1998-99

Minnesota Biennial Budget

State and Local Finance Summary

Revenues, Local Aids & Credits

Presented by Governor Arne H. Carlson to the 80th Legislature

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Price of Government Recommendations

For the 1998-1999 biennium, the Governor recommends revenue targets of $25.1 billion, or 10.2% of state personal income, for state government and $18.8 billion, or 7.7% of state personal income, for local governments. For the 2000-01 biennium, the Governor recommends targets of $27.1 billion, or 10.1% of state personal income, for state government and $20.7 billion, or 7.7% of state personal income, for local governments.

These targets reflect the Governor's proposed tax reductions and revenue proposals, and return the level of state and local revenues back to the course he recommended two years ago.

Governor's 1997 Price of Government Recommendation
($ in millions)

	FY 1998	FY 1999	FY 1998-99	FY 2000	FY 2001	FY 2000-01
State Tax Revenues	10,421.6	11,176.6	21,598.2	11,602.9	12,062.6	23,665.5
as percent of personal income	8.7%	8.9%	8.8%	8.8%	8.8%	8.8%
State Non-Tax Revenues	1,734.0	1,742.7	3,476.7	1,714.9	1,692.2	3,407.1
as percent of personal income	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%
Subtotal - State Revenues	**12,155.6**	**12,919.3**	**25,074.9**	**13,317.8**	**13,754.8**	**27,072.6**
as percent of personal income	**10.2%**	**10.3%**	**10.2%**	**10.1%**	**10.0%**	**10.1%**
Local Tax Revenues	4,847.1	5,087.7	9,934.8	5,330.5	5,625.7	10,956.2
as percent of personal income	4.0%	4.1%	4.1%	4.1%	4.1%	4.1%
Local Non-Tax Revenues	4,314.8	4,519.4	8,834.2	4,736.5	4,968.5	9,705.0
as percent of personal income	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Subtotal - Local Revenues	**9,161.9**	**9,607.1**	**18,769.0**	**10,067.0**	**10,594.2**	**20,661.2**
as percent of personal income	**7.7%**	**7.7%**	**7.7%**	**7.7%**	**7.7%**	**7.7%**
Total Revenues	**21,317.5**	**22,526.4**	**43,843.9**	**23,384.7**	**24,349.0**	**47,733.7**
as percent of personal income	**17.8%**	**18.0%**	**17.9%**	**17.8%**	**17.8%**	**17.7%**
State Personal Income	**119,737.5**	**125,472.5**	**245,210.0**	**131,557.5**	**137,582.5**	**269,140.0**

Total Revenues - November Forecast	**$21,677.2**	**$22,623.3**	**$44,300.5**	**$23,473.5**	**$24,448.4**	**$47,921.9**
Change from November Forecast	**($359.7)**	**($96.9)**	**($456.6)**	**($88.8)**	**($99.4)**	**($188.2)**

Price of Government Law

The 1994 Tax Bill included provisions, commonly referred to as the "Price of Government" legislation, that made several changes in the State's budget process:

- In November and February prior to the start of a biennium, the Departments of Finance and Revenue are required to project state and local taxes, other revenues and personal income for the current biennium and the two future biennia. This historical and projected data is to be presented by type of government and major revenue source.

- In January, the Governor is required to recommend revenue targets for the next two biennia that specify:

  - the maximum percentage of personal income to be collected in state and local taxes and other revenues;

  - the division of the share between state and local government revenues;

  - the appropriate mix and rates of income, sales, and other state and local taxes and other revenues and the amount of property taxes; and

  - the effect of the recommendations on the incidence of the tax burden by income class.

- By March 15th, the Legislature is required to adopt by concurrent resolution its own revenue targets for the same periods, including the same information as presented by the Governor. The Legislature's targets will be based on the February state and local revenue forecast prepared jointly by the Departments of Finance and Revenue.

These requirements ensure that the level of resources is established first, before decisions about spending are made. As a result, taxpayers are protected from tax and revenue increases driven by spending decisions.

