



FISCAL ISSUE BRIEF

Governor's Unallotments FY 2008-2009 General Fund Budget

MINNESOTA SENATE
OFFICE OF COUNSEL, RESEARCH, AND FISCAL ANALYSIS

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QUESTIONS

Contact Matt Massman, Lead Fiscal Analyst, at 651/297-8057 or matt.massman@senate.mn or the relevant fiscal analyst identified below.

The November 2008 State Budget Forecast released on December 4, 2008, projected a deficit of \$426.3 million for the current biennium (FY 2008-2009) ending June 30, 2009. On December 19, 2008, the Governor announced a plan to use \$154.9 million of reserve funds and to unallot \$271.4 million of budgeted spending to balance the state's budget for the current biennium. Minnesota Statutes, 16A.152, subd. 4, provides for the use of the reserve and for the reduction of unexpended allotments when "probable receipts for the general fund will be less than anticipated, and the amount available for the remainder of the biennium will be less than needed." Unallotment of unexpended appropriations does not alter the appropriations base for future biennia. The projected shortfall for FY 2010-2011 is \$4.8 billion before taking into account inflationary pressures on current law spending, or about \$5.5 billion including an estimated \$650 million of inflation.

The Executive had not yet itemized all of the planned unallotments as of the completion of this Issue Brief. This brief will be revised and updated once all unallotments have been itemized.

Unallotment Process, M.S. 16A.152, subd. 4

M.S. 16A.152, subd. 4 specifies that if probable receipts for the general fund will be less than anticipated and the amount available for the remainder of the biennium will be less than needed, "the Commissioner [of Finance, now Minnesota Management & Budget] shall, with the approval of the Governor, and after consulting with the Legislative Advisory Commission, reduce the amount in the budget reserve account as needed to balance expenditures with revenues. Any additional deficit shall, with the approval of the Governor, and after consulting with the Legislative Advisory Commission, be made up by reducing unexpended allotments of any appropriation or transfer. Notwithstanding any other law to the contrary, the commissioner is empowered to defer or suspend prior statutorily created obligations which would prevent effecting such reductions."

On December 11, 2009, the Commissioner held a meeting of Legislative Advisory Commission to

consult with the Commission on the use of the budget reserve. The unallotment statutes allow for the unallotment of unexpended funds up to the amount needed to eliminate the gap between projected expenditures and revenues. The law does not allow for the unallotment of additional amounts, such as to rebuild the budget reserve to guard against the potential that additional shortfalls within the current biennium might arise prior to June 30, 2009.

Overview of the Governor's \$426.3 Unallotment Plan—FY 2008-2009

As summarized in Table 1 below, after reducing the general fund budget reserve of \$154.9 million to zero, a deficit of \$271.4 million remains for FY 2008-2009. The unallotment plan summarized below would reduce spending by \$271.4 million through targeted reductions—\$110 million in local government aid payments, \$40 million for higher education systems, \$73 million in human service payment reductions, \$4 million in housing funding, and \$2.2 million for mining and other economic development incentives—and the remainder through a variety of other state agency operating and/or program reductions.

<p>Table 1 Governor's Unallotment Plan, FY 2008-2009 <i>(\$'s in Thousands)</i></p>		
Projected Deficit		\$426,297
Use of the Reserve		<u>(\$154,922)</u>
Remaining Deficit		\$271,375
Unallotments		
Reduce Aid to Cities (LGA and Market Value Credit)		66,009
Reduce Aid to Counties		44,006
Reduce Human Service Payments		72,757
Reduce Higher Education Funding		40,000
Reduce State Agency Operations & Programs*		40,203
Minnesota Housing Fund Reduction		4,000
Reduce 21 st Century Minerals Fund Balance		1,500
Reduce Minnesota Investment Fund		700
Voluntary Legislative Budget Reductions		2,200
Total Unallotments		\$271,375
Revised Projected Budget Balance		- 0 -

* Note that these amounts have not yet all been itemized so the allocation to agencies and programs may change.

