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↻ Designates that this item is a change item



January 27, 2009

The 2009 Minnesota Legislature

On behalf of Governor Pawlenty, following is the Department of Commerce budget recommendation for the FY2010-11 budget. This budget includes a total request of \$552.8 million. The request includes \$44.6 million from the state's general fund and \$508.2 million from all other funds. This recommendation includes a net \$2.1 million in general fund savings and \$62,000 in reductions from other funds.

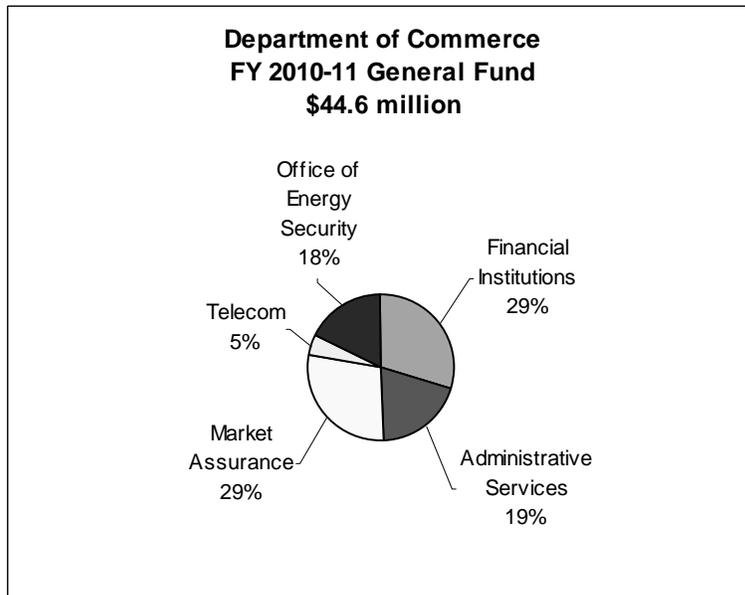
The recent down turn in the financial and real estate markets has increased the regulatory load of our Market Assurance team. In fiscal year 2008, the Department opened 6,754 cases and took 428 enforcement actions against

licensees and companies in real estate, mortgage, insurance, securities collections and several other business areas. In addition, the Department has dramatically increased the number of cases handed over to county, state and federal prosecutors for criminal prosecutions. During 2008 the Department also completed its transition to online licensing for the more than 200,000 licenses we issue each year.

The Office of Energy Security, housed in the Department of Commerce, is challenged to give more attention to the growing number of transmission cases coming before the Public Utilities Commission. The increase in these complex cases will draw more resources to ensure we do not lose ground in the effort to ensure Minnesota's energy security. The Office of Energy Security is also charged with carrying out the administration's goals for expanding the use of alternative fuels in Minnesota and encouraging and promoting the development of locally owned wind energy projects.

Additionally, the Department continues to administer programs in weights and measures, petroleum cleanup, unclaimed property and telecommunications. We also administer a significant federal grant for the state's low income heating and energy assistance program (LIHEAP).

As the accompanying chart indicates, our General Fund activities are carried out in five major program areas: Market Assurance, Financial Institutions, Telecommunications, Office of Energy Security, and Administration.



It is important to note that during the 2010-11 biennium the Department expects to collect \$688.7 million through fees, assessments, registrations, unclaimed property, special revenue, and federal funds. This amount represents 125% of the Department's total budget.

We look forward to working with the Legislature during the next several months to continue to progress toward our common goal of providing the best service possible to the people of Minnesota.

Sincerely,

A handwritten signature in cursive script that reads "Glenn Wilson".

Glenn Wilson
Commissioner

Agency Purpose

The Minnesota Department of Commerce (DOC) protect consumers by ensuring secure, stable, reliable, and fair commercial and financial transactions in more than 20 industries and utilities. The department accomplishes this through:

- ◆ investigating and resolving consumer complaints;
- ◆ regulating and licensing business activity to ensure compliance, responsible business conduct, security and stability;
- ◆ safeguarding consumers' rights and investments;
- ◆ advocating in front of the Public Utilities Commission to ensure equitable and reliable utility services; and,
- ◆ expanding economic opportunities while working to improve our environment and quality of life.

Core Functions

The DOC regulates utilities, financial institutions, licensed businesses, licensed individuals, retail businesses, and commercial activity without respect to the specific interests of either the regulated businesses or the clients they serve. The department's regulatory decisions maximize the net benefits to all residents and regulated businesses, while safeguarding the rights of consumers, and protecting policyholders and investors from financial failure.

Operations

The department enforces laws and rules, advocates on behalf of the public, and provides services to promote the financial well being of a broad constituency of individuals and businesses. To carry out its mission, the department must assess the significant consequences of every regulatory decision and enforcement action, including the impact on consumer costs, financial stability, reliability of service, the environment, and economic development. This carefully designed regulatory balance effectively protects the broad financial interests of Minnesota's businesses and consumers.

Financial Institutions Division:

- ◆ Licenses, examines and regulates insurance companies, credit unions, state chartered banks, mortgage companies, finance companies, and other financial institutions to ensure that they remain safe and financially solvent.

Petrofund:

- ◆ Reimburses petroleum storage tank owners and operators for the cost of investigating and cleaning up petroleum tank releases.
- ◆ Contracts to remove abandoned underground petroleum storage tanks across Minnesota.

Administration:

- ◆ Leads and directs the department, manages day-to-day operations, manages financial and human resources operations.
- ◆ Provides unclaimed property reclamation services to the people of Minnesota.
- ◆ Provides information management services and technical support to the department.

At A Glance

FY 2008-09 Budget:

- ◆ \$51.4 million general fund
- ◆ \$346.9 million all funds

Annual Business Processes:

- ◆ 6,754 Market Assurance Division investigation files opened.
- ◆ \$2.6 million In fines and penalties recovered by the Market Assurance Division.
- ◆ \$2 million Recovered in claims payments for consumers.
- ◆ \$20.7 million Reimbursements from the Petro fund.
- ◆ 126,000 Low income households served by LIHEAP and Weatherization.
- ◆ \$101.7 million Federal funds disbursed to low income households.
- ◆ 60,000 Weights and Measures inspections.
- ◆ 226,000 Licensed professionals and entities.
- ◆ 461 million Kilowatt hours of electricity saved through CIP.
- ◆ 1.92 billion Cubic feet of natural gas saved through CIP.

Market Assurance Division:

- ◆ Enforces compliance and responsible business conduct across a broad range of licensed occupations, including insurance agents, stock and investment brokers, and realtors.
- ◆ Evaluates insurance policies and rates to ensure fair rates and to ensure compliance with Minnesota law.
- ◆ Registers securities sold in Minnesota.
- ◆ Licenses businesses and individuals according to Minnesota statutes.

Office of Energy Security:

- ◆ Advocates on behalf of consumers and ratepayers in proceedings relating to regulated gas and electric utilities.
- ◆ Promotes energy efficient building, conservation, alternative transportation fuels, and modern energy technologies.
- ◆ Oversees conservation improvement programs operated by public, municipal, and cooperative utilities.
- ◆ Administers the Low Income Home Energy Assistance Program and the Weatherization Assistance Program.

Telecommunications Division:

- ◆ Advocates on behalf of consumers and ratepayers in proceedings relating to regulated telecommunications utilities.
- ◆ Promotes real competition among telecommunications companies in Minnesota.

TAM:

- ◆ Funds telecommunications access services for Minnesotan's with hearing, vision, speech, or physical disability.

Weights and Measures Division:

- ◆ Ensures accuracy in all transactions based on weight or measure.
- ◆ Ensures consistent quality of petroleum products.
- ◆ Provides precision mass, temperature, density and volume measurement services to businesses.

Budget

The department's FY 2008-09 budget totaled \$346.9 million. Department staff includes 312 full-time equivalents.

Contact

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Information on the department's results can be found at
<http://departmentresults.state.mn.us/commerce/index.html>

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2010-11
	FY2008	FY2009	FY2010	FY2011	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	29,808	21,590	21,590	21,590	43,180
Recommended	29,808	21,590	22,307	21,307	43,614
Change		0	717	(283)	434
% Biennial Change from 2008-09					-15.1%
Petroleum Tank Release Cleanup					
Current Appropriation	1,084	1,084	1,084	1,084	2,168
Recommended	1,084	1,084	1,084	1,084	2,168
Change		0	0	0	0
% Biennial Change from 2008-09					0%
Workers Compensation					
Current Appropriation	835	835	835	835	1,670
Recommended	835	835	751	751	1,502
Change		0	(84)	(84)	(168)
% Biennial Change from 2008-09					-10.1%
<u>Expenditures by Fund</u>					
Direct Appropriations					
Environment & Natural Resource	217	395	0	0	0
General	22,228	27,634	23,307	21,307	44,614
Petroleum Tank Release Cleanup	785	1,383	1,084	1,084	2,168
Workers Compensation	828	842	751	751	1,502
Open Appropriations					
Petroleum Tank Release Cleanup	10,847	15,186	15,186	15,186	30,372
Statutory Appropriations					
State Government Spec Revenue	210	0	0	0	0
Miscellaneous Special Revenue	22,275	43,484	33,393	33,236	66,629
Federal	111,526	202,223	203,810	203,790	407,600
Miscellaneous Agency	111	388	374	0	374
Total	169,027	291,535	277,905	275,354	553,259
<u>Expenditures by Category</u>					
Total Compensation	24,502	30,312	28,671	28,958	57,629
Other Operating Expenses	30,752	39,323	37,568	36,737	74,305
Local Assistance	113,393	221,400	211,421	209,374	420,795
Other Financial Transactions	380	500	245	285	530
Total	169,027	291,535	277,905	275,354	553,259
<u>Expenditures by Program</u>					
Financial Institutions	10,315	10,252	9,832	9,832	19,664
Petroleum Tank Cleanup Fund	11,632	16,569	16,270	16,270	32,540
Administrative Services	4,856	6,833	5,585	5,535	11,120
Telecommunications	0	0	1,010	1,010	2,020
Market Assurance	10,034	12,747	13,831	13,521	27,352
Office Of Energy Security	123,516	235,671	222,298	220,045	442,343
Tam	5,190	6,091	5,790	5,798	11,588
Weights & Measures	3,484	3,372	3,289	3,343	6,632
Total	169,027	291,535	277,905	275,354	553,259
Full-Time Equivalent (FTE)	311.0	316.1	316.1	312.0	