November Forecast of State and Local Revenues

The starting point for the Governor's revenue target recommendation was the November 1996 forecast of state and local revenues. The forecast, prepared jointly by the Departments of Finance and Revenue, projected revenues based on current law, using current tax rates.

Governor's Revenue Target Recommendation

The Governor's Price of Government target recommendation was derived by making the following adjustments to the November Price of Government Forecast:

- *Effect of Governor's Tax Policy Initiatives* - The Governor is proposing a number of tax policy changes, including a one-time tax rebate of $261 million and a permanent education tax credit of $150 million for the biennium. These tax changes must be accounted for in the Governor's Price of Government recommendation because they impact state own-source revenues. Additional detail on each of these proposals may be found in the tax policy initiative pages in this document.

- *Adjustment for Changes in Education Funding* - Among the Governor's education proposals is a recommendation to lift the appropriation limits on education funding enacted in 1995. These "caps" had the effect of minimally increasing the forecast of local option levies, because local school districts would likely respond to such caps by passing more referenda. The Governor's recommendation to remove the caps thus lowers the estimate of local school levies, resulting in a lower school property tax estimate.

The Governor's recommendations provide for adequate growth in both school and non-school local governments. The Governor's recommendations for non-school local governments provide for average annual growth in own-source revenues of 4.8% in F.Y. 1998-99, and 4.5% in F.Y. 2000-01. School own-source revenues are recommended to increase 5.6% in F.Y. 1998-99, and 6.3% in F.Y. 2000-01.

It is important to note that the Governor's price of government recommendation has not been adjusted for any property tax impact of his proposal to eliminate the automatic inflation adjustment for Local Government Aid to cities. The Governor recommends that cities respond to the elimination of aid growth by containing expenditures, restructuring local services and seeking cooperative service agreements with counties and other local governments.

A table displaying the detailed components of the Governor's Price of Government Targets is available in Appendix A.

Price of Government Recommendation by Mix and Rate of Tax Type

The following table presents the Governor's Price of Government Recommendations by mix and type of revenue source.

Governor's 1997 Price of Government Recommendations

By Government and Revenue Type

($ 000s)