The \$426.3 million shortfall amounts to about 1.2 percent of FY 2008-2009 spending. As summarized in Table 2, the unallotments were concentrated in Health and Human Services and Tax Aids and Credits, however, as a proportion of the budget, the reductions reflect about 0.5 percent to 1.5 percent for many budget areas with the reduction to Tax Aids and Credits reflecting the largest percent reduction at 3.5 percent. Based on the information provided on unallotments thus far, over \$10 million has yet to be allocated to agencies or programs. Following is a brief summary of the planned unallotments by budget area.

Table 2
General Fund Spending by Budget Division, FY 2008-09
(\$'s in millions)

	November Forecast	Governor's Unallotments*	Percent Reduction in Budget Area*	Share of Unallotments*
E-12 Education	13,789.4	-1.6	0.01 %	0.6 %
Higher Education	3,139.9	-40.4	1.3 %	14.9 %
Health & Human Services*	9,682.5	-80.7	0.8 %	29.7 %
Agriculture & Veterans	182.7	-1.5	0.8 %	0.6 %
Environment, Energy & Nat Resources	423.1	-6.9	1.6 %	2.6 %
Economic Development	433.1	-7.8	1.7 %	2.8 %
Public Safety	1,130.6	-0.3	0.03 %	0.1 %
Judiciary	745.0	0.0		
Transportation	255.4	-0.6	0.2 %	0.2 %
State Government	706.8	-11.6	1.6 %	4.3 %
Property Tax Aids & Credits	3,151.8	-110.0	3.5 %	40.5 %
Debt Service & Capital Projects	882.6	0.0		
Other (To Be Determined)	88.7	-10.0	Na*	Na*
Total	34,611.6	-271.4		

* Note that these amounts and percentages may change as all of the unallotments become itemized and the \$10 million yet unallocated is identified for specific agencies or programs.

Tax Aids and Credits

Reductions in property tax aids and credits to cities and counties account for \$110 million of the Governor's total unallotment proposal. The reduced aid payments are from a combination of the December 2008 payments of local government aid (LGA), county program aid (CPA), and market value homestead credit (MVHC) reimbursements.

The aid reductions are based on across-the board reductions equal to a set percentage of a city or county's 2008 certified property tax levy plus certified state aids. The unallotment is taken first from the December 2008 state aid payment (either LGA or CPA) and then from the MVHC reimbursement if state aid is not enough to cover the targeted levy / aid reduction. Cities with populations of less than 1,000 are exempt and counties with populations of less than 5,000 are exempt.

Cities were slated to receive \$242.1 million in LGA and \$37.9 million in MVHC for a total of \$280 million in December. The LGA and MVHC payments will be reduced by \$66 million, or 23.6 percent (see table below) less than the payments that would have occurred in December for the two programs combined. Cities receive a 4.08 percent reduction in 2008 certified levy and aid combined. For some cities the combined December 2008 LGA and MVHC aid payments are less than 4.08 percent of their certified levy plus aid. As a result, the actual aid reduction is less than the targeted percentage. Eighty-eight cities had aid reductions between 0.20 percent and 3.88 percent of total 2008 levy plus aid. Because the unallotment is taken from a combination of LGA and MVHC, 59 cities that are not eligible to receive LGA lost either all or a

portion of their MVHC reimbursements; 505 cities are exempt from the aid reductions based on population.

Counties were scheduled to receive \$102.5 million in CPA and \$63.4 million in MVHC for a total of \$165.9 million in December. When combined, these payments will be reduced by \$44 million or 26.5% (see table below). Counties receive a 1.68 percent reduction in 2008 certified levy and aid combined. Four counties are exempt from the aid reductions based on population.

Summary of Unallotted City and County Aids and Credits (000's)				
Programs	Base Dec. 2008 Payment	Amount Unallotted	Reduced Payment	Percent Reduction
City:				
LGA	242,074	53,510	188,564	22.0%
MVHC	37,905	12,500	25,405	32.9%
Total	279,979	66,009	213,969	23.6%
County:				
CPA	102,459	43,949	58,511	42.9%
MVHC	63,438	57	63,382	0%
Total	165,897	44,006	121,893	26.5%

More detailed information on the distributions for December 2008 city and county aid unallotments are available on the Senate website under "taxes":

<http://www.senate.leg.state.mn.us/departments/fiscalpol/tracking/index.php>.

