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➲ Designates that this item is a change item

Overview

By statute, Minnesota Management & Budget manages several statewide accounts that are not a part of its day-to-day operations. As a group, these accounts are referred to as non-operating accounts. These accounts deal with a broad range of subjects, including local pensions, debt service, tort claims and general contingency accounts. These responsibilities include the statutory requirement to receive the state's share of various monies collected by the counties and judicial districts as fees, fines, assessments and surcharges. The non-operating accounts also serves as a pass through for federal funding for payments in lieu of taxes to local units of government where national forests are located.

Core Functions

Contingent Accounts: Contingent accounts are appropriations made from several state funds to provide supplemental funding for emergencies and other legally authorized purposes. The release and expenditure of this funding requires the approval of the Governor after consultation with the Legislative Advisory Commission (LAC). The LAC provides legislative review of the use of these funds during interim periods when the legislature is not in session. With the approval of the Governor, supplemental funding for specific purposes is transferred to individual agency budgets; thus, expenditure history appears in the affected agency's budget.

FUND	FY 2008		FY 2009	FY 2010-11
(Dollars in Thousands)	Appr.	Spent	Appr.	Rec. Appr.
General Fund (100)	$ 500	$ 66	$ 500	$ 500
State Government Spec Rev. (170)	400	50	400	800
State Airports (220)	50	0	50	100
Trunk Highway (270)	200	0	200	400
Highway User Tax Distribution (280)	125	0	125	250
Workers Compensation (320)	100	0	100	200
Total All Funds	**$1,375**	**$116**	**$1,375**	**$ 2,250**

Tort Claims: This account pays tort claim judgments against a state agency that cannot be paid from that agency's appropriated accounts. As specified in M.S. 3.736, subd. 7, "a state agency, including an entity defined as part of the state in Section 3.732, subd. 1, incurring a tort claim judgment or settlement obligation shall seek approval to make payment by submitting a written request to the commissioner of finance. If the commissioner of finance determines that the agency has sufficient money in its appropriation accounts, the claim will be paid from these accounts. Otherwise, the payment will be made from the appropriation made to the commissioner of finance for tort claim payments. " (Statutory references have not been change to reflect the new agency name.) Most of the expenditures made from the general fund and the trunk highway fund appropriations in FY 2007 and 2008 are related to emergency relief claims paid as a result of the I-35W bridge collapse.

FUND	FY 2008		FY 2009	FY 2010-11
(Dollars in Thousands)	Appr	Spent	Appr	Rec. Appr.
General Fund (100)	$162	$162	$160	$ 161
Trunk Highway (270)	600	600	600	1,200
Total All Funds	**$762**	**$762**	**$760**	**$ 1,361**

Additional funding was appropriated to MMB in Minnesota Laws of 2008, Chapter 288, Section 6, for I-35W bridge collapse special compensation payments. The following table summarizes the activity to date in these appropriations.

Appropriation Name		Appropriation Amount	Amount Expended Through 12/31/08
Compensation to Survivors		$24,000,000	$0
Supplement Payments		$12,640,000	$0
Administrative Expenses		$ 750,000	$ 420,105
Special Master Panel Services	$340,909		
Special Master Expenses/Staff Costs	$ 75,000		
Administrative Costs - Printing, Website, Communications, Postage and Supplies	$ 4,196		
Total	**$420,105**		
Waite House/Pillsbury United Communities Grant		$ 610,000	$ 305,000
TOTALS		$38,000,000	$ 725,105

Indirect Costs: Under M.S. 16A.127, state agency operating activities with non-general funds (primarily federal) are obligated to prepare an agency wide cost allocation plan and submit it to their appropriate federal agency for approval. This plan must include agency indirect costs, which are administrative support costs that are not directly charged to a specific program. Agencies are required to reimburse the general fund for any portion of these costs that were originally funded by the general fund and that were used to support non-general fund activities. In addition, these non-general fund activities also rely on support from some of the centralized statewide systems financed by the general fund. The non-general fund activities must also reimburse the general fund for these statewide indirect costs. The commissioner of MMB prepares a plan each year that identifies the sources and amounts of each agency's statewide indirect costs. The commissioner submits this plan to the appropriate federal agency for approval, and notifies the governor and legislature. The commissioner also records all of the agency and statewide indirect cost reimbursements to the general fund.

Debt Service: This account pays principal and interest on general obligation long-term debt. On December 1 of each year, the commissioner of finance must transfer to the debt service fund an amount sufficient (with balance on hand and interest income) to pay all principal and interest on bonds due in the following 19 months. The Minnesota Constitution requires the state auditor to annually levy a statewide property tax sufficient to pay debt service through this 19-month period if sufficient funds are not available. Historically, the legislature has made specific debt service appropriations to the commissioner of finance in order to eliminate the need for levying the statewide property tax. Debt service appropriations are broken down into two categories: existing debt and new debt issues.

