STATE OF MINNESOTA

Office of Governor Tim Pawlenty

130 State Capitol ♦ 75 Rev. Dr. Martin Luther King Jr. Boulevard ♦ Saint Paul, MN 55155

May 8, 2007

The Honorable James Metzen
President of the Senate
75 Rev. Dr. Martin Luther King Jr. Blvd
322 State Capitol
St. Paul, Minnesota 55155

Dear President Metzen:

I have vetoed and am returning Chapter 58, Senate File 2171, the Omnibus Health and Human Services bill.

As I have indicated previously, in order for a bill of this magnitude to gain my signature, the Legislature must articulate an overall plan for revenues and expenditures. The health and human services budget accounts for 28 percent of general fund and 34 percent of all funds spending, so a complete budget picture is vitally important to setting priorities and determining reasonable spending levels. We do not have such an agreement at this time. In addition, the level of spending in this bill is excessive and it does not contain sufficient reforms. For these reasons, I am not able to sign this bill.

The bill spends $277.5 million more in the general fund in FY08/09 and $445 million more in FY10/11 than my recommended budget. When combined with the automatic spending increases in the forecast of $1.2 billion, this bill would result in biennial spending growth of 19 percent -- a rate of growth that cannot be sustained.

This bill will spend over $3 billion more in the FY08/09 biennium than in the current biennium. Under this bill, 56 percent of this general fund spending growth will go to support 28 percent of the state's budget. While we can all agree that the services funded in this bill are important, this level of increase is disproportionate and needs to be balanced with other key priorities.

Furthermore, this bill over-promises what is affordable in 2011 and beyond by backloading proposals and delaying implementation dates to give the appearance of near-term affordability, while creating automatic inflation and predictable fiscal pressure in years beyond the Legislature's budget horizon. It also exacerbates human services' already ballooning trend lines. Although it is difficult, taxpayers expect their elected officials to weigh and prioritize how limited tax dollars should best be used.

As I have previously stated, I have serious concerns about the level of spending in the MFIP/TANF program and provisions that will undo areas of past reform that will help recipients move toward self-sufficiency. The conference report contains the following problematic provisions:

- Reducing the portion of the MFIP support services grants that is based on county performance. This is problematic as we will increasingly rely on county performance to achieve the new federal work participation rates for the state's TANF program.
- Restricting unpaid work experience. This is an important tool that counties have used judiciously and with effect in increasing work participation.
- Buying back equity adjustments to MFIP. Restricting the MFIP program from counting a portion of SSI and subsidized housing when determining cash grants creates an inequity for MFIP participants who don't have access to subsidized housing or who don't qualify for SSI.
- Establishing a new Family Stabilization Program. In spite of changes in conference committee, this program still shifts about twice as many people out of federally regulated MFIP as I recommended. This shift, in addition to lenient sanction provisions, undermines the work focus of our cash program for low-income families.

I share your goal of expanding health care coverage, especially for kids. However, this expansion must be fiscally responsible and must be accompanied by changes that will improve quality and slow the rate of growth in our health care system. The provisions in the bill that expand coverage have significant future budget implications and are not accompanied with sufficient reforms to make this investment sustainable. The bill contains several proposals that restore changes to the MinnesotaCare program that will lead us back to growth rates for these programs that are unsound. I also cannot support proposals that expand public coverage at the expense of private coverage.

The conference report phases in rebasing of operating rates over five years, with changes to property rates, special facility rates, and recognition of performance in FYs 2012, FY 2013, and FY 214. The only explanation for this approach is to delay recognition of the significant cost of rebasing in the budget. This approach is inherently inflationary and cannot be described as sustainable when the cost of the policy changes being made is not recognized within the budget horizon. Furthermore, this approach rewards the status quo and continues the geographic disparities inherent in the current payment system.

Language is included prohibiting the declaration of "essential" status for security counselors who guard convicted sex offenders. These state employees provide security for sex offenders who have been indefinitely confined in a locked and secured facility because the courts have determined them to be potentially dangerous and a threat to the general public. This provision interferes with the legislatively established process of making these employees "essential" and may create a threat to the well being of the citizens of Minnesota should state workers go on strike.

The bill includes language pertaining to state employee compensation increases that cannot be effectively implemented. Other conference reports have dropped similar language.

As I indicated in my letter to conferees on April 26, the Minnesota Health Insurance Exchange and expanded use of section 125 pre-tax premium-only plans are vital to increasing the affordability of health coverage for Minnesotans participating in the individual insurance market, while also increasing the accessibility and transparency of that market. Underfunding the establishment of the Exchange will undermine the development of this important component of health reform. In addition, language added requiring that health plans operating through the Exchange have an 82 percent minimum loss ratio is unacceptable and will severely limit the ability of the Exchange to foster competition among health plans. It will also ultimately result in even further consolidation in the individual health insurance market in Minnesota.

Even if my concerns about these policy provisions were to be resolved, I am unable to approve this bill until the Legislature more fully identifies an overall budget plan. My hope is that the Legislature will present comprehensive budget targets soon so that work on this, and other important budget bills, can proceed in a timely manner.

My staff and I look forward to working with you in this regard.

Sincerely,

Tim Pawlenty
Governor

Cc: Representative Margaret Kelliher, Speaker of the House
Senator Lawrence J. Pogemiller, Majority Leader
Senator David Senjem, Minority Leader
Senator Linda Berglin
Representative Marty Seifert, Minority Leader
Representative Thomas Huntley
Mr. Patrick E. Flahaven, Secretary of the Senate
Mr. Al Mathiowetz, Chief Clerk of the House of Representatives
Mr. Mark Ritchie, Secretary of State