For questions or more information on this section, contact Jack.Paulsen@senate.mn or Susan.VonMosch@senate.mn.

E-12 Education

Reductions in the operating budget for the Minnesota Department of Education have not yet been itemized. No unallotments were made to education programs or aids to school districts.

For questions or more information on this section, contact Eric.Nauman@senate.mn.

Higher Education

The governor unallotted \$40 million from the appropriations to higher education systems in Minnesota, with \$20 million each allocated to the University of Minnesota and Minnesota State Colleges and Universities. The governor allows the governing boards of the higher education systems to determine how to allocate the reductions, including use of system or campus level reserves. The Minnesota Office of Higher Education has been asked to provide to the governor

reductions totaling \$400,000 as part of the governor's state agency unallotment.

For questions or more information on this section, contact Dennis.Albrecht@senate.mn.

Health & Human Services

The Governor unallotted \$72.757 million from FY 2009 appropriations to the Department of Human Services for and \$1.7 million of unspent appropriations to the Department of Health . The reductions are shown below.

Health and Human Services Governor's FY 2009 Unallotments	
Change Items (dollars in thousands)	FY 2009
<i>Department of Human Services</i>	
Reduction to the Chemical Dependency Consolidated Treatment Fund	(17,000)
MERC Payment Shift	(28,000)
Hospital Quarterly Supplemental Payments/DSH	(10,000)
Mental Health Initiative Grants	(2,000)
Community Service/Service Development Grants	(98)
Shift Adult Mental Health Grant Payments to FY 09	(6,000)
Cap Waiver Growth	(2,718)
Housing Grants For Persons Eligible for MA Waiver Services	(250)
Adoption Assistance/Relative Custody Assistance Underspending	(6,000)
Medical Assistance Patient Health Incentive Grants	(491)
Medical Assistance Outreach Bonus Payments	(200)
DHS Administrative Reduction	(6,000)
<i>Department of Health</i>	
MDH Administrative Reduction	(1,700)
Total	(80,457)

The largest reductions were made in the areas of hospital payments, chemical and mental health grants and adoption grants. Hospitals lost \$38 million in payments, \$10 million of which will come from the elimination of the remaining quarterly supplement hospital payments for FY 2009. The remaining \$28 million reduction to hospital payments came from the Medical Education Research Costs (MERC) account. MERC annually receives \$51 million from the general fund to provide funding for clinical training of selected medical professions by compensating teaching facilities for a portion of the costs of clinical training. Payments to providers are typically made in December of the next fiscal year. A payment shift could be established by the Legislature which would delay the impact of this reduction. If a shift is not implemented, then hospitals would lose these payments in FY 2010. Additionally, if the MERC payments are not made the general fund would lose \$28 million in FY 2010 because the state budget forecast assumes the federal match on these payments will be deposited into the general fund.

The Governor also made a reduction of \$17 million to the Chemical Dependency Treatment Fund.

This amount reflects the balance of the fund after forecasted spending for FY 2009. Similarly, the appropriation for the Adoption Assistance/Relative Custody Assistance program was reduced by \$6 million because funding for the program exceeds projected spending in this fiscal year. Mental health grants were reduced by \$8 million, \$2 million of which was appropriated for new mental health treatment activities and \$6 million for a shift from FY 2009 to FY 2010 of county mental health grants. Enrollment in waiver services programs for the physically disabled, developmentally disabled and those with traumatic brain injuries was capped for a savings of \$2.7 million in FY 2009. The Governor also unallotted \$6 million in unspent administrative funds from the Department of Human Service's operating budget and \$1.7 million unspent administrative funds from the Department of Health's operating budget. The specific programs or allotments to be reduced have not been identified.

