended version passed several days later. The final bill backfills many of the reductions to workforce development service by temporarily raising revenue through an increase in the Workforce Development Fund fee. Not all initiatives are held harmless – services to help people with disabilities access job training and find work are cut, as are several grants to nonprofits that help vulnerable populations find work. Although the Governor signed the bill, he did make several line-item vetoes, including \$200,000 for an environmental clean-up and educational program for indigenous youth and \$100,000 for the Southeast Asian Collaborative.

	Governor’s Proposal	House Proposal	Senate Proposal	Final Legislation (including line-item vetoes and unallotments)
Workforce Development Fund	The Governor proposed taking \$6.5 million from existing job skills training programs for dislocated workers in FY 2010-11 in order to fund a new training program. These funds would have come from the Workforce Development Fund (WDF), which funds job skills training programs for dislocated workers, and would have added to an already forecasted deficit in this fund.	The House proposed to temporarily raise the Workforce Development Fund (WDF) fee, paid by employers, by nearly \$31 million in FY 2010-11. The WDF funds job skills training programs for dislocated workers. Most of these new resources would have been redirected to avoid cuts proposed by the Governor to existing job training programs and reduce the impact on funding for services to dislocated workers.	The Senate proposal took over \$10 million in FY 2010-11 from the Workforce Development Fund and transferred it to the general fund. This would have cut directly into dislocated worker programs and increased the forecasted deficit in this fund.	The final legislation takes \$5 million in FY 2010-11 from the Workforce Development Fund and transfers it to the general fund. The final bill also raises \$15.5 million in one-time revenue in FY 2010-11 by increasing the Workforce Development Fund fee, using some of it to partially backfill cuts to workforce development programs.

Public/private job training partnership	The Governor's proposal reduces general fund support for the Minnesota Jobs Skills Partnership by one-third in FY 2010-11. This program partners with businesses and educational institutions to develop worker training programs that meet businesses' current needs for employees. The proposed cut would mean the program would fund 11 fewer projects each year, resulting in 2,217 fewer individuals receiving training and 15 fewer businesses being assisted.	Adopted Governor's proposal.	Adopted Governor's proposal.	Adopts Governor's proposal.
Emergency job training support	No proposal.	The House proposed a one-time appropriation of \$15 million in FY 2010-11 for a new emergency jobs program that would subsidize the wages of an unemployed workers hired by a business or nonprofit.	No proposal.	Not adopted.
Nonprofits grants for employment services	The Governor proposed reducing pass-through grants to nonprofits providing low-income, minority and other vulnerable populations with employment services, including Opportunities Industrialization Centers, Twin Cities RISE!, WomenVenture, Metropolitan Economic Development Association and Lifetrack Resources.	The House adopted the many of the Governor's proposed reductions to pass-through, but the size of the reductions varied from the Governor's recommendations. The House would also have taken about \$780,000 from the Workforce Development Fund to replace some of the proposed cuts to these programs.	The Senate adopted many of the Governor's proposed reductions, although the size of the cuts varied from the Governor's recommendations.	The final legislation reduces pass-through grants to some nonprofits providing low-income, minority and other vulnerable populations with employment services, but uses the increase in the Workforce Development Fund fee to backfill some of the reductions. As a result, of the organizations mentioned, only WomenVenture experiences a funding reduction in FY 2010-11.

People with disabilities	The Governor proposes reducing funding for services helping people with disabilities get job training and find work, including employment and interpreter services for the deaf.	Adopts the Governor's proposal, although the House does not cut funding for Extended Employment services.	Adopted the House proposal.	Adopts the House proposal.
Youth job training	The Governor proposed reducing funding for two youth programs that help with job training and placement – Youthbuild and St. Paul Summer Youth. His proposal also eliminated funding for Learn to Earn in Minneapolis.	The House proposed reducing funding for Youthbuild, Learn to Earn in Minneapolis, Minneapolis Summer Youth and St. Paul Summer Youth.	The Senate proposed reducing funding for Learn to Earn in Minneapolis, Minneapolis Summer Youth, St. Paul Summer Youth and the Minnesota Youth Program.	The final legislation reduces funding for Youthbuild, Learn to Earn in Minneapolis, Minneapolis Summer Youth and St. Paul Summer Youth, making slightly larger reductions than proposed by the House.
Boys and Girls Clubs	The Governor proposed eliminating state funding for the Minnesota Alliance of Boys and Girls Clubs.	Adopted Governor's proposal.	No proposal.	The final legislation cuts state funding for the Minnesota Alliance of Boys and Girls Clubs by 25 percent (or \$500,000 in FY 2010-11).