<i>Dollars in Thousands</i>				
	FY2009	Governor's Recomm.		Biennium
		FY2010	FY2011	2010-11
Fund: GENERAL				
FY 2009 Appropriations	21,590	21,590	21,590	43,180
Technical Adjustments				
Current Law Base Change		750	(250)	500
Pt Contract Base Reduction		(2)	(2)	(4)
Subtotal - Forecast Base	21,590	22,338	21,338	43,676
Change Items				
Administrative Services Reduction	0	(411)	(411)	(822)
Investigation Cost Recovery	0	680	680	1,360
Product Review & Registration Changes	0	(300)	(300)	(600)
Total Governor's Recommendations	21,590	22,307	21,307	43,614
Fund: PETROLEUM TANK RELEASE CLEANUP				
FY 2009 Appropriations	1,084	1,084	1,084	2,168
Subtotal - Forecast Base	1,084	1,084	1,084	2,168
Total Governor's Recommendations	1,084	1,084	1,084	2,168
Fund: WORKERS COMPENSATION				
FY 2009 Appropriations	835	835	835	1,670
Subtotal - Forecast Base	835	835	835	1,670
Change Items				
Investigation Cost Recovery	0	(84)	(84)	(168)
Total Governor's Recommendations	835	751	751	1,502
Fund: PETROLEUM TANK RELEASE CLEANUP				
Planned Open Spending	15,186	15,186	15,186	30,372
Total Governor's Recommendations	15,186	15,186	15,186	30,372
Fund: MISCELLANEOUS SPECIAL REVENUE				
Planned Statutory Spending	43,484	33,136	32,979	66,115
Change Items				
Administrative Services Reduction	0	235	235	470
Investigation Cost Recovery	0	22	22	44
Total Governor's Recommendations	43,484	33,393	33,236	66,629
Fund: FEDERAL				
Planned Statutory Spending	202,223	203,810	203,790	407,600
Total Governor's Recommendations	202,223	203,810	203,790	407,600
Fund: MISCELLANEOUS AGENCY				
Planned Statutory Spending	388	374	0	374
Total Governor's Recommendations	388	374	0	374
<u>Revenue Change Items</u>				
Fund: GENERAL				
Change Items				
Investigation Cost Recovery	0	754	754	1,508
Office of Energy Security Assessment	0	284	284	568

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	\$ (411)	\$ (411)	\$ (411)	\$ (411)
Revenues	0	0	0	0
Special Revenue Fund				
Expenditures	235	235	235	235
Revenues	0	0	0	0
Net Fiscal Impact	\$ (176)	\$ (176)	\$ (176)	\$ (176)

Recommendation

The Governor recommends an annual reduction of \$411,000 in the Administrative Services division. This reduction will require a decrease of 3.5 full-time equivalent (FTE) between human resources, general support, word processing and the records information center. In addition, three FTE currently funded using the general fund will be paid from the agency indirect cost account.

Background

Four areas in the department will be affected by this budget reduction.

Implementation will impact the services provided by our human resources department through the reduction of one FTE. We will no longer be able to provide guidance to employees who have general questions regarding their benefit packages and will also likely terminate our new employee orientation program. In addition, we will disperse administrative duties such as administering parking passes and building access cards.

The records information center will be reduced by five FTE which will affect how the department manages utility tariff books. Currently, this information is assembled by RIC staff for the Telecommunications division and the Office of Energy Security. Analysts will now have to gather this information from company websites.

Mailroom operations will be reduced by one FTE which will result in slower mail delivery to and from department staff, the elimination of most internal mail delivery, and the option to internally meter mail. In addition, the department will use the state’s central mail operation to process our mail.

Last, there will be a one FTE reduction between word processing and general support. The department is currently implementing an upgrade to the eFiling/eDockets application which will allow these areas to gain efficiency.

Relationship to Base Budget

The reduction is an annual 8.7% decrease to the Administrative Services base budget.

Key Goals and Measures

Enhancements to the eFiling/eDockets application will be closely monitored to verify that new functionality is relieving operational costs. This can be measured through the number of password change requests and other actions that will no longer require human intervention.

In addition, this proposal relates to Minnesota Milestone 36 – *Satisfaction with Government Services* in that this new system functionality will greatly benefit users of our on-line applications.

Alternatives Considered

No alternative were considered.

Statutory Change:

Minnesota Statutes, Chapter 237.07 will require changes.

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	\$680	\$680	\$680	\$680
Revenues	754	754	754	754
Other Fund				
Expenditures	(62)	(62)	(62)	(62)
Revenues	0	0	0	0
Net Fiscal Impact	\$(136)	\$(136)	\$(136)	\$(136)

Recommendation

The Governor recommends that the Market Assurance Division of the Department of Commerce change its business practices to recover a portion of the cost of examinations and investigations.

Currently, many of the insurance exams are conducted by outside contractors with the costs being billed back to the company being examined. By moving the examinations and investigations “in house,” the costs can be reduced and recovered through an assessment on the entities being examined or investigated. This will result in a net gain of \$74 thousand in the general fund. In addition, there will be an \$84 thousand reduction in workers’ compensation spending, and an increase in special revenue expenditures of \$22 thousand.

Background

Market Assurance conducts examinations of regulated entities in a number of industries. Such exams focus on the behavior of examined entities in the marketplace; e.g. are they complying with rating laws, marketing provisions, consumer services, etc. Commerce has the ability to charge the costs of such exams back to insurance companies. This proposal would allow Commerce to bill all regulated entities the costs associated with their examinations and investigations.

Currently, many of the insurance exams are conducted by outside contractors with the costs being billed back to the company being examined. This proposal would move the bulk of that work in-house and eliminate the need to contract with outside entities for market conduct examinations. By moving this work in-house, we can achieve a net savings to the general fund.

This proposal will add five additional FTE to the unit conducting examinations. To allow the examination team to focus on billable work, we move non-billable work to other units which will require two new FTEs for to our general investigations unit and one new FTE to the licensing unit.

There will also be a 1.3 FTE reduction in the workers’ compensation fund. This change will not have a large impact on the work since one FTE will be moved to the general fund and .3 FTE will be charged to the Insurance Fraud Prevention account in the special revenue account.

Relationship to Base Budget

This proposal is a 1.2% reduction in general fund spending and a 10% reduction in workers’ compensation fund spending but allows Market Assurance to continue fulfilling its mission of ensuring compliance and responsible business conduct in the industries it regulates.

Key Goals and Measures

Billing goals are set on a yearly basis and progress against those targets will be measured quarterly. In addition, this proposal relates to Minnesota Milestone 36 - *Satisfaction with Government Services* and Milestone 37 – *Price of Government* in that this proposal will decrease the costs related to the investigations referenced above.

Alternatives Considered

Market Assurance could lay off staff. Without commensurate reduction in the duties we are required to perform that would result in significant service and performance degradation.

Statutory Change: Replicate the examination fee authority found in 60A.03 in the general powers of the Commissioner found in Chapter 45.

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	\$ (300)	\$ (300)	\$ (300)	\$ (300)
Revenues	0	0	0	0
Net Fiscal Impact	\$ (300)	\$ (300)	\$ (300)	\$ (300)

Recommendation

The Governor recommends that all insurance rates and forms be regulated on a “file and use basis”, with the exception of workers’ compensation, annuities, and health (other than dental, excess accident and health, and vision). This change will continue the Department’s evolution from a front-end product review process to a back-end audit process. This change will create a quicker speed-to-market for most insurance products and allow for greater focus on insurance products that require a higher level of review. This proposal will eliminate three FTEs from the Insurance Product Filing and Registration Unit of the Market Assurance Division and will eliminate one FTE from the Securities Registration Area.

Background

After July 1, 2009 insurance products other than workers’ compensation, annuities, and health (other than dental, excess accident and health, and vision) will no longer be reviewed and approved prior to being made available to consumers. Companies will certify that their products are in compliance when filing with the Department but can immediately sell such products after filing them.

Commerce will monitor adherence to statutory requirements through the use of targeted audits of products offered and sold in the marketplace. This strategy will allow staff to focus its resources on the lines of coverage it has found to have the most compliance issues and allow less problematic lines to get to the market more quickly.

Relationship to Base Budget

This proposal is an annual 5% reduction in general fund spending from the Market Assurance budget.

Key Goals and Measures

This proposal relates to Minnesota Milestone 36 - *Satisfaction with Government Services* and Milestone 37 - *Price of Government* in that this proposal will decrease the costs related to the filings and registrations referenced above.

