

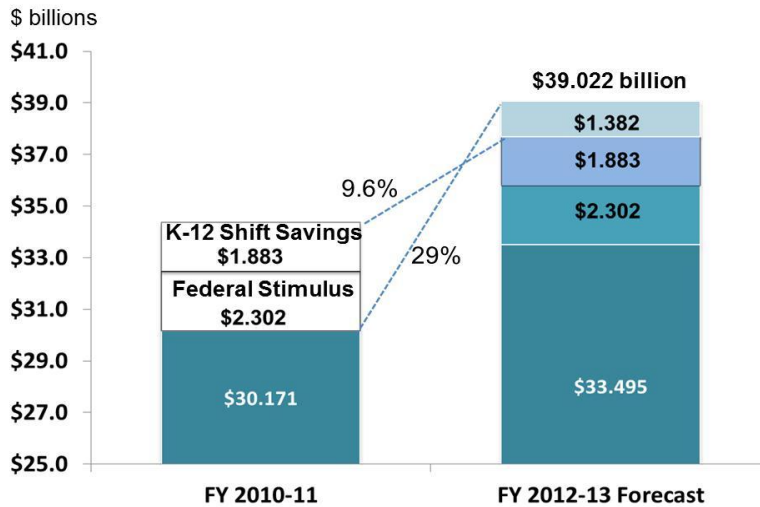


Commissioners Schowalter and Frans presentation to the Legislative Commission on Planning and Fiscal Policy

Minnesota Management and Budget, Department of Revenue
June 7, 2011

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One-time stimulus and K-12 payment shifts distort what is currently being spent



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Federal stimulus “replaced” general fund spending in current budget

(\$ in millions)	FY 2010-11
K-12 Education	\$500
Higher Education	
University of MN	89
MNSCU	79
Health & Human Services	
Medical Assistance	1,486
Other Human Services	110
Corrections	38
Total – Federal Stimulus	\$2,302

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Adjusted current law spending would grow 9.6 percent when stimulus and shifts are factored in

General Fund (\$ in millions)	FY 2010-11	FY 2012-13	\$ Chg	% Chg
Total Forecast Spending	\$30,171	\$39,021	\$8,850	29.3%
K-12 Shift Savings	1,883	(1,382)		
Federal Stimulus	2,302	----		
Comparable (Spending Adjusted)	\$34,356	\$37,639	\$3,283	9.6%

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Adjusted for stimulus and shifts, forecast spending increases vary widely by area

General Fund and Stimulus (\$ in millions)	FY 2010-11	FY 2012-13	\$ Chg	% Chg
K-12 Education	\$13,813	\$14,322	\$509	3.7
<i>K-12 Payment Shifts</i>	0	(80)	(80)	nm
Higher Education	2,982	2,917	(65)	(2.2)
Health & Human Services	10,172	12,338	2,166	21.3
Local Aids & Credits	3,019	3,457	438	14.5
Debt Service	830	1,181	251	42.3
All Other	<u>3,540</u>	<u>3,504</u>	<u>(36)</u>	<u>(1.0)</u>
Total Spending	\$34,356	\$37,639	\$3,283	9.6

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Underlying forecast growth: Education Finance

- Pupil units are projected to increase 15,096 (1.8%) between FY 2010 and FY 2013.
- Compensatory aid is projected to grow 4.5% between FY 2011 and FY 2012 due to the increasing number and concentration of students in poverty.
- The state portion of equalized levy revenue is projected to increase 14.4% between FY 2011 and FY 2012 due to falling property values.
- Beginning in FY 2012, the state is increasing special education aid 4.6% per year, which does not match inflation (average of 5.1% over the previous five years).

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Underlying forecast growth: Health & Human Services

- Medical Assistance (MA) average monthly caseload expected to increase by 174,000 (29%) between FY 2010 and FY 2013.
- MA average monthly payments overall for fee-for-service and managed care are expected to increase 8% between FY 2010 and FY 2013.
- Minnesota Family Investment Program/Diversions Work Program (MFIP/DWP) average monthly caseload is projected to increase 10,358 (10%) between FY 2010 and FY 2013.
- General Assistance (GA) average monthly caseload is projected to increase 1,592 (8%) between FY 2010 and FY 2013.