Taxes and Aids to Local Governments

This portion of the budget includes both taxes and expenditures for state aids to local governments and property tax credits.³ The Governor's proposed budget made the least amount of progress in reducing the FY 2010-11 deficit, filling in only \$231 million of the budget shortfall through a combination of \$529 million in cuts to aids and credits and \$298 million in new tax cuts. In contrast, the Senate combined \$25 million in spending cuts and just under \$2.6 billion in tax increases for a net increase of \$2.6 billion. The House relied more on cuts in spending and less on revenue-increases than the Senate, reducing expenditures by \$274 million and raising \$1.5 billion in taxes, for a total impact of \$1.8 billion.

The Senate and House both sought to address rising regressivity in the tax system, but their approaches differed. Both House and Senate emphasized the income tax, the only one of the state's major taxes based on ability to pay. Both House and Senate created a new 4th income tax bracket on the highest-income households, but the Senate also increased tax rates on the existing three brackets. The House took a different approach, repealing a range of income and corporate tax credits and deductions. The House also would have increased taxes on tobacco products and alcoholic beverages.

In terms of aids to local governments (cities, counties and townships), the Governor would have cut the most: \$433 million in local aids and credits would be cut in FY 2010-11 under his proposal, compared to \$281 million in the House and only \$30 million in the Senate. The Governor also proposed deep cuts to the Renters' Credit, a proposal rejected by the legislature.

Through the process of resolving the differences between the House and Senate tax bills, the Legislature passed three tax bills during the 2009 Legislative Session. House File 885 would have balanced the budget with a new 4th tier income tax bracket for high-income households, a surtax on income from interest charged over 15 percent, and alcohol tax increases. The Governor vetoed the bill. House File 1298 contained a range of noncontroversial tax items that did not have much of a fiscal impact, and this bill was signed into law by the Governor. In the final moments of the legislative session, the legislature passed the tax conference committee report (HF 2323), which was quite similar to House File 885: it had the same 4th tier income tax provision and surtax on excess income, and a slightly larger increase in alcohol taxes. In addition, the conference report included two tax cuts and a payment shift for school funding. This bill as a whole would have resolved the state's remaining budget deficit, but the bill was vetoed by the Governor.

In his unallotment plan, the Governor closes \$572 million of the \$2.7 billion remaining deficit through revenue items, including payment delays for capital equipment and corporate tax refunds, enacting his proposed cuts to the Renters' Credit and Political Contribution Refund, and a \$300 million cut in local government aids and credits.

	Governor's Proposal	House Proposal	Senate Proposal	Final Legislation (including line-item vetoes and unallotments)
Income taxes	No proposal.	The House proposed creating a new fourth income tax bracket with a rate of 9 percent on taxable income above \$300,000 for married filing joint filers. ⁴ This would have raised \$470 million in FY 2010-11.	The Senate proposed creating a new fourth income tax bracket with a rate of 9.25 percent on taxable income above \$250,000 married filing joint filers. ⁵ The Senate also would have increased the income tax rates on the existing tax brackets as follows: The first bracket from 5.35 to 6.0 percent, the second bracket from 7.05 to 7.7 percent and the third bracket from 7.85 to 8.5 percent. In total, these changes would have raised \$2.2 billion in FY 2010-11. The rate changes and new fourth income tax bracket were temporary, and would have been removed once those increases were no longer needed to balance the state's budget. ⁶	Governor vetoed HF 885 and the tax conference committee report, which would have created a hybrid between the House and Senate approaches: a 9 percent rate on taxable income over \$250,000 for a married couple, raising \$516 million.
Unemployment Compensation	The Governor proposed exempting up to \$2,400 in unemployment compensation from income taxes in the 2009 calendar year for a one-time cost of \$28 million in FY 2010.	Adopted Governor's proposal.	Adopted Governor's proposal.	Not adopted.