Beyond the reduction in FTE outlined, the effectiveness of this program will also be measured by the number of audits done annually. Our proposal is to do 12 audits quarterly.

Alternatives Considered

The fees for product filings could be increased, but that would result in a negative fiscal impact to our filers.

Statutory Change: Changes will be required to Minnesota Statutes, Chapters 61A, 62A, and 70A.

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	0	0	0	0
Revenues	\$284	\$284	\$284	\$284
Net Fiscal Impact	\$284	\$284	\$284	\$284

Recommendation

The Governor recommends that the Office of Energy Security modify its recovery of non-regulatory costs. Additional non-regulatory costs will be recovered in the general fund through an assessment on all energy utilities. Non-regulatory costs currently recovered through assessment of municipal utilities and electric cooperatives will be assessed to all energy utilities. This will result in a net annual \$284,000 in general fund cost recovery.

Background

At present, \$284,000 of OES annual general fund costs (9.5%) are not recovered through utility assessments. These costs are incurred in the State Energy Office which provides policy and program development, technical assistance, public information and outreach, and financing programs delivery and management to advance energy efficiency and renewable energy development in the state. As these activities indirectly support utility efforts to meet statutory mandates for energy-efficiency programs and renewable energy development, it would be appropriate to recover these costs through assessment. In addition, technical assistance activities that benefit all utilities are currently assessed only to municipal utilities and electric cooperatives. It is recommended that costs for those activities be assessed to all utilities.

Relationship to Base Budget

This proposal increases revenue equal to 9.5% of the Office of Energy Security general fund appropriation.

Key Goals and Measures

This proposal relates to Minnesota Milestone 55 – *Energy Use Per Person* and Milestone 56 – *Renewable Energy Sources* in that the State Energy Office provides consumer education to the citizens of Minnesota and promotes the use and production of renewable energy.

Alternatives Considered

None.

Statutory Change: Minnesota Statutes, Chapter 216B.62 and Chapter 216C.

Program Description

The Financial Institutions Division protects consumers by assuring competitive, safe, sound, and solvent financial services in Minnesota. By maintaining the soundness and solvency of a large number of financial institutions, the program assures consumers and businesses access to a broad range of financial products and services at competitive prices. The Bank and Credit Union component licenses and regulates all state chartered banks, trust companies, credit unions, certificate investment companies, thrift companies, and consumer credit companies. The Insurance component licenses and monitors the financial stability of insurance companies.

Program at a Glance

- ◆ In FY 2008, the Financial Institutions Division regulated:
 - ⇒ \$46 billion in bank, credit union, and finance company assets.
 - ⇒ \$236 billion in insurance company assets
- ◆ There have been no state bank failures since 2000 and no credit union failures since 1984.
- ◆ State banks operate from 862 offices, an increase of 71 since 2005.

Population Served

The Financial Institutions Division serves all Minnesota consumers and businesses that rely on banks, credit unions, finance companies, and insurance companies for financial products and services.

Services Provided

Bank and Credit Union Component

The unit licenses and conducts on-site examinations at all state-chartered banks, trust companies, credit unions, certificate investment companies and thrift companies on a 12 to 18 month cycle (determined by institution rating). Examinations are shared with the Federal Deposit Insurance Corporation (FDIC), Federal Reserve Bank and the National Credit Union Administration (NCUA). Oversight also includes monitoring quarterly financial reports.

The unit also licenses and examines consumer credit companies. Examinations are generally conducted on an 18-month cycle. Examinations focus on compliance issues rather than solvency or safety and soundness. There is no comparable federal regulation of the nonbank consumer credit industry.

The unit also licenses residential mortgage loan origination and servicing companies. Recent legislation requires these companies to conduct background checks on mortgage originators. An examination program was authorized by the legislature in 2007 and the exam program commenced in 2008.

The unit also licenses currency exchanges, payday lenders, money transmitters and debt management services providers.

The Division encourages the growth of state-chartered institutions. Healthy competition ensures numerous choices for consumers and business and drives down the cost of financial services. Several new financial products originated in state-chartered institutions and have spread nationwide.

Insurance Company/Actuarial Component

The unit's primary focus is to ensure the financial soundness and solvency of every insurance company doing business in Minnesota. If insurance companies headquartered in Minnesota are financially insecure, it is the Division's responsibility to formulate a plan to effect correction. If an insurer headquartered in another state becomes unstable, the Division would restrict the business they are allowed to conduct in Minnesota. If an insurance company failure is unavoidable, it is the unit's responsibility to manage the transition and to minimize any negative impact on Minnesota policyholders.

While there are discussions about a federal regulator for insurance, insurance regulation continues to be a state responsibility. Today, insurers are large, multi-state, multi-jurisdictional concerns, but regulation is still accomplished at the state level. There is no federal regulation of the insurance industry. The Insurance unit participates in the proceedings of the National Association of Insurance Commissioners (NAIC). The NAIC recommends model laws and regulatory standards for each state to adopt and encourages nationwide uniformity. However, these model acts are often adapted to conditions unique to Minnesota.

The unit performs two types of examinations -- the desk audit and the on-site field examination. Desk audits are based on quarterly and annual financial reports submitted by insurance companies. Analysts evaluate information, and develop a financial profile of every company doing business in Minnesota. The second method of monitoring solvency is the five-year on-site examination of domestic insurers. Examiners review insurance company books and records at the company headquarters. The examination is a full and complete review of financial condition. The examination is completed by staff or by special examiners (generally accounting firms). Additionally, the unit employs an actuarial staff to calculate and verify reserve adequacy of regulated insurance companies, and in various workers' compensation issues.

Funding

With respect to insurance companies, the program is partially supported by an appropriation from the general fund. Operating costs are also paid from the insurance examination revolving fund. The balance of the revolving fund cancels at the end of every fiscal year to the general fund. Revenues generated by this program are a result of examination fees, registration and filing fees, licensing fees, and transaction fees.

With respect to banks, credit unions, and finance companies, the program is funded by appropriations from the general fund, but all costs are recovered by assessments and examination fees charged to regulated entities. The assessment is billed at the beginning of a fiscal year at 103% of operating, agency indirect and Attorney General cost. The examination fee is set based on a formula calculating examiner salary and billing hours. Fees are also charged for applications relating to charter and license activity.

Key Program Goals

Protect mortgage consumers by creating a new system for examining mortgage origination companies that do business in Minnesota as directed by the legislature.

Continue to monitor the health of Minnesota's community banks and credit unions and take aggressive action if necessary to prevent a bank or credit union failure from affecting Minnesota consumers.

Lead the nation in risk-focused financial examinations, which focus more on critical factors and less on "bean counting," and reduce the cost of insurance regulation.

Stay current on all financial examinations of banks, credit unions, insurance companies and finance companies.

Key Program Measures

The Division is accredited by both the Conference of State Bank Supervisors (CSBS) and the National Association of Insurance Commissioners (NAIC).

Minnesota state banks continue to compare favorably in comparison to national averages for earnings, capital adequacy, and net loan losses. While the vast majority of state banks and credit unions are healthy and well-capitalized, we are seeing noticeable deterioration in credit quality, which leads to operating losses and increased possibility of failure. The examination schedule is up to date with no overdue examinations.

There have been no failures of Minnesota-headquartered insurance companies in many, many years. There have been no state bank failures since 2000 and no credit union failures since 1984.

	FY 2005	FY 2006	FY 2007	FY 2008
Banks, Credit Unions and Consumer Credit				
State banks	343	335	330	327
Branch offices	448	487	515	535
Examinations conducted	124	130	132	120
Bank assets (\$ in billions)	\$ 31.7	\$ 34.4	\$ 36.3	\$ 38.6
State credit unions	102	99	98	96
Consumer credit companies	158	175	174	183
Examinations conducted	156	173	150	157
Credit union assets (\$ in billions)	\$ 3.6	\$ 3.6	\$ 3.8	\$ 4.1
Insurance	FY 2005	FY 2006	FY 2007	FY 2008
Licensed insurance companies	1,337	1,396	1,409	1,422
New company licenses issued	31	22	39	32
Domestic insurance companies	85	81	79	77
Financial reviews conducted (desk audit)	1,388	1,429	1,479	1,470
On-site examinations	20	11	26	16

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COMMERCE DEPT

Program: FINANCIAL INSTITUTIONS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	6,489	6,637	6,637	6,637	13,274
Subtotal - Forecast Base	6,489	6,637	6,637	6,637	13,274
Total	6,489	6,637	6,637	6,637	13,274
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	6,069	7,057	6,637	6,637	13,274
Statutory Appropriations					
Miscellaneous Special Revenue	4,246	3,195	3,195	3,195	6,390
Total	10,315	10,252	9,832	9,832	19,664
<u>Expenditures by Category</u>					
Total Compensation	5,469	6,516	6,075	6,115	12,190
Other Operating Expenses	4,846	3,736	3,757	3,717	7,474
Total	10,315	10,252	9,832	9,832	19,664
<u>Expenditures by Activity</u>					
Financial Examinations	10,315	10,252	9,832	9,832	19,664
Total	10,315	10,252	9,832	9,832	19,664
Full-Time Equivalents (FTE)	65.4	65.4	66.8	66.8	

Program Description

The Petroleum Tank Release Cleanup Fund (Petrofund) contributes toward a cleaner environment and helps to prevent the pollution of Minnesota’s soil and water by providing eligible applicants reimbursement for a portion of their costs to investigate and clean-up contamination from leaking petroleum storage tanks.

