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GOVERNOR PAWLENTY TAKES ACTION TO BALANCE CURRENT STATE BUDGET

~ Spending reductions won't impact military, veterans, K-12 education, and public safety

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Saint Paul – Governor Tim Pawlenty today announced a plan to use the remaining \$155 million in reserve funds and trim \$271.4 million in state expenditures to balance the state's budget for the current fiscal year.

“Families and businesses across the country are tightening their belts and government needs to do the same thing,” Governor Pawlenty said. “These reductions in state spending reflect our priorities to protect funding for K-12 education, public safety, military, and veterans. As much as possible, we have worked to minimize the impact of these cuts by reducing accounts with surplus balances or excess funds that have not been spent or committed to projects. I also appreciate the legislature's constructive input that helped us arrive at these decisions.”

Through a process known as unallotment, the Governor has the authority to reduce the amount of state spending to prevent a deficit. Minnesota law requires a balanced budget by the end of each two-year budget cycle.

The current two-year budget period (FY 2008-09) began on July 1, 2007 and runs through June 30, 2009. The state general fund budget is \$34.6 billion. For the current budget period, Minnesota has a projected shortfall of \$426 million. Applying the \$155 million budget reserve to the projected deficit leaves a remaining deficit of \$271.4 million that is being addressed through reductions in state spending.

The Governor's spending reductions of \$271.4 million include:

- \$66 million Reduction of local aids and credits to cities
- \$44 million Reduction of local aids and credits to counties
- \$73 million Reduction in human services spending
- \$40 million Reduction in appropriations to the University of Minnesota and the Minnesota State Colleges and Universities

- \$40 million 10 percent reduction in most state agency unexpended operating Budgets
- \$4 million From the unspent balance in the Minnesota Housing Finance Agency Fund
- \$2.2 million Voluntary reduction of the Legislature’s unexpended funds
- \$1.5 million From the 21st Century Minerals Account
- \$700,000 From the Minnesota Investment Fund

Reduction in local government aids and credits - \$110 million

The Governor is reducing state aids and credits to cities and counties by \$110 million. That amount will be deducted from a larger amount to be distributed to cities and counties on December 26, 2008.

County aid is being reduced by \$44 million – which is a reduction of 1.68 percent of each county’s annual aid plus levy. The four counties with a population of less than 5,000 are exempted from these reductions.

City aid is reduced by \$66 million – which is a statewide average 3.03 percent reduction from cities’ annual aid plus levy. No city’s reduction exceeds 4.08 percent of annual aid plus levy. Cities with population of less than 1,000 are exempted from these reductions.

The Governor decided to exempt small counties and cities based on input from local government officials because they have less flexibility and fewer options to deal with budget challenges. In effect, 60 percent of Minnesota cities (505 of 854) will not experience a reduction in their December payment.

“These are modest reductions that local governments should be able to handle without impacting key services like public safety,” Governor Pawlenty said.

Reduction in human services spending – \$73 million

The Department of Human Services budget represents approximately 28 percent of the state’s general fund budget and is a major cost-driver in state government. In an effort to avoid direct impacts to individuals, Governor Pawlenty reduced \$73 million in spending - less than one percent of the agency’s total biennial general fund appropriation.

Of these reductions, \$28 million will come from the Medical Education Research Costs (MERC) account. MERC receives \$51 million annually from the general fund to provide

funding for the clinical training of selected medical professions by compensating teaching facilities for a portion of the costs of clinical training provided in patient care settings.

Another \$10 million will come from add-on payments to hospitals to treat Medical Assistance patients. This reduction will not affect base payment rates to hospitals.

Additionally, the following unexpended grants and fund balances will be unallotted:

- \$17 million - Consolidated Chemical Dependency Treatment Fund Balance
This amount is excess and is beyond the projected level of use of this program for the fiscal year. These funds would not be utilized during this fiscal year.
- \$2 million - New Mental Health Grants
These unspent dollars were intended to encourage health care providers to integrate mental health care with traditional health care. An existing delay in the start of newly expanded mental health grants to counties means these funds would not have been spent in the current fiscal year.
- \$6 million - Mental Health Grants
Existing law allows the state to make this quarterly payment in the next fiscal year.
- \$98,000 - Community Service/Service Development (CSSD) Grants
These grants are provided to non-profits and are traditionally used to enhance their properties. This grant balance has not been awarded, nor have any applications yet been received for this amount.
- \$2.717 million - Growth in Medical Assistance (MA) waiver programs
This caps enrollment growth in programs which encourage individuals to stay in homes rather than in institutions. There will be no disruption in services for those currently enrolled in these programs.
- \$250,000 - Housing Grants
These grants would have been used for persons eligible for MA waived services (see previous paragraph) but have not been awarded.
- \$6 million - Adoption Assistance/Relative Custody Assistance
The funding appropriated for this program exceeds projected spending for the current fiscal year. Funds would otherwise cancel at the end of the current fiscal year.
- \$491,000 - Patient incentive grants
These grants were intended to fund incentives for patients in publicly-funded programs to maintain their health. The grant program has not been fully developed and therefore these funds are not committed in the current fiscal year.

- \$200,000 - Outreach bonus payments
These grants provide cash bonuses of \$25 to entities who enroll people in certain publicly-subsidized health care programs. The amount appropriated for outreach bonus payments would not otherwise be spent this fiscal year.

Reduction from appropriations to the University of Minnesota and the Minnesota State Colleges and Universities – \$40 million

Funding for the University of Minnesota and the Minnesota State Colleges and Universities (MnSCU) will each be reduced \$20 million, for a total of \$40 million. For the remainder of FY09, the reductions represent approximately five percent of the unexpended general fund appropriation for each.

“These reductions present a challenge, but the availability of reserves and unspent state appropriations at these institutions should allow them to respond without dramatic impact on students,” Governor Pawlenty said. The MnSCU system has approximately \$70.8 million in reserves across all campuses and about \$7 million in central reserves. The University of Minnesota has \$15 million in central reserves and \$50 million of unspent state appropriations not needed to cover binding obligations.

A 10 percent reduction in most state agency unexpended operating budgets and a voluntary reduction of the Legislature’s unexpended funds – \$42.2 million

Governor Pawlenty ordered state agencies to target 10 percent of unspent operating funds to be used to reduce the current shortfall. State agencies will submit detailed plans to meet this target by January 1. Areas exempted from these immediate state agency actions include public safety, military and veterans affairs, and corrections. These steps are in addition to hiring restrictions placed on state agencies and boards in February 2008 and the Governor’s recent directive to immediately reduce travel and cut performance increases.

The Governor requested the Legislature consider a voluntary reduction of its unexpended funds to help solve the current deficit. Legislative leaders have offered \$2.2 million.

Minnesota Housing Finance Agency Fund – \$4 million

The Minnesota Housing Finance Agency Fund contains money previously transferred from the General Fund. The MHFA Fund currently has an unobligated balance of \$17.7 million. Of this total, \$4 million is unallotted leaving \$13.7 million for projects.

21st Century Minerals Account – \$1.5 million

The 21st Century Minerals Account contains money previously transferred from the General Fund. The \$1.5 million unallotment represents a small amount of the fund that is not committed to specific projects at this time.

Minnesota Investment Fund/Biomass Heating Grants Program – \$700,000

No applications have been submitted for this available grant money and no funds have been expended.