		Taxes											
Fiscal Year	Govt. Unit	Income		Sales		Property		Other		Non-Tax Revenues		Total	
1996	State	4,837,067	4.5%	2,901,268	2.7%	0	0.0%	2,336,223	2.2%	1,682,565	1.6%	11,757,123	10.9%
	Local	0	0.0%	78,433	0.1%	4,274,814	4.0%	52,088	0.0%	3,786,621	3.5%	8,191,956	7.6%
	Total	4,837,067	4.5%	2,979,701	2.8%	4,274,814	4.0%	2,388,311	2.2%	5,469,186	5.1%	19,949,079	18.5%
1997	State	5,043,600	4.4%	3,028,100	2.6%	0	0.0%	2,385,331	2.1%	1,736,644	1.5%	12,193,675	10.7%
	Local	0	0.0%	81,892	0.1%	4,533,240	4.0%	55,928	0.0%	4,040,538	3.5%	8,711,598	7.6%
	Total	5,043,600	4.4%	3,109,992	2.7%	4,533,240	4.0%	2,441,259	2.1%	5,777,182	5.0%	20,905,273	18.3%
1996-97	State	9,880,667	4.4%	5,929,368	2.7%	0	0.0%	4,721,554	2.1%	3,419,209	1.5%	23,950,798	10.8%
	Local	0	0.0%	160,325	0.1%	8,808,054	4.0%	108,016	0.0%	7,827,159	3.5%	16,903,554	7.6%
	Total	9,880,667	4.4%	6,089,693	2.7%	8,808,054	4.0%	4,829,570	2.2%	11,246,368	5.1%	40,854,352	18.4%
1998	State	4,834,100	4.0%	3,171,500	2.6%	0	0.0%	2,415,965	2.0%	1,733,992	1.4%	12,155,557	10.2%
	Local	0	0.0%	85,757	0.1%	4,701,328	3.9%	60,052	0.1%	4,314,826	3.6%	9,161,963	7.7%
	Total	4,834,100	4.0%	3,257,257	2.7%	4,701,328	3.9%	2,476,017	2.1%	6,048,818	5.1%	21,317,520	17.8%
1999	State	5,357,300	4.3%	3,328,100	2.7%	0	0.0%	2,491,223	2.0%	1,742,660	1.4%	12,919,283	10.3%
	Local	0	0.0%	90,002	0.1%	4,934,910	3.9%	62,801	0.1%	4,519,385	3.6%	9,607,098	7.7%
	Total	5,357,300	4.3%	3,418,102	2.7%	4,934,910	3.9%	2,554,024	2.0%	6,262,045	5.0%	22,526,381	18.0%
1998-99	State	10,191,400	4.2%	6,499,600	2.7%	0	0.0%	4,907,188	2.0%	3,476,652	1.4%	25,074,840	10.2%
	Local	0	0.0%	175,759	0.1%	9,636,238	3.9%	122,853	0.1%	8,834,211	3.6%	18,769,061	7.7%
	Total	10,191,400	4.2%	6,675,359	2.7%	9,636,238	3.9%	5,030,041	2.1%	12,310,863	5.0%	43,843,901	17.9%
2000	State	5,584,700	4.2%	3,467,100	2.6%	0	0.0%	2,551,063	1.9%	1,714,932	1.3%	13,317,795	10.1%
	Local	0	0.0%	93,765	0.1%	5,171,051	3.9%	65,669	0.0%	4,736,455	3.6%	10,066,940	7.7%
	Total	5,584,700	4.2%	3,560,865	2.7%	5,171,051	3.9%	2,616,732	2.0%	6,451,387	4.9%	23,384,735	17.8%
2001	State	5,831,700	4.2%	3,607,200	2.6%	0	0.0%	2,623,700	1.9%	1,692,195	1.2%	13,754,795	10.0%
	Local	0	0.0%	97,580	0.1%	5,459,409	4.0%	68,687	0.0%	4,968,549	3.6%	10,594,225	7.7%
	Total	5,831,700	4.2%	3,704,780	2.7%	5,459,409	4.0%	2,692,387	2.0%	6,660,744	4.8%	24,349,020	17.7%
2000-01	State	11,416,400	4.2%	7,074,300	2.6%	0	0.0%	5,174,763	1.9%	3,407,127	1.3%	27,072,590	10.1%
	Local	0	0.0%	191,345	0.1%	10,630,460	3.9%	134,356	0.0%	9,705,004	3.6%	20,661,165	7.7%
	Total	11,416,400	4.2%	7,265,645	2.7%	10,630,460	3.9%	5,309,119	2.0%	13,112,131	4.9%	47,733,755	17.7%

Effect of Recommended Tax Changes Upon Incidence

The Governor's Price of Government Recommendation reflects his tax proposals. Three of these proposals, the $261 million tax rebate, the proposal for $150 million in education tax credits, and the $30 million EdVest tax deduction program, will have the greatest impact on tax incidence, or who pays the tax. Information on the distributional impact of these tax changes, prepared by the Department of Revenue Tax Research, is detailed in the following tables. Additional tax incidence information can be found in the Department of Revenue's *Minnesota Tax Incidence Study*.

Individual Income Tax Rebate Incidence
Tax Year 1996

Federal Adjusted Gross Income	Number of Returns with Tax	Average Income Tax	*Rebate* Average	*Rebate* Total (000s)	*Rebate* Percent of Total	Percent of Rebate/Tax
Minnesota Residents:						
< $10,000	226,593	$101	$50	$11,329	4.3%	49.5%
$10,000 - 19,999	299,151	$409	$55	$16,529	6.3%	13.4%
20,000 - 29,999	308,761	$861	$89	$27,528	10.5%	10.3%
30,000 - 39,999	234,138	$1,391	$139	$32,635	12.5%	10.0%
40,000 - 49,999	191,812	$1,971	$194	$37,222	14.3%	9.8%
50,000 - 74,999	317,133	$2,974	$238	$75,614	29.0%	8.0%
75,000 - 99,999	110,239	$4,714	$248	$27,295	10.5%	5.3%
100,000 - 199,999	74,357	$8,087	$248	$18,433	7.1%	3.1%
200,000 - 499,999	18,669	$20,843	$248	$4,629	1.8%	1.2%
500,000 or more	4,361	$93,847	$248	$1,083	0.4%	0.3%
Total - MN Residents	1,785,214	$2,228	$141	$252,297	96.7%	6.3%
Nonresidents	93,304	$1,445	$93	$8,641	3.3%	6.4%
All Filers	1,878,518	$2,189	$139	$260,938	100.0%	6.3%