Population Served

The Petrofund directly serves owners and operators of petroleum storage tanks, owners of properties where a petroleum tank release has occurred, and anyone else who has been requested or ordered by the Minnesota Pollution Control Agency (MPCA) to investigate or clean up a petroleum release. The program indirectly serves all Minnesotans by providing the financial assistance that is typically necessary to get these clean-up projects done, resulting in a cleaner environment for everyone.

Program at a Glance

- ◆ Approximately \$390 million has been provided in reimbursements since 1987.
- ◆ Approximately 11,300 eligible applicants have received reimbursement since 1987.
- ◆ During FY 2008 the program received 801 applications and reimbursed \$10.7 million to eligible applicants.

Services Provided

The Petrofund:

- ◆ provides reimbursement to eligible applicants for a portion of their costs to investigate and clean up contamination from leaking petroleum storage tanks in the most cost-effective manner possible;
- ◆ contracts for the removal of a limited number of abandoned underground petroleum storage tanks each year;
- ◆ provides reimbursement for a portion of the costs to replace PVC piping with metal piping on home heating oil tanks to help avoid the catastrophic release of fuel oil, as well as the ensuing clean-up costs, that occur at residences where PVC piping fails;
- ◆ passes through funds to the MPCA for administration of the Petroleum Remediation, the Underground Storage Tank, and the Emergency Response Programs, as well as to pay for state-financed investigation and cleanup projects where no viable responsible person is available; and
- ◆ annually approves the use of \$6.2 million from the fund to the Department of Employment and Economic Development (DEED) for the administration of the Contamination Clean up and Investigation Grant Program.

Historical Perspective

The Petrofund was created by the 1987 Minnesota Legislature to reimburse underground petroleum storage tank (UST) owners and operators for the cost of investigating and cleaning up petroleum tank releases. To meet the U.S. Environmental Protection Agency’s (EPA) financial assurance requirements, UST owners and operators must document their ability to pay up to \$1 million for such costs. Minnesota, along with 47 other states, established a state-financed reimbursement program to assist UST owners and operators in meeting their financial obligations.

Since the program's inception, it has helped to improve the environment for all Minnesotans by enabling tank owners and operators to investigate and remediate petroleum contaminated soil and groundwater.

The current demand on the fund of approximately \$25 million annually is projected up until the 2012 sunset date. The program is completely funded by an appropriation from the Petrofund. Revenue into the fund is generated by a \$.02 per gallon fee on wholesale petroleum products. The fee is imposed and collected by the Department of Revenue only when the fund balance falls below \$4 million and when such action has been authorized by the Petroleum Tank Release Compensation Board (see M.S. 115C.08). Revenue is also received from investment earnings on the fund balance.

Key Program Goals

By providing financial assistance to those who are cleaning up contaminated soil and groundwater from leaking petroleum storage tanks, the Petrofund is meeting the key program goal of helping to protect the public health and welfare and the environment. This goal goes hand-in-hand with the Minnesota Milestones statewide goal

regarding water use, which states, in part, "A clean and abundant water supply is essential to economic and human health."

Key Program Measures

The key program performance measure for the Petrofund is how long it takes staff to review applications (i.e. the application backlog). The Petrofund staff is currently reviewing applications within approximately one to two weeks of receiving them. This is at the historic low for application review time. By law, initial application must be reviewed within 60 days and supplemental applications must be reviewed within 120 days (M.S.115C).

Other performance measures include tracking the number of applications reviewed and the amount of reimbursement that has been awarded. As the following table illustrates, the number of applications received by the Petrofund, as well as the total funds reimbursed, has declined over the past few years as historic clean-up projects have been completed and fewer new petroleum releases have occurred and been reported.

Fiscal Year	Applications Received	Amount Reimbursed
2004	1278	\$14,561,358.09
2005	1496	\$13,138,941.92
2006	1110	\$12,289,906.56
2007	897	\$ 8,733,821.04
2008	801	\$10,673,750.36

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COMMERCE DEPT

Program: PETROLEUM TANK CLEANUP FUND

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
Petroleum Tank Release Cleanup					
Current Appropriation	1,084	1,084	1,084	1,084	2,168
Subtotal - Forecast Base	1,084	1,084	1,084	1,084	2,168
Total	1,084	1,084	1,084	1,084	2,168
<u>Expenditures by Fund</u>					
Direct Appropriations					
Petroleum Tank Release Cleanup	785	1,383	1,084	1,084	2,168
Open Appropriations					
Petroleum Tank Release Cleanup	10,847	15,186	15,186	15,186	30,372
Total	11,632	16,569	16,270	16,270	32,540
<u>Expenditures by Category</u>					
Total Compensation	613	1,155	858	884	1,742
Other Operating Expenses	11,019	15,414	15,412	15,386	30,798
Total	11,632	16,569	16,270	16,270	32,540
<u>Expenditures by Activity</u>					
Petroleum Tank Cleanup Fund	11,632	16,569	16,270	16,270	32,540
Total	11,632	16,569	16,270	16,270	32,540
Full-Time Equivalentents (FTE)	8.7	8.4	8.4	8.4	

Program Description

The Administration program includes the commissioner's office, the department's central management and support functions, and the unclaimed property operations. The program ensures that all department operations are managed and implemented in a manner consistent with law and with the goals of the administration.

Population Served

- ◆ The commissioner's office serves all Minnesotans who do business with the Department of Commerce (DOC).
- ◆ Unclaimed property serves all owners of abandoned property received by the state from banks, former employers, retailers, and other businesses.
- ◆ Central management and support functions facilitate the operations of the department's main programs.

Services Provided

Administration:

- ◆ Leads, manages, and directs the department to ensure efficient operations.
- ◆ Develops and directs implementation of annual and long range objectives.
- ◆ Manages department finances and develops budgets.
- ◆ Provides personnel management according to Minnesota statutes, rules, and policies.
- ◆ Provides administrative support services to all programs within the department.
- ◆ Manages information systems.
- ◆ Facilitates productive relationships with regulated businesses and individuals.
- ◆ Coordinates department activities with other government agencies, private sector businesses, and the public.
- ◆ Provides consumer information to the people of Minnesota.
- ◆ Provides unclaimed property reclamation services to the people of Minnesota.

Unclaimed Property

Abandoned property may include money from savings and checking accounts, wages, insurance proceeds, safe deposit box contents, stocks, bonds, or dividends. All banks, insurance companies, corporations, and government agencies operating in Minnesota are statutorily required to report, and turn over, abandoned property to the department. The unclaimed property operation acts as the custodian of all abandoned property it receives until the rightful owner claims it. In cooperation with MissingMoney.com, individuals may search for unclaimed property. In addition, other methods of advertisement are conducted throughout the year. Unclaimed property as a whole has garnered much attention at the national level. Stories that air on national news programs have provided our best form of advertisement outside of our website. Any tangible property from safe deposit boxes held by the department for more than one year is eligible to be sold at a public auction. In addition the department holds unclaimed stock for one year at which time the stock is liquidated. Proceeds from both an auction and stock sale are deposited in the general fund until claimed by the rightful owner.

Historical Perspective

This program is funded by an appropriation from the general fund.

The Unclaimed Property unit was created in 1969 following enactment of Minnesota's uniform disposition of unclaimed property act.

Program at a Glance

Leads, manages, and directs five divisions with diverse missions to:

- ◆ Regulate commercial, industrial, financial, utility, and retail activity in Minnesota.
- ◆ Provide technical services and support to Minnesota businesses.
- ◆ Provide energy assistance to low income households.
- ◆ Mitigate environmental damage from leaking petroleum storage tanks.
- ◆ Provide telecommunications services to the deaf and hard of hearing.
- ◆ License 195,000 professionals.
- ◆ Manage \$113 million in unclaimed property, and return \$25 million to rightful owners in FY 2006.
- ◆ Administrative costs account for less than 7% of the overall agency's budget.

Key Program Goals

Commerce has a goal to increase Unclaimed Property Holder compliance and to increase the rate at which property is returned to the rightful owner. Both goals can be linked to the Minnesota Milestone related to satisfaction with government services.

The Administrative Services unit provides support services to all areas of the department and indirectly supports a number of statewide strategic goals.

Key Program Measures

Unclaimed Property	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Number of Unclaimed Property Holders	13,500	13,500	13,500	13,500	13,500
Number of Property Inquiries-phone and e-mail	29,500	29,500	33,000	32,000	31,000
Unclaimed Property Remitted to Commerce	\$61M	\$63.6M	\$113.1M	\$56.0M	\$50.0M
Unclaimed Property Returned to Owners	\$13.5M	\$16.5M	\$24.5M	\$20.5M	\$18.4M

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COMMERCE DEPT

Program: ADMINISTRATIVE SERVICES

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	4,508	4,711	4,711	4,711	9,422
Subtotal - Forecast Base	4,508	4,711	4,711	4,711	9,422
Governor's Recommendations					
Administrative Services Reduction		0	(411)	(411)	(822)
Total	4,508	4,711	4,300	4,300	8,600
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	3,928	5,277	4,300	4,300	8,600
Statutory Appropriations					
Miscellaneous Special Revenue	928	1,556	1,285	1,235	2,520
Total	4,856	6,833	5,585	5,535	11,120
<u>Expenditures by Category</u>					
Total Compensation	3,419	4,499	3,806	3,819	7,625
Other Operating Expenses	1,437	2,334	1,779	1,716	3,495
Total	4,856	6,833	5,585	5,535	11,120
<u>Expenditures by Activity</u>					
Administrative Services	4,856	6,833	5,585	5,535	11,120
Total	4,856	6,833	5,585	5,535	11,120
Full-Time Equivalents (FTE)	45.2	45.1	42.7	42.7	

Program Description

The Telecommunications Division advocates the public interest in settlement discussions with companies and before the Public Utilities Commission (PUC); investigates telephone company filings; and enforces the statutes, rules and orders of the PCU and Federal requirements that have been delegated to states.