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Underlying Forecast Growth: Debt Service

- Larger bonding bills in recent years
- Higher interest rates expected on future bond sales
- Lower premiums on future bond sales due to higher interest rates
- As of February, did not assume any immediate refunding bond opportunities, but will continue to monitor for future opportunities

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By law, all other spending remains essentially flat

M.S. 16A. 11

Subd. 2(b): The appropriation base is the amount appropriated for the second year of the current biennium.

Including general fund support for:

- Veterans services
- Economic development
- Judicial system
- Transit services
- Environmental protection
- State agency operations

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Governor's budget maintained critical services and investments for Minnesotans

- **K-12 Education**
 - Maintains formula funding
 - Extends school payment shift through FY 2013, begins 10% buyback per year beginning in FY 2014
 - Invests in early childhood education and best practices innovations
- **Higher Education**
 - Reduces U of MN and MnSCU funding 6 percent
 - Protects state grant programs from reductions

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Governor's budget maintained critical services and investments for Minnesotans

- **Local Government Aids and Property Tax Credit programs**
 - No reductions to local government aid programs
 - No increase to local property taxes
 - Fully funds income based property tax refunds for homeowners and renters

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Governor's budget maintained critical services and investments for Minnesotans

- **Health Care Reform**
 - Early MA expansion authorized in January
 - Reforming payment and care delivery for publicly-funded managed care programs
 - Slowing down growth in long term care programs
 - Continuing state health reform in statewide health improvement program (SHIP) and enhanced reporting on health care cost and quality
- **Maintaining core safety net**
 - Maintains coverage for existing populations on MA and MinnesotaCare, no reduction to cash assistance programs

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Governor's budget maintained critical services and investments for Minnesotans

- **Responsible Steps to Constraining Health Care Cost Growth**
 - Share burden of health care budget challenge with service delivery partners
 - Increasing existing Medical Assistance surcharge by net \$610 million
 - Reducing home and community-based service rates by 2% and nursing facility rates by 1%
 - Delaying inpatient hospital rebasing six months

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Governor's has outlined key elements of a solution

- **Concerns with individual legislative bill areas have been communicated in great detail during legislative deliberations and to conference committees**
 - Budget must be financially responsible
 - The impact on state programs and clients should be publically acknowledged
 - Significant policy matters should be presented separately
- **Compromise on level of reductions and significant reforms is possible – but without additional revenue the impact on Minnesota citizens and institutions is likely to be difficult to accept**

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Governor's Framework for Resolution

\$1.4 B K-12 Shift buy back delay

\$1.8 B Tax Revenue

\$1.8 B Net Spending

\$5.0 B Deficit Solution

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Governor's Budget Raises Revenues Fairly and Responsibly

- Resolves Minnesota's budget deficit through a mix of permanent revenue increases and budget cuts. Provides needed resources for state programs.
- Reflects a budget solution that is based on shared-sacrifice by all Minnesotans with a new 4th tier income tax bracket at a 10.95% marginal tax rate on the top 2% of Minnesota earners.
- Reflects a progressive budget solution that makes the tax system less regressive. Currently, the top 1% of earners pay 9.7% of their income in state and local taxes while the bottom 90% pay 12.3%.
- No Property Tax Increases. State responsibility for state budget deficit.

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Governments Tax Revenue Framework May 2011

TAX REVENUE	in millions
4 th Tier Income Tax <small>(Affects 2.3% of all returns, 1.9% of MN resident returns)</small>	\$1,548
Part-Year Resident Income Tax	\$30
Non-Resident Estate Tax Provision	\$13
Federal Tax Conformity	\$(18)
Enhanced R&D Credit	\$(22)
FOC/Foreign Royalties Subtraction	\$135
Other Corporate Provisions	\$82
Sales Tax Provisions	\$31
Miscellaneous Provisions	\$1
TOTAL TAX REVENUE CHANGES	\$1,800