(Dollars in Thousands)

	Actual FY 2008	Projected (1/20/09) FY 2009	Projected (Gov Rec) FY 2010	Projected (Gov Rec) FY 2011
Outstanding Debt				
Total	**$4,285,080**	**$4,646,855**	**$4,951,197**	**$4,782,507**
Debt Service Appropriation				
Existing Debt	409,276	452,762	531,300	510,050
New Debt Issues	0	0	0	16,186
Total	**$ 409,276**	**$ 452,762**	**$531,300**	**$526,236**

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Change Item: Budget Reserve Partial Restoration

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	$250,000	$0	$0	$0
Revenues	0	0	0	0
Net Fiscal Impact	$250,000	$0	$0	$0

Recommendation

The Governor recommends restoring $250 million to the general fund budget reserve for FY 2010-11. Restoring a portion of the budget reserve is important to manage the risk of further revenue declines.

Background

The state has two distinct general fund reserve accounts. The budget reserve account is currently capped at $653 million and authorized under M.S. 16A.152 subd. 1 and 2. The budget reserve is a “rainy day” fund to help soften the impact of major swings in the economy. The smaller cash flow account is capped at $350 million and is designed to help offset potential cash shortages caused by the mismatch of monthly revenue collections and authorized payments. The Governor’s recommended budget would partially restore the budget reserve to $250 million for the biennium, and leave the cash flow account unchanged at $350 million.

The state began FY 2008-09 with the statutory limit of $653 million in the budget reserve and $350 million in the cash flow account. The budget reserve was used to rebalance the current budget for FY 2008-09 and the cash flow account remains at $350 million. $500 million of the reserve was used during the 2008 session to balance the FY 2009 budget and the remaining $153 million of the reserve was released in combination with unallotment to resolve the November 2008 forecast deficit. The state’s budget reserves were last drawn down during the FY 2002-03 biennium, when both the budget reserve and cash flow account were entirely depleted. This was possible because the state had access to $1 billion in tobacco endowments to support cash flow needs. Both accounts were subsequently restored to the statutory limits by a combination of legislative action and statutory allocation of forecast balances.

Relationship to Base Budget

The recommended $250 million reserve represents 0.7% of biennial spending, as proposed in the Governor’s budget.

Key Goals and Measures

The state maintains a budget reserve as a cushion against economic downturns and unanticipated budget shortfalls. Restoring the budget reserve quickly after it has been depleted is an important measure of a state’s commitment to sound financial management, which is a key factor in maintaining high credit ratings. The state’s high credit ratings allow us to borrow money at lower costs and provide financial flexibility, even in difficult economic times.

In time, even higher levels of reserves might be considered. Nationally, five percent of *annual spending* is generally regarded as a prudent level of rainy day funds for state budgets. Minnesota’s Council of Economic Advisers has consistently recommended establishing reserves as high as 5% of *biennial revenues*. The Budget Trends Study Commission recommended the state build reserves of 2.9% to 3.3% of *total resources in two consecutive biennia*.

This initiative contributes toward Minnesota Milestones indicator #37: “Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them. Minnesotans expect their state and local governments to spend money carefully and effectively.”

Alternatives Considered

Not restoring the budget reserve would leave the state without a cushion if revenues continue to fall during the next biennium.

Statutory Change: Not Applicable.

Change Item: Appropriation Bonds

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	$(505,916)	$(466,946)	$73,848	$74,711
Revenues	0	0	0	0
Bond Proceeds Fund				
Expenditures	542,400	540,136	0	0
Revenues	542,400	542,400	0	0
Net Fiscal Impact	$(505,916)	$(469,210)	$73,848	$74,711

Recommendation

The Governor recommends the commissioner of management and budget be directed to sell state appropriation bonds up to $1.085 billion. Conceptually, these bonds are similar to tobacco securities already sold by other states, except that this proposal adds in the state's assurance that bond payments will be made no matter what happens to tobacco revenues. This higher level of assurance enhances the bonds' marketability, reduces the cost, and reflects recent changes in the financial market. To meet state constitutional requirements and federal regulations for tax exempt bonds, all proceeds from these bonds will be used directly for one-time, non-operating costs. The net result is a $973 million decrease in general fund spending in FY 2010-11.