Population Served

The Division serves:

- ◆ All of Minnesota’s residential, small business, and large business consumers of telecommunication services by ensuring service is reliable, efficient, affordable and is provided in compliance with applicable rules and regulations;
- ◆ All providers of telecommunications services by processing applications and filings; advocating policies that promote fair competitive practices; and ensuring financial soundness for companies operating under rate of return regulation.

Program at a Glance

- ◆ Advocates on behalf of the public interest on telecommunications issues.
- ◆ Enforces state and federal laws and regulations with respect to:
 - ⇒ Almost 100 incumbent local telephone companies
 - ⇒ Over 150 competitive local carriers
 - ⇒ Over 300 companies offering long distance service
- ◆ Evaluated and acted on over 2,000 individual dockets in FY 2008.

Services Provided

The Telecommunications Division implements statewide telecommunications policies and provides a broad range of regulatory and other services including:

- ◆ Advocate on behalf of the public interest for statewide telecommunications policies that promote an orderly development of the telecommunications network and telecommunications competition in the state;
- ◆ Enforce Minnesota statutes, orders and rules of the Minnesota Public Utilities Commission, and certain orders of the Federal Communications Commission;
- ◆ Investigate company filings and telecommunications matters that may not be in compliance with Minnesota requirements;
- ◆ Administrative review of certification requests, service quality, pricing of services, and the competitive practices of incumbent and competitive telecommunications companies that interact with each other in the joint provision of services to customers.

Historical Perspective

All direct and indirect costs related to telecommunications regulation are assessed back to the regulated companies. Telecommunications carriers have only an indirect assessment, with the exception of new authority applications where there is a \$570 fee. Indirect costs are estimated and billed 30 days in advance of each quarter. Indirect costs are prorated to regulated companies based on their gross Minnesota jurisdictional revenues. Estimated indirect cost billings are reconciled and adjusted to actual costs after the close of the fiscal year. Receipts include recovery of the department’s administrative costs, statewide indirect costs and the cost of services provided by the Office of the Attorney General.

Key Program Goals

Minnesota Milestone—Indicator 37: Price of Government

Goal: Government in Minnesota will be cost efficient, and services will be designed to meet the needs of the people that use them.

- ◆ Certain functions of the Telecommunications Division are fully assessed to and paid by the telecommunications providers in the State. As such, these functions do not contribute to the net price of Government and instead, are paid by “the people who use them.”

Minnesota Milestone—Indicator 38: Growth in Gross State Product

Goal: Minnesota will have sustainable, strong economic growth.

- ◆ The Telecommunications Division oversees the development of the telecommunications infrastructure and the development of competition in the provision of telecommunications. Good infrastructure and strong competition in the telecommunications marketplace will assist in sustainable and strong economic growth.

Minnesota Milestone—Indicator 49: Counties Losing Population

Minnesota Milestone—Indicator 50: Net Gain in Business

Minnesota Milestone—Indicator 51: Regional Disparity in Unemployment

Goal: Rural areas, small cities and urban neighborhoods throughout the state will be economically viable places for people to live and work.

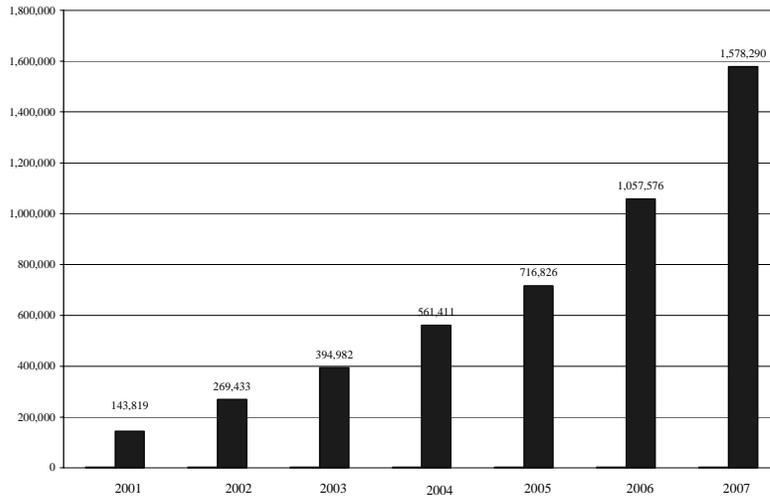
- ◆ Telecommunications infrastructure and a competitive telecommunications marketplace, both overseen by the Telecommunications Division, plays an increasingly important role in ensuring that rural areas, small cities and urban neighborhoods are economically viable places for people to live and work.

Key Program Measures

Telecommunications Infrastructure Deployment

The Department of Commerce (DOC) continues to work towards ensuring that broadband service is available to every state resident. Telephone companies provide high speed service primarily through digital subscriber line (DSL) technology. The department serves on the Governor’s Ultra High Speed Broadband Task Force and also provides administrative support to that task force, which will be submitting its report by 11-01-2009. The department will also be contracting for maps to be prepared of where broadband is available in Minnesota, with preliminary maps to be provided by 2-01-2009.

High-Speed Lines in Minnesota
(Data from FCC Form 477 filed by the providers)



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COMMERCE DEPT

Program: TELECOMMUNICATIONS

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	0	0	1,010	1,010	2,020
Subtotal - Forecast Base	0	0	1,010	1,010	2,020
Total	0	0	1,010	1,010	2,020
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	0	0	1,010	1,010	2,020
Total	0	0	1,010	1,010	2,020
<u>Expenditures by Category</u>					
Total Compensation	0	0	848	873	1,721
Other Operating Expenses	0	0	162	137	299
Total	0	0	1,010	1,010	2,020
<u>Expenditures by Activity</u>					
Telecommunications	0	0	1,010	1,010	2,020
Total	0	0	1,010	1,010	2,020
Full-Time Equivalent (FTE)	0.0	0.0	9.5	9.5	

Program Description

The Market Assurance Division protects consumers by licensing, regulating, and investigating complaints in six distinct operations:

- ◆ The Insurance Investigations and Consumer Outreach unit investigates individual consumer complaints to determine whether regulated businesses or individuals have violated laws or rules. A sub unit, the Consumer Response Team (CRT), handles consumer inquiries over the phone and works to informally resolve disputes between consumers and the regulated industries.
- ◆ The Market Conduct Examination unit investigates the practices of insurance companies and producers to determine whether their practices are consistent with Minnesota Law. This unit also investigates complaints against insurance producers and debt collectors.
- ◆ The Registration and Policy Analysis unit reviews insurance forms to ensure compliance with Minnesota statutes. The unit also registers certain securities sold in the state of Minnesota. The unit ensures reasonable insurance rates, reviews financial offerings to ensure stable capital markets, and reviews the financial condition of companies that self-insure. This unit also registers over 20,000 securities broker-dealers, agents, and investment advisers.
- ◆ The Insurance Fraud Investigation unit investigates fraudulent claims filed against insurance companies. The unit's staff of investigators work to reduce insurance premium costs by reducing the number and frequency of fraudulent insurance claims filed in Minnesota.
- ◆ The Real Estate unit investigates complaints against the various licensed real estate professionals and entities, including allegations of mortgage fraud.
- ◆ The Licensing unit issues or renews licenses of professionals primarily in insurance, real estate and collection agencies.

Program at a Glance

During FY 2007 and FY 2008, the Division:

- ◆ Regulated 22 industries and occupations.
- ◆ Reviewed and analyzed 10,153 insurance form and rate filings.
- ◆ Reviewed 23,474 securities and franchise offerings.
- ◆ Opened 13,709 investigation files.
- ◆ Took 822 disciplinary actions.
- ◆ Received 67,602 calls from consumers and 147,219 license related calls.
- ◆ Licensed or renewed over 220,000 individual or entity licenses per year.
- ◆ Recovered \$5,922,586 in additional claims payments for consumers.
- ◆ Imposed \$4,876,016 in civil penalties.
- ◆ Collected \$61.9 million in registration, licensing and other general fund fees in FY 2008.

Population Served

The Market Assurance Division serves:

- ◆ All Minnesota individuals and corporations that need insurance, have mortgages, buy or sell real estate, make investments, or otherwise do business with any of the industries licensed or regulated by the division.
- ◆ Regulated individuals and businesses.
- ◆ Other government and self-regulatory organizations, both in and out-state, that engage in similar regulatory activity or interact with the regulated industries.

Services Provided

Insurance Investigations and Consumer Outreach. The unit investigates complaints in the following areas:

- | | |
|-----------------------|--|
| ⇒ insurance companies | ⇒ insurance agents and brokers |
| ⇒ insurance adjusters | ⇒ third party administrators and self-insurers |
| ⇒ athletic agents | |

The unit also is responsible for educating consumers on insurance topics.

Market Conduct Examination Team. The unit examines the behavior of insurance companies in the marketplace to determine whether prohibited behavior constitutes a pattern or practice. It also investigates complaints in the following areas:

- ⇒ currency exchanges
- ⇒ collection agencies
- ⇒ cigarette vendors
- ⇒ viatical settlements
- ⇒ insurance agents and brokers
- ⇒ below cost gas pricing
- ⇒ wire transfer agencies (money transmitters)

Real Estate Team: The unit investigates complaints in the following areas.