Political Contribution Refund	The Governor proposed eliminating the state's Political Contribution Refund (PCR), which provides a refund of \$50 per individual or \$100 per married couple for qualified contributions to political candidates or parties. This proposal saved the state \$10 million in FY 2010-11.	No proposal.	No proposal.	Not adopted in the final legislation, but the Governor's unallotment plan eliminates the PCR for donations made between July 1, 2009 and June 30, 2011, for a \$10 million savings to the state.
Alcohol taxes	No proposal.	The House proposed increasing the gross receipts tax paid on alcoholic beverages at the retail level from 2.5 to 5.0 percent, and increasing the alcoholic beverage tax by about a penny a drink for most kinds of alcohol and about three cents a drink for distilled spirits. This proposal raised \$209 million in FY 2010-11.	No proposal.	Alcoholic beverage tax increases were included in two tax bills that passed the House and Senate. Both bills were vetoed by the Governor.
Income tax reciprocity	No proposal.	No proposal.	No proposal.	The Governor's unallotment actions raise \$106 million in FY 2010-11 by asking the State of Wisconsin to reimburse the State of Minnesota sooner under an existing reciprocity agreement (rather than the current 17 months delay). Under the current reciprocity agreement, Wisconsin residents who work in Minnesota file their state income taxes in Wisconsin, and Wisconsin remits those taxes to Minnesota, and visa versa.

Individual income tax credits and deductions	No proposal.	The House proposal raised a net of \$544 million in FY 2010-11 by eliminating many income tax deductions and credits (often called “tax expenditures”). The itemized deductions for mortgage interest and charitable giving were eliminated but replaced with new credits that were available to more taxpayers. The net effect was a revenue increase. The K-12 education credit and child and dependent care credit were eliminated, but replaced with a new Minnesota child credit for low- and moderate-income families of up to \$200 per child and an increase in funding for basic sliding fee child care. Other deductions and credits eliminated included the federal itemized deduction for real property taxes, K-12 expense deduction and the lower-income motor fuels credit. ⁷	The Senate proposed repealing the low-income motor fuels credit (raising \$61 million in FY 2010-11) and the tax deduction for mortgage interest on a second home (raising \$140 million in FY 2010-11).	Not adopted.
Tobacco taxes	No proposal.	The House proposed raising \$211 million in tobacco taxes through a 54 cent a pack increase on cigarettes and changes to other tobacco taxes. Both the tobacco and alcohol increases were framed as recovering the costs to the state of the negative impact of the use of alcohol and tobacco products.	No proposal.	Not adopted.

State sales tax and internet purchases	No proposal.	The House proposal would have made certain digital products, such as music downloads, subject to the state sales tax. It would also have expanded the definition of which businesses are required to collect the sales tax on internet purchases (this is called “nexus”). The proposal raised \$27 million in FY 2010-11.	The Senate included the House provision changing the definition of sales tax nexus, raising \$23 million in FY 2010-11.	Not adopted.
Sales tax on heating fuels	No proposal.	The House proposal narrowed the current sales tax exemption on electricity and natural gas used for home heating. Currently these purchases are exempt from the sales tax from November through April. This provision would collect sales taxes once an above-average amount of fuel usage has been exceeded. The proposal raised \$34 million in FY 2010-11.	No proposal.	Not adopted.
Local sales tax	No proposal.	The House proposal would have given all counties the option to enact a 0.5 percent sales tax. Counties that exercised this option would have seen a smaller cut in their state aid.	No proposal.	Not adopted.

Corporate taxes	The Governor proposed cutting the state's corporate tax rate in half over six years. This was by far the largest of the Governor's tax cuts, costing the state \$100 million in FY 2010-11, \$390 million in FY 2012-13 and more in future years.	No proposal.	No proposal.	The Governor's corporate tax rate cut was not adopted in the final legislation. The Governor's unallotment plan delays paying corporate tax refunds by up to three months, shifting \$42 million in state costs from FY 2011 into FY 2012.
Small business taxes	No proposal.	No proposal.	The Senate proposed allowing an exemption of 10 percent of pass-through income (from partnerships and S-Corps) for four years. Under existing tax rates, this is a \$160 million tax cut in FY 2010-11. However, after taking into account the interaction with new income tax rates proposed by the Senate, this proposal cut taxes by \$184 million.	Not adopted.
Single Sales Factor	No proposal.	The House proposed to immediately change the state's apportionment formula for corporate taxes in 2009 so it would be based solely on the amount of a corporation's sales in the state (this is called "Single Sales Factor"). The state is currently in the process of gradually changing to Single Sales Factor. This cut corporate taxes by \$58 million in FY 2010-11. ⁸	The Senate proposal froze the state's transition to Single Sales Factor, so that apportionment would be based 81 percent on sales. This provision raised \$26 million in FY 2010-11.	Not adopted.

