The purpose of this letter is to officially transmit Governor Dayton’s proposed supplemental budget for FY 2014-15. The Governor’s general fund recommendations are based upon the February 2014 forecast that projects a $1.233 billion available general fund balance for the end of the current biennium. The Governor is proposing general fund budget changes that total $778 million. Additionally, the Governor is recommending that any general fund balance remaining at the end of the 2014 legislative session be transferred to the budget reserve. Under the Governor’s proposal, $456 million would be transferred to the reserve.

FY 2014-15 Proposed Budget Changes

The Governor’s supplemental budget maintains a balanced budget for the current biennium. FY 2014-15 recommended changes include $613 million in tax reductions, credits and other revenues changes and a limited $165 million increase in general fund spending for essential items.

**FY 2014-15 General Fund Recommendations**

($ in millions)

<table>
<thead>
<tr>
<th>Forecast Balance</th>
<th>$1,233</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax and Revenue Change</td>
<td>(613)</td>
</tr>
<tr>
<td>Spending Change</td>
<td>164</td>
</tr>
<tr>
<td><strong>Total – Recommended Changes</strong></td>
<td><strong>$778</strong></td>
</tr>
<tr>
<td>Remaining Balance to Budget Reserve</td>
<td>$456</td>
</tr>
</tbody>
</table>

The Governor is recommending tax reductions and credits totaling $616 million in the current biennium for businesses, individuals and families, and local governments.

- Middle class tax cuts ($301 million)
- Business tax cuts (B2B) ($232 million)
- Gift and estate tax reductions ($43 million)
- Local government tax reductions ($25 million)
- Angel investment tax credit ($15 million)
The $164 million in recommended spending changes are what the Governor considers essential and important budget fixes needed in the current biennium. Primary among these are:

- $20 million in low-income home energy assistance program (LIHEAP) funding already signed into law
- $3.5 million to fully fund the cost of reduced price school lunch program with state aid
- $3.0 million in additional debt service costs for the Governor’s 2014 bonding bill recommendations
- $64 million for a 4 percent increase to home and community-based service (HCBS) providers
- $66 million to provide targeted budget increases for the Department of Corrections, Departmental of Human Services, MN State Colleges and Universities and the University of Minnesota.

The recommendations will reduce the projected structural balance in FY 2016-17 by $1.413 billion. Under the Governor’s plan, a general fund balance of $1.186 billion is projected for the next biennium before inflation and other potential spending pressures are considered.

**Budget Reserve**

The Governor recommends any remaining general fund balance, after reflecting any revenue or expenditure changes enacted in the 2014 legislative session, be transferred to the budget reserve. Under the Governor’s proposal, the budget reserve would increase by $456 million, bringing the total to $1.117 billion. With this increase, the budget reserve and cash flow account totals are equal to 3.7 percent of revised FY 2014-15 general fund revenues. The Governor is recommending that we maintain sufficient reserves to manage our risks in the remaining months in this biennium, as well as the next biennium.

**Non-General Fund Recommendations**

The Governor is also recommending a limited number of changes in other state funds. In total, other fund revenue increases by $1 million and spending increases by $87 million, with the difference coming from existing fund balances. The recommendations represent a mix of both on-going and one-time items. The net cost of these non-general fund proposals projected through FY 2016-17 is $43 million. The primary FY 2014-15 recommendations are:

- $46 million in trunk highway funding for targeted road operations and maintenance, upgrades to Highway 14 and funds for the Stillwater lift bridge
- $18 million in 911 fund authorizations for emergency communications network funding
- $8 million for the Community Addiction Recovery Enterprise (C.A.R.E) program

**Supplemental Budget Materials**

There are two attachments to the Governor’s supplemental budget recommendations. Fund balance comparisons - two general fund balance sheet comparisons show recommended general fund revenues and expenditures compared to the February 2014 forecast for both the current biennium and the planning estimates. Budget changes—detailed descriptions of individual proposals are provided for all changes, by omnibus bill, agency, item and fund.

I expect that a supplemental budget bill and any pieces of legislation necessary to implement the Governor’s plan will begin to be delivered by the end of the week. Individual agency staff and MMB executive budget officers are prepared to answer any questions you may have on the recommendations.

cc: Senate Richard Cohen, Senate Finance Chair
Representative Lyndon Carlson Sr., House Ways and Means Chair
Bill Marx, House Chief Fiscal Analyst
Eric Nauman, Senate Chief Fiscal Analyst