- ⇒ Real estate agents and brokers
- ⇒ abstractors
- ⇒ subdivided lands
- ⇒ notaries
- ⇒ investment advisers
- ⇒ residential mortgage originators and servicers
- ⇒ real estate appraisers
- ⇒ securities brokers, dealers and agents
- ⇒ franchises

Insurance Fraud Investigation:

- ◆ researches insurance data to look for patterns of fraud;
- ◆ investigates potential insurance fraud cases; and
- ◆ initiates criminal charges against individuals who commit insurance fraud.

Insurance Product Form Filing and Securities Registration:

- ◆ reviews insurance policies and investment documents to determine whether they comply with applicable statutes and rules;
- ◆ registers securities and franchise offerings;
- ◆ registers securities broker-dealers, agents, investment advisers, and viatical settlement providers;
- ◆ develops and implements policies and procedures to expedite compliance with registration requirements;
- ◆ promotes development and use of electronic registration and filing systems;
- ◆ reviews rates charged for insurance products to ensure that rates are not excessive;
- ◆ reviews the applications of employers and employer groups to self-insure; and monitors their financial performance.

Licensing:

The Licensing unit issues or renews licenses of approximately 192,000 professionals primarily in insurance, real estate and collection agencies and reviews and approves over 2,500 education courses each year.

Historical Perspective

During the last biennium the enforcement activities for the Division have evolved from primarily disciplinary proceedings to investigations of criminal behavior. As a result of this evolution, while case numbers have remained relatively flat, the amount of man hours needed to handle those cases has increased. In addition to that qualitative change, the following trends will affect both the workload and performance of the Division:

- ◆ As the economy continues to lag, we will see an increase in the number of complaints.
- ◆ Notwithstanding the tightening of the mortgage lending market, we continue to see increased mortgage fraud referrals.
- ◆ Stock market volatility increases complaints about securities and insurance issues.
- ◆ Continued uniformity (e.g. Interstate Compact) and other “speed to market” initiatives will impact the mission and duties of our Registration and Policy Analysis unit.
- ◆ Our examinations of an insurer’s overall behavior typically require multi-state investigations and other industries (e.g. examination of mortgage insurance has an impact on insurers and potentially lenders).
- ◆ The movement of the baby boom generation into retirement will mean more “suitability” complaints in both insurance and securities.
- ◆ Workforce planning needs for the Division may impact the organization.

Key Program Goals

- ◆ The Division's work supports the Minnesota Milestone Goal that "Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them."
- ◆ The Division's work supports two of the Agency's strategic goals:
 - ⇒ Protect Minnesota consumers in a variety of commercial and financial transactions
 - ⇒ Provide excellent service to business and industry
- ◆ The Division will be looking for opportunities to interact with the objectives of Enterprise Lean. <http://www.lean.state.mn.us/index.htm>

Key Program Measures

Market Assurance implemented a significant technology upgrade that allowed increased automation and web access for its licensing and complaint customers. The licensing piece has been successfully implemented. The complaint handling piece is still being implemented across all industries.

Our insurance fraud unit will be implementing a new case management system.

The Division will be looking at additional reorganization efforts to support the Enterprise Lean initiative.

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COMMERCE DEPT

Program: MARKET ASSURANCE

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	5,845	5,992	5,992	5,992	11,984
Technical Adjustments					
Pt Contract Base Reduction			(2)	(2)	(4)
Subtotal - Forecast Base	5,845	5,992	5,990	5,990	11,980
Governor's Recommendations					
Investigation Cost Recovery		0	680	680	1,360
Product Review & Registration Changes		0	(300)	(300)	(600)
Total	5,845	5,992	6,370	6,370	12,740
Workers Compensation					
Current Appropriation	835	835	835	835	1,670
Subtotal - Forecast Base	835	835	835	835	1,670
Governor's Recommendations					
Investigation Cost Recovery		0	(84)	(84)	(168)
Total	835	835	751	751	1,502
<u>Expenditures by Fund</u>					
Direct Appropriations					
General	5,389	6,440	6,370	6,370	12,740
Workers Compensation	828	842	751	751	1,502
Statutory Appropriations					
Miscellaneous Special Revenue	3,706	5,077	6,336	6,400	12,736
Miscellaneous Agency	111	388	374	0	374
Total	10,034	12,747	13,831	13,521	27,352
<u>Expenditures by Category</u>					
Total Compensation	6,538	7,631	7,609	7,685	15,294
Other Operating Expenses	3,496	5,066	4,522	4,136	8,658
Local Assistance	0	50	1,700	1,700	3,400
Total	10,034	12,747	13,831	13,521	27,352
<u>Expenditures by Activity</u>					
Market Assurance	10,034	12,747	13,831	13,521	27,352
Total	10,034	12,747	13,831	13,521	27,352
Full-Time Equivalents (FTE)	87.5	89.9	91.7	89.4	

Program Description

In January 2008, Governor Pawlenty consolidated the energy relate function of the Department of Commerce and created the Minnesota Office of Energy Security (OES). OES provides energy-related services to the citizens of the State by advocating on behalf of the public interest in regulated utility matters, administers Minnesota’s Low-Income Heating Assistance and Weatherization Programs, assists viable new energy technologies to enter the commercial market and distributes information to individual energy users on actions they can take to use their energy wisely.

Population Served

The Minnesota Office of Energy Security serves all of Minnesota’s residential, small business, and large business consumers as well as investors and providers of energy services.

Services Provided

OES implements statewide energy policies and provides a broad range of regulatory and consumer services.

Program at a Glance

- ◆ OES administers \$77 million in federal Energy Assistance Program funds to Minnesota’s low-income households.
- ◆ OES administers \$20 million in federal Weatherization Program funds to Minnesota’s low-income households.
- ◆ Utilities have filed certificate of need (CN) requests to build new energy facilities. OES analyzed two requests in 2005 and 11 requests in 2008.
- ◆ Regulatory services costs are charged to energy service providers.
- ◆ OES administers approximately \$30 million for energy efficiency and technology programs.
- ◆ In 2007, approximately \$108 million was spent on Conservation Improvement Program activities that saved approximately:
 - ⇒ 461,000 MWh hours of electricity
 - ⇒ 1.9 million MCF of natural gas

- ◆ The Low Income Heating and Energy Assistance Program (LIHEAP)
 - ⇒ Provides financial assistance to help Minnesota’s low income residents pay their energy bills.
- ◆ **Energy Regulation, Facilities Permitting and Planning**
 - ⇒ Advocates for the public interest in energy utility matters before the Minnesota Public Utilities Commission, the Federal Energy Regulatory Commission, and in other national and regional forums.
 - ⇒ Manages and orchestrates the facilities permitting process and writes the environmental impact document for the siting or routing of large energy facilities.
 - ⇒ Participates as the consumer advocate designee in the development and operation of the regional electric transmission operating entity that operates the electric power grid in Minnesota plus 16 other states.
 - ⇒ Performs or participates in fact-finding, legislatively mandated or other studies, proceedings or communications regarding the reliable provision of energy service under the auspices of the Office of the Reliability Administrator.
- ◆ **The State Energy Office**
 - ⇒ Administers the U.S. Department of Energy Weatherization Assistance Program, providing energy conservation services to low-income households throughout Minnesota.
 - ⇒ Promotes clean renewable energy resources such as E85, biodiesel, wind, solar, and geothermal through consumer education, technical assistance, grants, and other deployment activities.
 - ⇒ Provides direct consumer education on energy conservation and renewable energy technologies through a toll-free telephone service and its website, and participation in trade shows, energy fairs, and school functions.
 - ⇒ Administers the U.S. Department of Energy State Energy Program, the Public Buildings Enhanced Energy Efficiency Program, the Renewable Energy Production Incentive, the Solar Rebate Program, the E85 Grant Program, and the Conservation Improvement Program’s Research & Development Grant Program.
 - ⇒ Administers, analyzes, and tracks the Conservation Improvement Program for technical feasibility and cost effectiveness in addition to making recommendations for improvements to the Deputy Commissioner for consideration when approving the plans.

Funding

All direct and indirect costs related to energy utility rates and services regulation and facilities permitting are assessed back to the regulated companies or the permittees. Direct energy utility costs are billed to regulated companies semi-annually. Indirect costs are estimated and billed 30 days in advance of each quarter. Indirect costs are prorated to regulated companies based on their gross Minnesota jurisdictional revenues. Estimated indirect cost billings are reconciled and adjusted to actual costs after the close of the fiscal year. Receipts include recovery of the department's administrative costs, statewide indirect costs and the cost of services provided by the Office of the Attorney General, the Reliability Administrator, and the Legislative Energy Commission.

The cost of some operations within the Energy Division is supported by federal funds.

- ◆ LIHEAP operates almost entirely on funds provided by the U.S. Department of Health and Human Services.
- ◆ Funds for the Weatherization Assistance Program come primarily from the U.S. Departments of Energy and Health and Human Services.
- ◆ The State Energy Office programs are funded through a combination of federal, state, and nonpublic funds, including oil overcharge funds, competitive grant awards, and energy utility program funds.

Key Program Goals

Minnesota Milestone—Indicator 37: Price of Government

Goal: Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them.

- ◆ Certain Office of Energy Security functions are fully assessed to and paid by the utilities and companies that benefit from the function. As such, these functions do not contribute to the net price of Government and, instead, are paid by “the people who use them.”