Education Tax Proposals Incidence
Tax Year 1997

Federal Adjusted Gross Income	Tax After All Credits (000's)	*Tax Benefit* School Credit and Deduction (000's)	EdVest (000's)	Total Amount (000s)	Percent of Total	Percent Benefit/Tax
< $10,000	$7,500	$5,700	*	$5,700	6.5%	76.0%
$10,000 - 19,999	$99,500	$7,800	*	$7,800	8.9%	7.8%
20,000 - 29,999	$246,900	$16,400	*	$16,400	18.8%	6.6%
30,000 - 39,999	$342,600	$23,200	$300	$23,500	26.9%	6.9%
40,000 - 49,999	$375,300	$4,000	$700	$4,700	5.4%	1.3%
50,000 - 74,999	$1,005,000	$8,200	$3,900	$12,100	13.9%	1.2%
75,000 - 99,999	$587,700	$3,400	$1,900	$5,300	6.1%	0.9%
100,000 - 149,999	$476,800	$2,500	$3,600	$6,100	7.0%	1.3%
150,000 - 199,999	$222,200	$800	$1,500	$2,300	2.6%	1.0%
200,000 or more	$941,900	$1,000	$2,400	$3,400	3.9%	0.4%
Total	**$4,305,400**	**$73,000**	**$14,300**	**$252,297**	**96.7%**	**2.0%**

* Participation for those with income below $30,000 estimated to be small.

Governor's State and Local Finance Policy Proposals

Governor's Tax Initiatives	F.Y. 1997	F.Y. 1998-99	F.Y. 2000-01
General Fund			
Income Tax Rebate		$ (261,000)	
Education Tax Credits		$ (150,000)	$ (166,000)
Education Investment (EdVest)		$ (30,300)	$ (36,900)
Repeal of Corporate Alternative Minimum Tax (AMT); Modify AMT Carryover Credit	$ (5,300)	$(28,100)	$ (16,500)
Federal Update to 1996 Federal Law Changes	$ (2,400)	$(56,900)	$ (72,200)
Elimination of Sales Tax on Replacement Capital Equipment		$ (5,200)	$ (7,300)
Minnesota Estimated Tax Payment Conformity with Federal Due Dates		$ (5,800)	
Environmental Income Tax Addback/Federal Depletion Conformity	$ (100)	$ (500)	$ (600)
Reduction of Composite Income Tax Rate		$ (1,500)	$ (1,800)
Job Training Tax Credit		$ (500)	$ (900)
Extension of Sales Tax to Indoor Plant Care		$ 1,400	$ 1,500
Extension of 2.5% Farm Machinery Sales Tax Rate to Nursery and Greenhouse Equipment		$ (1,200)	$ (1,400)
Extension of Sales Tax to Additional Types of Prepared Food		$ 6,300	$ 7,100
Sales Tax Exemption For-Profit Hospitals	$ (100)	$(200)	$ (200)
Sales Tax Exemption of State Hospitals and Veterans Homes	$ (600)	$(1,200)	$ (1,200)
Sales Tax Exemption of Fuel Used by Fire Trucks and Emergency Vehicles		$ (200)	$ (300)
Sales Tax on University of Minnesota Athletic Ticket Sales		$ (1,600)	$ (1,600)
Fuels Tax Exemption for Vehicles with Power Take-Off (PTO) Units		$ 400	$ 400
Repeal of the Unfair Cigarette Sales Act		$ 1,600	$ 1,500
Removal of Property Tax Refunds From Property Tax Statement		$ 2,745	$ (15,260)
Elimination of Local Government Aid Inflation Adjustment		$ 8,984	$ 45,822
Health Care Access Fund			
Exemption of Home Health Care Providers Licensed by the Department of Health from MinnesotaCare Tax		$ (1,300)	$ (1,800)
Trunk Highway Fund			
Fuels Tax Exemption for Vehicles with Power Take-Off (PTO) Units		$ (900)	$ (1,000)
TOTAL	**$ (8,500)**	**$ (524,971)**	**$ (268,638)**

