



Budget Debate Underway with GAMC Veto

Last week ended with Governor Pawlenty vetoing legislation to partially restore the General Assistance Medical Care program. Pawlenty ended the program by line-item vetoing its \$375 million appropriation last June. Pawlenty proposed moving GAMC recipients into the MN Care program last fall. Last week he included this in his budget balancing plan. The change is paid for by eliminating 21,000 current enrollees from the MN Care program.

The Senate would take up any override attempt first, but Majority Leader Pogemiller ruled out quick action on such a move. He said he would give the Governor time to come up with an alternative, but if that doesn't happen, there will be an override vote. The original version of the legislature's GAMC fix was paid for with Medicare and Medicaid surcharges. The Governor threatened a veto because of the surcharges, so the Senate amended the bill and paid for it with general fund dollars. The House adopted the Senate's plan and skipped the usual conference committee process for major legislation. House Minority Leader Kurt Zellers commented about the process and suggested a compromise could have been worked out in conference committee. However, 38 of his 47 members voted for the bill. Now the pressure is on to secure at least three of those votes if an override attempt is made. The House GOP will likely support the Governor's veto and the GAMC battle will end up back in the budget balancing mix.

There is a lot of support for saving the GAMC program. 125 votes out of 134 on the House floor makes that clear. However, the vetoed version would have cost the general fund money. The previous version included surcharges paid for by health plans that allow for drawing down more federal health care funds. The HMO's reportedly are not happy with these options as it would cause cash flow and other financing problems for them.

MS 127.46 and the Shift

About cash flow; the House and Senate education finance committees reviewed proposals to repeal MS 127A.46. The statute will be used for the first time ever this spring to delay cash payments to schools for a short period of time. The current short term borrowing plan seems reasonable, but there is growing concern about the next fiscal year. The state is looking at negative cash flow for almost the entirety of fiscal 2011 (July 1, 2010 – June 30, 2011). Former State Finance Commissioner Jay Kiedrowski testified in support of repealing the statute arguing that the state created the problem and should be the one to take out a loan. He argued that it makes little sense to mess up the books for 340 school districts plus the higher education systems.

In response to the argument that the bond houses would downgrade Minnesota's credit rating if the state borrowed money, Kiedrowski noted that Moody's Investors Services' recently moved to lower the outlook for Minnesota's debt rating, although they did retain their second highest (Aa1) rating for Minnesota. Minnesota hasn't been forced into short-term borrowing since 1985, and the loan was immediately paid off then. MS 127A.46 was enacted in 1986.

The education finance committees also reviewed legislation to enact the \$1.2 billion of aid payment deferrals Governor Pawlenty instituted through unallotment last June. Rep. Garofalo, a vocal opponent of using shifts, is authoring the legislation to put the deferral plan into statute. He's doing so out of concern that politics will get in the way, and the next Governor, facing a huge deficit, could simply not repay the deferral and blame Pawlenty for cutting schools well over \$1.2 billion. Risking a cut of that size is a high stakes political gamble; one Rep. Garofalo believes the legislature shouldn't engage in. During both the House and Senate hearings on the shift, legislators commented that it will be very difficult to spare the K-12 budget this time around.

Education, Health & Human Services, LGA and Balancing the Budget

Education advocates often hear frustration from their counterparts representing other spending areas of the state budget. The comments usually revolve around "education getting all of the money" and "education needs to be a part of the solution too." Both of these comments need to be challenged. For starters, K-12 education has been on a steady decline as a share of the general fund since Governor Ventura's "big plan", or school funding takeover, went into law a decade ago. In 2001, K-12 education cost 44% of the state's general fund, while Health & Human Services programs cost 27%. The forecast for this biennium is that K-12 will cost 37% of the general fund and HHS 33%. If nothing changes, HHS will likely take up a larger share of the general fund than K-12 education in a few years. This is a far stretch from the claim that K-12 receives "all the money" or even a majority of state dollars.

Furthermore, K-12 education is already self-financing a major portion of its entitlements because of the state's fiscal crisis. \$1.2 billion in aid payments are being deferred into perpetuity. The property tax recognition shift saves the state \$600 million this year. Another \$423 million in aid payments will be delayed this spring with a May 30 payback scheduled. If MS 127A.46 isn't repealed, schools could see massive payment cancellations in fiscal 2011 and no revenue plan to pay back the loan.

Cities and counties are in a similar situation to schools. Local Government Aid payments have been unallotted in the past, however, cities and counties can levy back a certain portion of unallotments. This budget tool isn't available to schools, and the idea of giving schools this authority is very unpopular among legislators. If the state isn't going to give schools a revenue safety valve, they need to be very cautious about actual cuts to education programs. Even in these tough budget times, the public is demanding more of the schools. According to State Economist Tom Stinson, education is the best economic development tool available to states. When you talk to your legislators, remind them of these things and urge them to avoid making cuts in the K-12 budget.