Minnesota Milestone—Indicator 40: Energy Efficiency of the Economy

Rationale: Improving the energy efficiency of Minnesota's economy is an important step in maintaining the long-term economic growth while minimizing cost and environmental impact.

- ◆ The Office of Energy Security's CIP and energy efficiency programs squarely meet this milestone.
- ◆ All energy regulatory proposals are investigated with an eye toward being reliable, reasonably priced and environmentally sensitive for the economic benefit of Minnesota and the public interest.
- ◆ Energy utilities and the industry recognize that substantial infrastructure must be built in the next decade to ensure Minnesota's continued strong economy for decades to come. This energy “building boom” is clearly evidenced in the marked increase in major project requests presently being investigated by OES. This large increase in workload is slated to continue for years to come.

Minnesota Milestone—Indicator 56: Renewable Energy Sources

Rationale: The percentage of energy that Minnesota derives from local, clean and renewable sources directly affects the state's long-term economic and environmental stability and security because much of the state's fuel is currently imported.

- ◆ The OES is seeing a large increase in requests to build wind-powered electric generation facilities. OES will examine each request to ensure that it will provide clean energy and contribute to “the state's long-term economic and environmental stability and security.”
- ◆ Energy utilities and the industry agree that the present energy delivery system is not substantial enough to support an expanding state economy in the decades to come nor will it be able to deliver all of the energy slated to be generated by all of the renewable energy projects currently being planned or constructed in the foreseeable future. As such, utilities have also filed certificate of need requests for hundreds of miles of large power lines across the state. These facilities must be built to achieve this milestone.

Minnesota Milestone--Indicator 25: Nearby Support

Rationale: People in need will receive support that helps them live as independently as they can.

- ◆ OES provides LIHEAP and Weatherization services predominantly through the community action agency network, ensuring that while funding may be from federal sources, the service is local and immediate.

Other statewide goals--The Next Generation Act of 2007's Energy Policy Goals

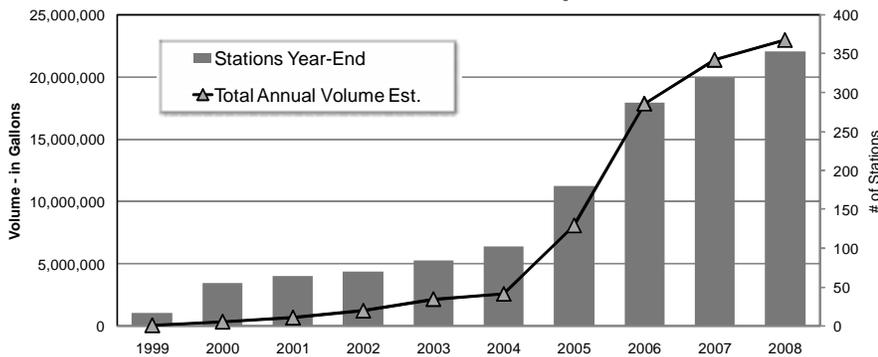
- ◆ 15% reduction in fossil fuel use per capita by 2015 through increased reliance on energy efficiency and renewable energy alternatives
- ◆ 25% of the total energy used in the state be derived from renewable energy resources by 2025

Key Program Measures

All program measures in OES target the state's energy policy goals of reliable, clean, affordable energy and to meet the milestones and laws listed above.

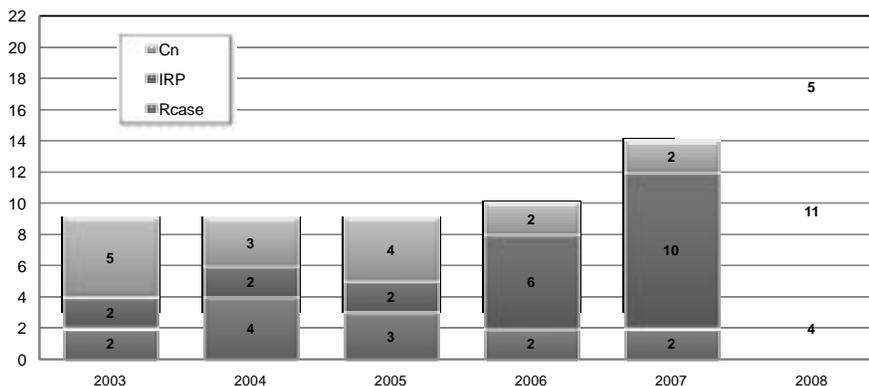
The first graph shows the increased use in biofuels in the state, specifically E85. Minnesota leads the nation in the number of E85 fueling stations, with 350 pumps.

Minnesota E-85 Development



The second graphic illustrates the impact on OES resources of the energy "building boom". Such major requests require between three and eight staff to adequately investigate such requests on behalf of the public interest. Of the over 300 various individual requests analyzed by OES staff per year, three types of major requests pertain to the planning, construction, and funding of large energy facilities. Planning is identified as IRP, construction as CN, and funding as RCase in the graph below. As the chart indicates, these major requests have collectively doubled in the past three to four years

Major Regulatory Requests Analyzed by OES



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COMMERCE DEPT

Program: OFFICE OF ENERGY SECURITY

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	12,966	4,250	3,240	3,240	6,480
Technical Adjustments					
Current Law Base Change			750	(250)	500
Subtotal - Forecast Base	12,966	4,250	3,990	2,990	6,980
Total	12,966	4,250	3,990	2,990	6,980
 <u>Expenditures by Fund</u>					
Direct Appropriations					
Environment & Natural Resource	217	395	0	0	0
General	6,842	8,860	4,990	2,990	7,980
Statutory Appropriations					
State Government Spec Revenue	210	0	0	0	0
Miscellaneous Special Revenue	4,721	24,193	13,498	13,265	26,763
Federal	111,526	202,223	203,810	203,790	407,600
Total	123,516	235,671	222,298	220,045	442,343
 <u>Expenditures by Category</u>					
Total Compensation	6,077	8,017	7,051	7,121	14,172
Other Operating Expenses	3,666	5,804	5,281	4,965	10,246
Local Assistance	113,393	221,350	209,721	207,674	417,395
Other Financial Transactions	380	500	245	285	530
Total	123,516	235,671	222,298	220,045	442,343
 <u>Expenditures by Activity</u>					
Office Of Energy Security	123,516	235,671	222,298	220,045	442,343
Total	123,516	235,671	222,298	220,045	442,343
 <u>Full-Time Equivalent (FTE)</u>					
	70.9	73.2	64.4	63.6	

Program Description

The Telecommunications Access Minnesota (TAM) program of the Department of Commerce administers the Minnesota Relay, Telephone Equipment Distribution (TED) Program and TAM Fund.

Minnesota Relay is a federally mandated Telecommunications Relay Services (TRS) that provides equal access to the telecommunications network for persons with a hearing loss or speech disability.

The TED Program provides free assistive telecommunications devices to eligible Minnesotans.

Population Served

TAM serves Minnesotans who have hearing, vision, speech or physical disabilities that make it difficult or impossible to use standard telecommunications services and equipment, and also serves persons who wish to contact these individuals.

Services Provided

TAM serves Minnesota consumers through a vendor contract and an interagency agreement:

- ◆ Contract with Communication Service for the Deaf (CSD) for the provision of Minnesota Relay and associated outreach services. Outreach services include educating the public about TRS and the Minnesota Relay, training consumers on how to user relay services, and receiving and resolving consumer complaints.
- ◆ Interagency agreement with the Department of Human Services (DHS) for the provision of the TED Program. The TED Program is responsible for distributing assistive telecommunications devices to income eligible Minnesotans, informing persons with communication disabilities of services available through the program, and providing training in the use of specialized telecommunications devices. Available equipment includes: text telephones (TTYs), amplified telephones, telephone ring signalers (visual, tactile or auditory), remote control speaker phones, TTYs with large visual displays, Braille TTYs, captioned telephones (CapTel™), voice carry over and hearing carry over phones.

Key Program Goals

- ◆ To provide people with hearing, speech, vision or mobility loss with telecommunications equipment and services that advance at the same rate, have the same level of quality, and provide the same features and options as telecommunications services available to consumers without communications disabilities.
- ◆ To provide Minnesotans with education, training and support regarding TRS and specialized telecommunications equipment.

Key Program Measures

- ◆ Minnesota Relay handled 892,000 calls and conducted 390 outreach activities in fiscal year 2008.
- ◆ Minnesota Relay exceeds FCC call answering performance standards. On average, incoming relay calls are answered within 2 seconds.
- ◆ Received complaints on less than 1% of Minnesota Relay calls.
- ◆ The TED Program distributed 3,626 assistive telecommunications devices and conducted 230 outreach activities in fiscal year 2008.

Program at a Glance

- ◆ Minnesota Relay:
 - ⇒ Provided free of charge.
 - ⇒ Operates 24/7.
 - ⇒ Handles an average of 74,360 relay calls per month.
 - ⇒ Offers 40 custom calling features.
 - ⇒ Conducted 390 outreach activities reaching more than 22,300 Minnesotans in fiscal year 2008.
- ◆ TED Program:
 - ⇒ Distributes an average of 300 assistive telecommunications devices per month.
 - ⇒ Conducted 230 outreach activities reaching more than 5,900 Minnesotans in fiscal year 2008.
 - ⇒ Provides services via six regional offices.