Background

In 1998, the state settled its lawsuits with several of the largest tobacco companies and related organizations (the "Settlement Agreement"). The Settlement Agreement establishes annual payments which are to be received in perpetuity by the state. These payments are subject to adjustment annually for inflation, volume of tobacco products sold in the U.S., and changes in the profitability of the tobacco companies that are party to the Settlement Agreement. Minnesota currently receives tobacco settlement receipts of approximately $200 million annually. These receipts are deposited into the general fund and used for operating purposes.

Approximately 16 states have completed securitization of some or all of their tobacco settlement receipts. A securitization involves selling the rights to all or a portion of an expected stream of revenue to investors in return for a lump sum payment today. Such a transaction transfers the risk of future reductions in tobacco settlement receipts to investors.

To help Minnesota through the current economic downturn, the state could attempt securitization of tobacco revenues in a similar manner. However, the financial markets continue to be very unstable, making a transfer of risk through securitization difficult, expensive, and potentially unobtainable. The Governor proposes meeting the same revenue objective with a different financial instrument. Instead of securitizing specific revenues, the state would sell appropriation backed bonds as described above. This approach is a much less risky option for investors and, therefore, a more cost-effective option for the state. The state may consider these bond repayments as coming from tobacco revenues, but investors will not – they will get repaid no matter what happens to the volume of tobacco products sold or profitability of the industry. Bonds could also be structured to permit early repayment if such an economic opportunity presented itself.

Relationship to Base Budget

There is no base budget for this measure. In the Governor's proposed budget (which includes savings from not recommending a bonding bill), annual debt service paid for state general obligation (GO) bonds are estimated to be $531.3 million in FY 2010 and $526.3 million in FY 2011. Current long term general fund obligations for things such as real estate lease payments and general fund appropriation for debt issued by other entities are estimated at $27.5 million for FY 2010 and $30.2 million in FY 2011.

Under this proposal, proceeds from the appropriation bonds would be used during FY 2010-11 to pay the state's general fund GO bond debt as well as the TCF stadium and bioscience debt service appropriations for the University of Minnesota.

Key Goals and Measures

A key measure of this transaction is whether it supports the state and its financial objectives. Rating agencies provide one indicator of effective financial management, and the state hopes to retain its high credit rating by demonstrating the following:

- Minnesota is managing the transaction to minimize financing cost and obtain value despite troubled financial markets.

- If needed, Minnesota will be careful in using these funds to reduce general fund budget pressures during this economic challenge. Using these funds to alleviate spending pressure elsewhere may allow the state to rebuild some of its reserves.

Alternatives Considered

Securitization of tobacco payments was also considered. In this option, the underlying credit would be tobacco companies. It is believed that the market would ask for a substantially higher return on these bonds, possibly 10% or more per year. This means that the state could pledge the same amount of payments and get far less in return. In addition, it isn't clear when financial markets would accept such an instrument. A straight securitization of revenues could not be sold in today's marketplace and it may be years before such an offering could be made.

Statutory Change: Yes.

Change Item: Debt Service Savings

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	($1,715)	($8,060)	($10,732)	($15,436)
Revenues	0	0	0	0
Net Fiscal Impact	($1,715)	($8,060)	($10,732)	($15,436)

Recommendation

The Governor is not proposing a general obligation bonding bill, which creates savings in projected debt service payments relative to the November 2008 forecast.

Background

Recent forecast practice, jointly agreed to by the executive and legislative branches, is to carry general fund debt service payment estimates in the forecast sufficient to cover “average” bonding bills in the future. In this case, “average” is calculated as the average of the five most recent even-year bonding bills and the five most recent odd-year bonding bills. The debt service estimates in the November 2008 forecast assume future bonding bills of $120 million in the odd-year sessions and $725 million in the even-year sessions.

Because the Governor is not recommending a general obligation (GO) bonding bill, the proposed budget incorporates debt service savings relative to the November forecast.

Relationship to Base Budget

Debt service payments are made through an open appropriation under M.S. 16A.641 subd. 10. Therefore there is technically no base budget for debt service. Instead, the expenditures from the open appropriation are estimated in each forecast as described above. The November 2008 forecast estimates for debt service are:

FY 2010	$533.0 million
FY 2011	$534.3 million
FY 2012	$573.2 million
FY 2013	$593.2 million

Key Goals and Measures

One of the state’s important debt capacity guidelines is to keep general fund GO debt service payments below 3% of unrestricted general fund revenues. With the recent revenue losses associated with the economic downturn, the state currently exceeds this guideline – 3.37% for FY 2010-11. The decision not to enact a bonding bill this year would move the state slightly closer to the 3% guideline.

Statutory Change: Not Applicable.