



STATE OF MINNESOTA

Office of Governor Tim Pawlenty

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

March 17, 2009

Senator Larry Pogemiller
Senate Majority Leader
235 State Capitol

Senator Richard Cohen
121 State Capitol

Senator David Senjem
147 State Office Building

Representative Margaret Anderson Kelliher
Speaker of the House
463 State Office Building

Representative Loren Solberg
443 State Office Building

Representative Marty Seifert
267 State Office Building

Representative Lyndon Carlson
479 State Office Building

Re: Update to Biennial Budget Recommendations

Dear Senators Pogemiller, Cohen, and Senjem, and Representatives Kelliher, Solberg, Seifert, and Carlson:

As you know, I submitted my budget recommendations for the 2010-11 biennium on January 27, 2009, as required by statute. In light of the February 2009 forecast and the funding available through the American Recovery and Reinvestment Act (federal stimulus legislation), I thought it may be helpful to provide you with some recommended changes to my January budget. They are presented below.

K-12 Education

- My January budget increased spending for K-12 education even during these challenging economic times. This increase is strategically important to the future of our state. Federal stimulus funding makes it possible to achieve significant General Fund savings in K-12 education while providing an even larger K-12 funding increase than I previously proposed. Specifically, I propose using \$424 million in FY10-11 of federal stabilization funds for this purpose. This will increase my K-12 funding recommendation to \$14.1 billion.

Higher Education

- Previously proposed reductions in funding for the University of Minnesota and the Minnesota State Colleges and University system should be restored. In light

of the funding levels being restored, I renew my recommendation that both systems freeze or cap tuition increases.

- Funding for the Pell grant program was increased under the federal stimulus legislation. This increased funding should be used to supplement our existing state grant program so that financial assistance to qualified students is increased. The Office of Higher Education has prepared a proposal to accomplish this and will be communicating the details to you shortly.

Human Services

- In light of the requirements of the federal stimulus legislation, I am now proposing to delay until January 2011 certain eligibility related funding reductions. These delayed reductions will temporarily restore eligibility for Medical Assistance as well as MinnesotaCare eligibility for parents.
- Despite federal stimulus legislation requirements which temporarily hinder our ability to reform Medical Assistance, our health care reform efforts need to move forward. I propose saving \$172 million from the state's general fund by reconfiguring the General Assistance Medical Care (GAMC) program so care is provided in clinics, where appropriate, not in emergency rooms. Current inpatient coverage would also be replaced with a more straightforward subsidy to hospitals through an uncompensated care pool. This pool would be augmented with a more limited set of outpatient benefits including physician, pharmacy, laboratory, and mental health services. Care coordination will also be piloted. These services are intended to reduce emergency room visits and hospitalizations.

Funding for Federal Stimulus Match and Reporting Requirements

- I recommend an appropriation of \$10.7 million to ensure Minnesota is able to compete for and manage federal stimulus funds. This appropriation will be used for known matching requirements in areas such as health information technology, as well as yet to be identified state match requirements. A portion of these funds will be used to oversee and report the use of federal funds to ensure compliance with all applicable requirements.

Public Safety

- I recommend repealing the requirement that short-term offenders serve their sentence at the local level. Instead, such offenders will serve their time at Department of Corrections facilities. This will relieve a significant financial burden on counties. It will cost the state \$8.2 million in FY10-11.

Exempting Unemployment Insurance Benefits from State Income Taxes

- I recommend exempting up to the first \$2,400 in unemployment insurance benefits to individuals from state income taxes in tax year 2009 in conformance with federal law. This is a one-time \$28.3 million dollar expense.

Additional Assistance for the Courts

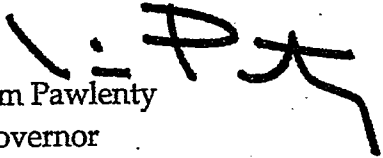
- I recommend an additional \$10 million for the operation of the courts. This is one time funding for FY10-11.

These recommendations present a balanced budget for FY10-11. It is difficult to project financial conditions four years into the future. Nonetheless, I am submitting proposed spending levels that achieve structural balance for FY12-13. Those proposed spending levels are attached. In summary, we are proposing to hold state funding for Health and Human Services and Property Tax Aids and Credits at FY10-11 levels and are reducing spending for state government.

Attached to this letter is summary level financial information depicting the changes I am recommending today as compared to the budget I submitted in January. More detailed information regarding these changes and other miscellaneous recommendations will be transmitted to you by Commissioner Hanson shortly.

Minnesota Management and Budget will supply any further details that you may require regarding budget book information and implementing language regarding my proposed FY10-11 budget. I look forward to working with you to bring this legislative session to a productive and timely conclusion.

Sincerely,


Tim Pawlenty
Governor

By hand delivery

cc: Commissioner Tom Hanson
Finance and Budget Division Chairs
Bill Marx
Matt Massman