Program Funding

- ◆ TAM programs are funded by a surcharge on all wired and wireless telephone access lines in Minnesota. The surcharge is required by M.S. 237.52, subd. 2.
- ◆ Funds from the surcharge are paid into an interest-bearing, dedicated special revenue account that funds:
 - ⇒ administration of the TAM program;
 - ⇒ the facility, equipment, operations and outreach for Minnesota Relay;
 - ⇒ administration of the TED Program;
 - ⇒ assistive telecommunications devices distributed by the TED Program;
 - ⇒ Accessible News for the Blind program;
 - ⇒ Rural Real-Time Captioning program;
 - ⇒ operational expenses for the Commission of Deaf, Deaf Blind and Hard of Hearing Minnesotans.
 - ⇒ The Public Utilities Commission (PUC) approves the TAM annual budget and sets the surcharge at a level that will generate sufficient revenue to fund the programs. The current TAM surcharge is \$.06.
 - ⇒ TAM fund anticipates \$4.7M of revenue in fiscal year 2009.
 - ⇒ TAM fund anticipates \$6.4M of expenditures in fiscal year 2009. The expenditures are broken down for these purposes:
 - \$3.7M for Minnesota Relay and TAM program administration,
 - \$1.8M for the TED program, and
 - \$.9M for other programs.

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COMMERCE DEPT

Program: TAM

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Miscellaneous Special Revenue	5,190	6,091	5,790	5,798	11,588
Total	5,190	6,091	5,790	5,798	11,588
<u>Expenditures by Category</u>					
Total Compensation	66	77	78	81	159
Other Operating Expenses	5,124	6,014	5,712	5,717	11,429
Total	5,190	6,091	5,790	5,798	11,588
<u>Expenditures by Activity</u>					
Tam	5,190	6,091	5,790	5,798	11,588
Total	5,190	6,091	5,790	5,798	11,588
Full-Time Equivalent (FTE)	1.1	1.1	1.1	1.1	

Program Description

The Weights and Measures Division protects consumers by enforcing accuracy in commercial marketplaces by inspecting and testing all commercial weighing and measuring equipment in Minnesota.

- ◆ Provides the basis for physical measurement accuracy in Minnesota by maintaining the state standards for mass, length, volume, temperature, and density.
- ◆ Extends standardization and accuracy to commerce in Minnesota by offering precision calibration services to large and small businesses, and individuals.
- ◆ Ensures the quality of petroleum products by sampling and testing gasoline, diesel fuel, biodiesel, E85, heating fuels, and other products.
- ◆ Enforces statutory gasoline oxygenation requirements by sampling and testing gasoline at all levels of distribution and sale in Minnesota.
- ◆ Enforces below cost gas pricing, and bill of lading for correct fuel deliveries.
- ◆ Ensures the net weight and net volume accuracy of consumer commodities by inspecting and testing prepackaged goods in Minnesota.

Population Served

The Weights and Measures Division serves almost every person and business in Minnesota, including:

- ◆ Minnesota citizens and businesses that buy or sell goods or services based on a measured quantity, like gasoline or food.
- ◆ Businesses and individuals needing International Organization for Standardization (ISO) accredited calibration services to enable them to provide materials or services to other businesses in the United States, and throughout the world, and to enable them to compete in European Union nations.
- ◆ Motor fuel, heating fuel, and aviation fuel consumers.

Services Provided

The division provides three distinct services:

- ◆ Promotes accuracy in basic physical measurement by offering precision calibration services to Minnesota businesses and individuals.
- ◆ Enforces Minnesota's weights and measures statutes to ensure the accuracy of gas pumps, meters used at the terminals, refineries and airports, grocery scales, prepackaged commodities, livestock scales, railway track scales, grain and fertilizer scales, and a broad range of other commercial weighing and measuring devices.
- ◆ Ensures the quality of gasoline, diesel fuel, heating fuel, and other petroleum products.

Historical Perspective

The Weights and Measures Division is one of the oldest continuously operating units of Minnesota government. The division formally commenced operations in 1885 as part of the Railroad and Warehouse Commission.

The division has noted a continuing upward trend in the number of gasoline pumps in commercial use in Minnesota. The number has increased from approximately 21,000 in 1981 to 65,000 in 2007. Fuel consumption, which declined in the 1970s and 1980s, held steady in the 1990s, has increased through 2007. Both increasing gasoline consumption and increasing prices continue to push demand for the division's inspection services.

Program at a Glance

- ◆ Weights and Measures affects more than \$30 billion in Minnesota commerce each year.
- ◆ In FY 2007, the division's 16 petroleum and scale investigators tested and inspected:
 - ⇒ 46,587 gas pumps.
 - ⇒ 7,839 light capacity scales.
 - ⇒ 1,539 vehicle tank meters.
 - ⇒ 292 package inspections.
 - ⇒ 468 high volume meters
- ◆ In FY 2007, the division's six heavy capacity scale investigators tested and inspected:
 - ⇒ 1,430 vehicle scales.
 - ⇒ 767 grain and fertilizer scales.
 - ⇒ 1,424 other heavy capacity scales.
- ◆ In FY 2007, the Petroleum Lab processed:
 - ⇒ 1,108 distillate tests
 - ⇒ 2,511 other fuel tests
- ◆ The metrology laboratory is accredited under ISO 17025. It is one of the most highly regarded measurement laboratories in the nation.
- ◆ During FY 2007 1,270 artifacts were calibrated.

Key Program Goals

To work with the Department of Agriculture (DOA) to achieve the biodiesel mandates for 2009, 2012, and 2015 set forth by the Governor's alternative fuel initiatives. The division hopes to expand the petroleum lab responsibilities with additional equipment and staff to meet challenges of new fuel products/blends and the requirements associated with these products.

Key Program Measures

The division's metrology laboratory has achieved and maintained accreditation under ISO 17025, the most recently adopted quality standards. Additionally, the metrology laboratory meets performance standards set by the National Institute of Standards and Technology (NIST)/National Voluntary Laboratory Accreditation Program and the NIST Office of Weights and Measures.

Inspection operations have maintained high compliance rates for commercial weighing and measuring devices despite the increase in the number of weighing and measuring devices. For example, we tested 48,587 of the approximately 65,000 gas pumps in Minnesota during FY 2007. The division continues to upgrade our testing equipment to improve inspection intervals.

Petroleum quality enforcement operations maintained a 98.5% compliance rate for gasoline octane and oxygenation.

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COMMERCE DEPT

Program: WEIGHTS & MEASURES

Program Summary

<i>Dollars in Thousands</i>					
	Current		Governor Recomm.		Biennium
	FY2008	FY2009	FY2010	FY2011	2010-11
<u>Expenditures by Fund</u>					
Statutory Appropriations					
Miscellaneous Special Revenue	3,484	3,372	3,289	3,343	6,632
Total	3,484	3,372	3,289	3,343	6,632
<u>Expenditures by Category</u>					
Total Compensation	2,320	2,417	2,346	2,380	4,726
Other Operating Expenses	1,164	955	943	963	1,906
Total	3,484	3,372	3,289	3,343	6,632
<u>Expenditures by Activity</u>					
Weights & Measures	3,484	3,372	3,289	3,343	6,632
Total	3,484	3,372	3,289	3,343	6,632
Full-Time Equivalent (FTE)	32.2	33.0	31.5	30.5	

COMMERCE DEPT

Agency Revenue Summary

Dollars in Thousands

	Actual FY2008	Budgeted FY2009	Governor's Recomm. FY2010 FY2011		Biennium 2010-11
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	107,183	105,377	107,690	107,445	215,135
Other Revenues:					
General	49	5	5	5	10
Petroleum Tank Release Cleanup	1,168	932	932	932	1,864
Other Sources:					
General	8	1	1	1	2
Petroleum Tank Release Cleanup	30	1	1	1	2
Total Non-Dedicated Receipts	108,438	106,316	108,629	108,384	217,013
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
Miscellaneous Special Revenue	24,376	24,133	24,791	25,104	49,895
Grants:					
State Government Spec Revenue	30	0	0	0	0
Miscellaneous Special Revenue	387	0	0	0	0
Federal	111,526	202,223	203,810	203,790	407,600
Other Revenues:					
Miscellaneous Special Revenue	2,098	1,703	1,698	1,693	3,391
Miscellaneous Agency	22	-25	0	0	0
Gift	4	3	3	3	6
Other Sources:					
Miscellaneous Special Revenue	8,342	7,900	5,220	5,365	10,585
Miscellaneous Agency	342	199	255	0	255
Total Dedicated Receipts	147,127	236,136	235,777	235,955	471,732
Agency Total Revenue	255,565	342,452	344,406	344,339	688,745

Federal Funds Summary

Federal Program (\$ in Thousands)	Related SFY 2008 Spending	Primary Purpose	SFY 2008 Revenues	SFY 2009 Revenues	Estimated SFY 2010 Revenues	Estimated SFY 2011 Revenues
Low Income Home Energy Assistance Program	\$101,723	GCBO	\$101,723	\$190,000	\$190,000	\$190,000
Weatherization Assistance for Low Income Persons	\$8,651	GCBO	\$8,651	\$10,841	\$12,500	\$12,500
State Energy Program (SEP) and SEP Special Programs	\$1,136	SO, GPS, GCBO	\$1,136	\$1,362	\$1,290	\$1,290
EPA Clean Energy	\$16	SO	\$16	\$20	\$20	\$0
Agency Total	\$111,526		\$111,526	\$202,223	\$203,810	\$203,790

Key:

Primary Purpose

SO = State Operations

GPS = Grants to Political Subdivision

GI = Grants to Individuals

GCBO = Grants to Community Based Organizations