Capital purchases sales tax exemption	The Governor proposed to change the sales tax exemption for capital purchases so that businesses would get the exemption at the time they make the purchase (currently they must pay the tax and then apply for the refund). This provided a tax cut of \$75 million. However, the impact drops to \$20 million in the next biennium.	No proposal.	Adopted Governor's proposal.	The Governor's proposal was included in the tax conference committee report, which was vetoed by the Governor. Under unallotment, the Governor temporarily delays the payment of capital equipment refunds by up to three months, shifting \$63 million in state costs from FY 2011 into FY 2012.
Business tax preferences	No proposal.	The House proposal raised \$206 million in FY 2010-11 by eliminating a package of business tax preferences, including Foreign Operating Corporations, the foreign royalty subtraction and the statewide property tax exemption for airports. The House proposed repealing income tax and corporate tax exemptions under JOBZ, and allowing businesses to withdraw or renegotiate their agreements under JOBZ. ⁹	The Senate proposed not allowing any new JOBZ designations after April 30, 2009, which raised \$4 million in FY 2010-11.	Not adopted.
Excess interest tax	No proposal.	No proposal.	The Senate proposed raising \$216 million in FY 2010-11 through a new surtax on "excess interest". This would have imposed a 30 percent tax on the portion of income generated through transactions that charge an interest rate over 15 percent.	The Senate provision was included in the two tax bills that were vetoed by the Governor.

Statewide property tax	No proposal.	No proposal.	The Senate proposal raised \$229 million in FY 2010-11 by increasing the statewide property tax paid by businesses and excluding cabins from paying this tax.	Not adopted.
County Program Aid	The Governor's budget proposal would have cut County Program Aid (CPA), which provides general purpose aid to counties, by \$125 million in FY 2010-11 and \$132 million in FY 2012-13. This was a 27 percent cut compared to base funding. The \$125 million cut assumed that counties earn back a significant portion of a larger \$183 million cut by moving towards regional service delivery. The Governor already cut CPA for FY 2009 by \$44 million in December 2008 through unallotment.	The House proposed cutting CPA by \$147 million in FY 2010-11. Counties would have been given the opportunity to enact a local option sales tax. If the county did not enact a local sales tax, the cut in CPA was 3.58% of their total levy plus aid. The cut in a county's CPA was less if the county enacted the local sales tax.	The Senate proposed cutting CPA by \$14 million in FY 2010-11.	No changes to CPA were passed during the legislative session. Under unallotment, however, the Governor cuts a total of \$300 million from CPA, Local Government Aid, and reimbursements for Market Value Homestead Credit and the Agricultural Market Value Credit.
Local Government Aid	The Governor proposed cutting Local Government Aid (LGA), which provides state aid to cities, by \$245 million in FY 2010-11 and \$259 million in FY 2012-13, a 23 percent cut compared to base. LGA was already cut by \$54 million for FY 2009 the December 2008 unallotment decisions.	The House proposed cutting LGA by \$85 million in FY 2010-11.	The Senate proposed cutting LGA by \$11 million in FY 2010-11.	No changes to LGA were passed during the legislative session. Under unallotment, however, the Governor cuts a total of \$300 million from County Program Aid, LGA, and reimbursements for Market Value Homestead Credit and the Agricultural Market Value Credit.