For questions or more information on this section, contact David.Godfrey@senate.mn.

Agriculture & Veterans

The Governor unallotted \$1.5 million from the Department of Agriculture's unspent appropriations for state agency operations. No unallotments were made to the Department of Veterans Affairs or to the Department of Military Affairs.

For questions or more information on this section, contact Daniel.Mueller@senate.mn.

Environment, Energy & Natural Resources

The Governor unallotted \$5.5 million from the Department of Natural Resources' unspent operations and \$1.4 million from the Pollution Control Agency's unspent operations. The specific programs or allotments to be reduced have not yet been identified.

For questions or more information on this section, contact Daniel.Mueller@senate.mn.

Economic Development

The state's economic development functions received a total budget reduction of \$7.8 million under the Governor's plan to balance the budget for the current biennium (FY 2008-09).

The Governor's unallotment of \$4 million in the Housing Finance Agency includes \$2.6 million from uncommitted dollars in the Community Revitalization Fund for which Housing Finance planned to seek requests for proposals in spring 2009. In addition, a total of \$1.1 million was unallotted from the disaster relief contingency account, \$585,000, and the flood capacity building grant accounts, \$515,000. The balance of the \$4 million unallotment by the Governor includes \$300,000 from unspent balances on smaller agency accounts such as the rehabilitation loan program.

Within the Department of Employment and Economic Development the Governor unallotted two

economic development incentive programs for a total of \$2.2 million, including \$700,000 unallotted from the Minnesota Investment Fund, which is used to assist local units of government to improve and strengthen their business and economic base by providing financing for business expansion and relocations. In addition, \$1.5 million was unallotted from the 21st Century Minerals Fund, which is used to invest in value-added mineral processing to assist the state's mining industry in the global economy.

There were also agency operating budget reductions of \$1.6 million within the Economic Development Funding area. These reductions were in the departments of Commerce, \$500,000; Employment and Economic Development, \$900,000; Labor and Industry, \$100,000; and Mediation Services, \$100,000.

For questions or more information on this section, contact David.Jensen@senate.mn.

Public Safety

The Department of Corrections and Public Safety were not asked to identify unallotments. The only agency targeted for unallotment was the Department of Human Rights. The tentative amount is \$300,000, or ten percent of the agency's 2009 operating budget.

For questions or more information on this section, contact Chris.Turner@senate.mn.

Judiciary

The Governor does not have the authority to unallot unexpended appropriations for the judiciary and the unallotment plan does not include any voluntary budget reductions for the judiciary.

Transportation

The Governor's unallotment target for the Department of Transportation is \$600,000, or ten percent of the agency's unspent operations for 2009. The Department of Public Safety was not asked to identify potential cuts to its transportation programs.

For questions or more information on this section, contact Krista.Boyd@senate.mn.

State Government Finance

Reductions of ten percent were made in the operating budgets of the Department of Administration, the Governors Office, the Office of Enterprise Technology, Minnesota Management and Budget, the constitutional offices, which include the Attorney General, Secretary of State and State Auditor. The reduction for the Department of Revenue equaled three percent. The smaller reduction for this agency reflects the fact that about two-thirds of the Department of Revenue budget supports revenue collecting functions and would result in revenue losses if funding was reduced. The reductions to the state agencies and the constitutional offices total \$9.4 million.

The Governor does not have the authority to unallot unexpended appropriations for the Legislature. The Legislature has voluntarily agreed to budget reductions totaling \$2.2 million. The House of Representatives and Senate each agreed to a reduction of \$800,000 with the Legislative Coordinating Commission taking a \$600,000 reduction.

For questions or more information on this section, contact Kevin.Lundeen@senate.mn.

Fiscal Issue Briefs offer background information and analyses on the budget process and specific budgeted issues related to matters that have been or are likely to be addressed by the Legislature. Senate Fiscal Issue Briefs can be viewed on the Office of Counsel, Research & Fiscal Analysis web site at www.senate.leg.state.mn.us/departments and follow the links to the Office of Counsel, Research, and Fiscal Analysis.