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Income Tax Rebate

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$ (261,000)	$-0-	$-0-	$-0-

Statutory Change? Yes ____ No _X_
If yes, statutes(s) affected:

GOVERNOR'S RECOMMENDATION:

The Governor proposes a one-time tax rebate of $261 million dollars, to return part of the 1996-97 projected biennial surplus to Minnesota taxpayers.

The rebate will be based on 1996 tax liability, and every filer with a positive tax liability will be eligible. The rebate schedule is graduated, ranging from a minimum average rebate of $50 for filers with less than $10,000 of federal adjusted gross income, to $248 for those filers with more than $55,000 of income.

RATIONALE:

The Governor believes that part of the budget surplus created by recent steady economic growth should be returned to the taxpayers.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Education Tax Credits

	F.Y. 1997	1998-99 Biennium F.Y. 1998	F.Y. 1999	2000-01 Biennium F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$ (73,000)	$ (77,000)	$ (81,000)	$ (85,000)

Statutory Change? Yes _X_ No ____
If yes, statutes(s) affected:

GOVERNOR'S RECOMMENDATION:

The Governor recommends expanding the existing deduction for education expenses.

RATIONALE:

This education tax cut plan will make more choices and options available to all Minnesota families with school age children. All Minnesota children, whether they choose to attend a public school, a non-public school or are educated at home, are potential beneficiaries. By empowering parents and helping to place children in a learning environment best for them, the plan will also improve education outcomes.

The plan gives tax credits to low income families and gives tax deductions to all other families with children in school for a wide list of education expenses. Families with an income below $39,000 will qualify for a tax credit of $1,000 per child with a maximum of $2,000 per family for fees paid for tutoring, summer school, alternative learning or nonpublic school tuition.

Families with an income above $39,000 will qualify for an expanded tax deduction for education expenses. The plan triples the current deduction from $650 to $1,950 per child for grades K - 6 and from $1,000 to $3,000 per child for grades 7 - 12. The deduction, established in 1975, has not been increased since 1985, and has failed to keep pace with inflation. All filers with school age children, will qualify, not just itemizers. The deduction, which now covers non-public school tuition and a variety of public education costs, will be expanded to include computer hardware and software purchases, tutoring and alternative learning costs, and other enrichment programs. Families who choose to educate their children at home will qualify for a tax credit of $1,000 per family.

The plan will also increase opportunities for teachers and school districts. For example, teachers can earn extra money made available by the tax credit for tutoring. School districts can earn extra money made available by the tax credit for alternative learning programs.

The plan is modeled on the current deduction, which has already been upheld in the courts as constitutional.

Since the plan allows taxpayers to keep their own money through deductions and credits, it also dramatically reduces any chance of regulation of nonpublic schools.

The plan also builds on Minnesota's legacy as a pioneer in expanding education choice. Minnesota led the way with public school choice, college classes for high school students and charter schools. This plan simply expands that choice concept another step.

PROGRAM OUTCOMES:

This tax credit and deduction program is designed to:

- Expand educational choices and opportunities for every Minnesota parent with children in school.
- Improve student achievement by helping parents to obtain specialized educational services or to place their children in an alternative learning environment that works best for them.
- Increase parental involvement in their children's education.
- Help students meet Minnesota's graduation standards by making technology at home more affordable for all Minnesota families.
- Increase employment opportunities for teachers (e.g. through tutoring programs.)
- Encourage school districts to develop innovative programs that meet the educational needs of children (e.g. by offering specialized summer school or alternative learning programs.)

