



### **Governor Pawlenty Releases Budget Balancing Proposal**

Governor Pawlenty released his proposal for closing a projected \$1.2 billion budget gap for the remainder of the current biennium. At this time, we are seven and a half months into the 24 month budget period in question. His proposal mirrors his state of the state speech. Public safety, veterans and K-12 education were spared cuts. The budget balancing plan relies on cuts to cities, counties, higher education and health and human services programs. The Governor is also relying on the federal government to continue paying 60% of the Medicaid program instead of the usual 50/50 split. The feds began the 60/40 split under the stimulus legislation enacted last year, and the U.S. House of Representatives has included an extension of this for another year.

Specifically, the \$1.2 billion gap is closed by cutting the following:

1. \$250 million to Cities and Counties (50% cut to each); townships were spared cuts
2. \$347 million Health & Human Services
3. \$47 million to the Higher Education Systems
4. \$181 million to State Agencies & Grant programs (about 6% across the board)

Total: \$825 million in cuts

The remaining balance is made up by the assumption that the feds will kick in another \$387 million by continuing the 60/40 split for Medicaid. If that doesn't come through then further cuts will be on the table, including the K-12 budget (or a deeper shift for school aid payments).

The Governor's proposal includes enacting his 73/27 education payment deferral into statute. There is also a very small provision in the proposal that would fund \$15,000 to the Department of Education for "Teacher Contract Reporting". The proposal would require districts to share with MDE teacher collective bargaining information, including settlement date, salary and fringe benefit costs, and duty days for teachers. The \$15,000 is for MDE to integrate this information into financial statements.

The Governor's proposal extends into the next biennium and would reduce \$2.994 billion from a projected \$5.426 deficit. If enacted, the Governor's plan would leave a projected structural problem in fiscal years 2012-13 of \$2.432 billion.

### **This week at the Capitol**

Legislative finance committees will spend much of this week reviewing the details of the Governor's budget balancing proposal. The education finance committees in the House and Senate are scheduled to review new legislation that would enact the 73/27 payment deferral into statute. Both House and Senate education finance committees will review legislation repealing MS 127A.46, which allows the state to engage in short term borrowing from school districts based on their fund balances. The statute is being utilized this spring for the first time since its creation in 1986. The state's cash flow problem is so bad in the next fiscal year that many are concerned that without a repeal or change to the statute that schools could face massive cancellations of aid payments beginning on September 15.