Homestead Market Value Credit	<p>The Governor proposed cuts to the reimbursement to local governments for the Homestead Market Value Credit (MVC). The Market Value Credit reduces local property taxes, and normally the state reimburses local governments for the lost revenues. The Governor cut the MVC by \$69 million in FY 2010-11, or 13 percent. The MVC was already cut by \$12 million for FY 2009 under unallotment in December 2008.</p>	<p>The House proposed reducing the MVC reimbursement by \$45 million in FY 2010-11.</p>	<p>The Senate proposed reducing the MVC reimbursement by \$5 million in FY 2010-11.</p>	<p>No changes to the MVC reimbursement were passed during the legislative session. Under unallotment, the Governor cuts a total of \$300 million from County Program Aid, Local Government Aid, and reimbursements for MVC and the Agricultural Market Value Credit.</p>
Renters' Credit	<p>The Governor's budget proposal included a 27 percent cut to the Renters' Credit, which provides property tax refunds to around 300,000 low- and moderate-income households whose taxes are high in relation to their income. This provision was likely to have a detrimental impact on the economy, as it would have meant \$51 million fewer dollars circulating in the local economy.</p>	<p>No proposal.</p>	<p>No proposal.</p>	<p>No changes to the Renters' Credit were passed during the legislative session, but the Governor included his proposal to cut the Renters' Credit in his unallotment plan.</p>

Homeowner property tax refund	No proposal.	The House proposed a \$19 million increase to the homeowner property tax refund, commonly called the “Circuit Breaker”. This was a six percent increase, achieved by 1) increasing the maximum amount of credit by 10 percent, and 2) for households with incomes between \$18,120 and \$67,909, it made it a little easier to qualify and the amount of credit would have been larger. The House cut the Market Value Homestead Credit by a similar amount. This reduced the credit that is based on home value and increased the credit that is based more on income.	The Senate proposed eliminating the targeted property tax refund, for a savings to the state of \$4 million in FY 2011.	Not adopted.
Budget reserve	The Governor proposed putting \$250 million into the budget reserve.	Adopted Governor’s proposal.	The Senate did not proposal putting any additional resources into the state’s budget reserve. Instead, the Senate proposed putting \$164 million into a reserve for job creation activities.	Not adopted. The state’s budget reserve, which was used up during the Governor’s December 2008 unallotment actions, currently remains empty.

Except where otherwise noted, the analysis in this report is based on data from budget documents prepared by Minnesota Management and Budget and the applicable state agency. However, special thanks to the Affirmative Options Coalition, Children’s Defense Fund Minnesota, Legal Services Advocacy Project, Minnesota Community Action Partnership, Minnesota Disability Law Center, Minnesota Housing Partnership, Minnesota Workforce Council Association, Parents United and Ready 4 K for their invaluable contributions to this analysis.

¹ Wilder Research, *Overview of Homelessness in Minnesota 2006*, April 2007.

² Minnesota Housing Partnership, *Affordable Housing: Minnesota (Statewide)*, May 2008.

³ This section compares the Governor’s supplemental budget, the House omnibus tax bill (HF 2323) and Senate omnibus tax bill (SF 2074). The total impact of these bills may differ from the sum of the impact of individual provisions, due to interactions between various provisions.

⁴ The 9% rate applies to income above \$150,000 for married filing separate, \$169,700 for single filers and \$255,560 for head of household filers.

⁵ The 9.25% rate applies to income above \$125,000 for married filing separately, \$141,250 for single filers and \$212,500 for head of household filers.

⁶ In the first and third brackets, the proposal returns income tax rates to the levels in effect in 1998. The new rate in the second bracket is less than the 8.0 percent rate existing in 1998. The rates would actually “blink off” in stages, with the increase in the first bracket blinking off first, then second bracket, etc., as the additional revenues are no longer needed to balance the budget.

⁷ Among the tax expenditures eliminated in this bill are: federal itemized deductions for mortgage interest, charitable contributions and real personal property tax to the extent that they exceed the standard deduction; exemption for Minnesota state and municipal bond interest income, K-12 dependent education expense subtraction, charitable contributions for non-itemizer subtraction, income of elderly or disabled subtraction, AmeriCorps education awards subtraction, subnational foreign tax subtraction, organ donor expense subtraction, certain farm income subtraction, child and dependent care credit, K-12 education credit, long-term care credit, lower-income motor fuels credit, and employee health insurance credit.

⁸ This estimate does not include the impact of interactions.

⁹ The full list of provisions included here are: repealing Foreign Operating Corporations and the foreign royalty subtraction, changing treatment of corporate income related to tax havens, creating an addback for Minnesota development subsidies, repeal of the bovine tuberculosis testing credit and replacing it with bovine tuberculosis testing grants, repealing income and corporate tax benefits under JOBZ, allowing businesses to void or renegotiate their agreements under JOBZ, and repealing the exemption from the statewide levy for airport property.