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Education Investment (EdVest)

	F.Y. 1997	1998-99 Biennium F.Y. 1998	1998-99 Biennium F.Y. 1999	2000-01 Biennium F.Y. 2000	2000-01 Biennium F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(14,300)	$(16,000)	$(17,900)	$(19,000)

Statutory Change? Yes __X__ **No** _____
If yes, statutes(s) affected: M.S. 290.01 and 290.091; proposing new statute

GOVERNOR'S RECOMMENDATION:

The Governor recommends the creation of EdVest Savings Accounts to encourage Minnesota families to save for post-secondary education expenses. Qualifying expenses are tuition, books, and fees required for the post-secondary education of the taxpayer, the taxpayer's spouse, or the child, grandchild, or ancestor of the taxpayer or spouse. Individuals may contribute up to $2,000 and married taxpayers filing jointly may contribute up to $4,000 a year to an EdVest account. Both the contributions and the investment earnings that accrue would be exempt from the state income tax. The accounts must be held for at least 5 years before withdrawal. Funds withdrawn within the first five years which are not used for post-secondary education will be subject to a state tax of 2% plus the taxpayer's highest tax rate.

The Governor also recommends the creation of an EdVest Fund to encourage families and individuals who save for post-secondary education. Contributions from private corporations, foundations, and individuals to the EdVest Fund would be distributed to students who use savings from an EdVest Savings Account to pay for college.

RATIONALE:

Many Minnesota families are not saving for post-secondary education. It is in the public interest for the state to encourage families and students to save now for the future costs of post-secondary education.

PROGRAM OUTCOMES:

The EdVest Accounts would be effective beginning with tax year 1997, and would automatically sunset if the federal government enacts a similar savings program.

LONG-TERM IMPACT:

Families and students who have saved for post-secondary education can rely less on loans and minimize the need to work while attending college. Students who graduate with manageable student loan debt will have more income available to spend and invest in the purchase of a home of their own or their children's college education.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Repeal of Corporate Alternative Minimum Tax (AMT); Modify AMT Carryover Credit

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund					
- Repeal AMT	$(4,600)	$(13,200)	$(11,200)	$(9,900)	$(6,600)
- Modify Credit	(700)	(2,400)	(1,300)	(400)	400
	$(5,300)	$(15,600)	$(12,500)	$(10,300)	$(6,200)

Statutory Change? Yes _X_ No ____
If yes, statutes(s) affected: M.S. 290.0921

GOVERNOR'S RECOMMENDATION:
The Governor recommends repealing the Alternative Minimum Tax (AMT) paid by corporate franchise tax filers and changing the calculation of the AMT carryover credit, effective for tax years beginning after December 31, 1996.

RATIONALE:
The AMT should be repealed because of the difficulty of administering the tax. Under current law, a great majority of taxpayers are required to make a complex series of calculations to determine whether they owe any AMT. The result is a process that is difficult for the taxpayer to comply with and for the Department to audit. Even with full conformity with the federal AMT law, the calculation of the AMT is difficult. Modifications of parts of the federal AMT calculation are necessary. These modifications are confusing, costly and time consuming.

Repeal of the AMT should be accompanied by a simplified method of calculating AMT carryover. Under current law taxpayers who paid AMT in past years may be eligible to receive a credit for AMT paid if they owe the regular tax (the 9.8% tax) and not any AMT in the current year. Even if the AMT was repealed, taxpayers with AMT carryovers would still need to compute a current year AMT to take advantage of any AMT carryover credit.

Under this initiative, if a taxpayer owed regular tax and had paid AMT in the past, a simple formula would determine how much of the AMT carryover credit may be claimed. An AMT carryover credit would be equal to the lesser of 40% of regular tax liability or 15% of unused AMT carryover credit. The carryover credit would be available for ten years, and would provide a credit only to the extent that the regular tax exceeds the current year AMT.

PROGRAM OUTCOMES:
Repealing the AMT will reduce complexities in filing for both the taxpayer and the Department. Modifying the calculation of the credit will allow a simplified way to end the AMT method of taxation.