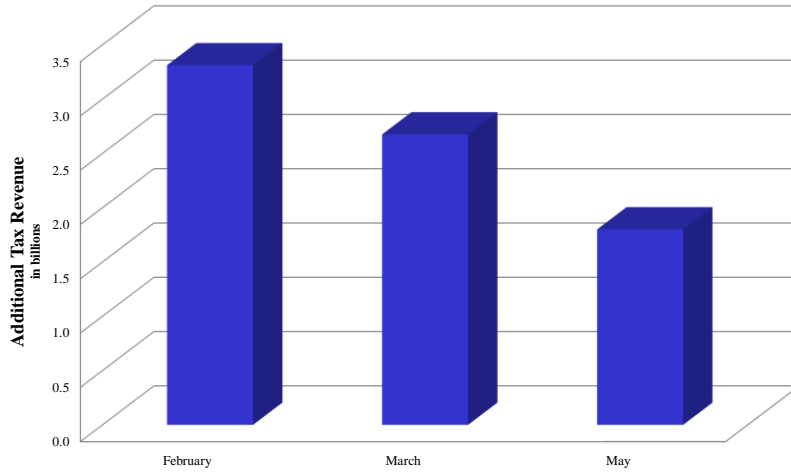
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Governor's Budget Raises Revenues Fairly and Responsibly

- Addresses most federal tax conformity provisions in a timely manner, including conformity to working family credit limits, qualified tuition and expense deduction, and the deduction for K-12 educator expenses.
- Revises corporate foreign royalty subtraction and foreign operating corporation provisions. Expands the Minnesota Research and Development Credit.
- Adopts unitary business sales and "economic substance" definitions that prevent corporations from avoiding Minnesota's corporate income tax.
- Promotes tax fairness by having the sales and use tax apply uniformly to consumer purchases for items that are already taxable under current law. Levels the playing field for Minnesota businesses by capturing tax from remote sales of products taxable in Minnesota (affiliate nexus).

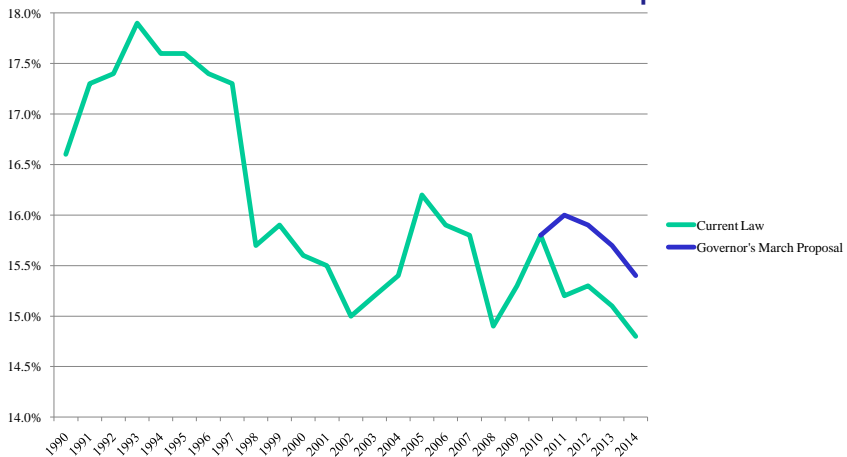
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Evolution of Governor's Tax Proposals



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Minnesota Price-of-Government and the Governor's Tax Revenue Proposals



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Governor's Proposal Makes Tax System Less Regressive

Level of Regressivity of Minnesota State and Local Taxes as measured by the Population Decile Suits Index



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Governor's Tax Proposal Makes Tax System Less Regressive

Level of Regressivity of Minnesota State and Local Taxes as measured by the Population Decile Suits Index



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Governor's 4th Tier Income Tax Proposal

- 10.95% Rate
- Affects 1.9% of Minnesota Resident Returns (2.3% of all returns)
- Raises \$1.55 billion in general fund revenue in FY 2012-13

	Minnesota Taxable Income	Median Total Income
Married Joint Filing	\$250,000	\$305,000
Head of Household	\$200,000	\$268,000
Single	\$150,000	\$179,000

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