LONG-TERM IMPACT:
Repeal of the AMT and modification of the credit will eliminate one source of complexity in the current tax system. Limiting use of the credit to ten years will ensure that the credit will expire at a set date because, under current law, there is no limit to the number of years that AMT credits can be carried over.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Federal Update to 1996 Federal Law Changes

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$(2,400)	$(25,200)	$(31,700)	$(34,000)	$(38,200)

Statutory Change? Yes _X_ No ____
If yes, statutes(s) affected: M.S. 289A.02, Subd. 7; 290.01, Subd. 19 and 31; 291.005, Subd. 1; proposing new statute

GOVERNOR'S RECOMMENDATION:

The Governor recommends that Minnesota individual income and corporate franchise tax laws be updated to adopt the federal changes made in three bills enacted in 1996: the Small Business Job Protection Act; the Health Insurance Portability and Accountability Act; and the Personal Responsibility and Work Opportunity Reconciliation Act.

RATIONALE:

In general, conformity of Minnesota tax laws with the federal laws facilitates compliance by taxpayers and enforcement by the Department of Revenue. Administrative costs and complexities are minimized for taxpayers, the Department of Revenue, and for those who provide information to taxpayers, including employers and pension plan administrators.

PROGRAM OUTCOMES:

The 1996 federal changes covered many areas, including pension plan simplification and access, tax relief for small business, eligibility for "S" corporation election, health insurance affordability, and eligibility for the earned income credit. Updating state tax law to the federal will provide uniform treatment in these and other areas.

LONG-TERM IMPACT:

The adoption of the 1996 federal changes for state tax purposes would continue the precedent that has been followed in recent years; nearly all federal changes enacted in the last few years have been adopted. Compliance with state tax laws would continue to be enhanced by the advantages of federal conformity.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Elimination of Sales Tax on Replacement Capital Equipment

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(2,100)	$(3,100)	$(3,300)	$(4,000)

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 297A.01, Subd. 20; 297A.02, Subd. 5

GOVERNOR'S RECOMMENDATION:

The Governor recommends that the sales tax on replacement capital equipment be further reduced to 0% by July 1, 1998.

RATIONALE:

In 1994 the Legislature passed a law which began a gradual phase-out of the sales tax on replacement capital equipment. Under that law, the tax rate will be reduced to 2% by July 1, 1998. In passing the phase-out legislation, the Legislature recognized that taxing capital equipment violated basic equity and efficiency principles of good tax policy. Of the 45 states with a general sales tax, 30 have an exemption for replacement capital equipment.

Taxes on replacement capital equipment affect equity through tax pyramiding -- when taxes on business inputs are incorporated in the final sales prices of the retail good. Such tax pyramiding ultimately results in goods being taxed at different rates depending on the amount of taxable business inputs that went into production and also adds to the regressivity of the sales tax.

Taxing replacement capital equipment distorts business production decisions and is a hindrance to Minnesota businesses that want to upgrade equipment for efficient production standards in an increasingly competitive marketplace.

To further the original policy goals of reducing the tax on replacement capital equipment, the Governor recommends that the phase-out be fully implemented by reducing the tax rate to 0% by July 1, 1998.

	Current Rate	Proposed Rate
F.Y. 1998	2.9%	1.5%
F.Y. 1999	2.0%	0.0%
F.Y. 2000	2.0%	0.0%
F.Y. 2001	2.0%	0.0%

PROGRAM OUTCOMES:

This initiative will reduce the amount of sales tax ultimately borne by consumers, eliminate the impact of taxation upon business decisions, and provide some tax relief to business, promoting economic growth and job creation.

LONG-TERM IMPACT:

By eventually eliminating the sales tax on replacement capital equipment, Minnesota can reduce the amount of tax ultimately borne by consumers and eliminate the distorting effect of a tax on business inputs, promoting the equity and efficiency of its system of taxation.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Minnesota Estimated Tax Payment Conformity with Federal Due Dates

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(5,500)	$(300)	$-0-	$-0-

Statutory Change? Yes _X_ No ____
If yes, statutes(s) affected: M.S. 289A.26

GOVERNOR'S RECOMMENDATION:

The Governor recommends making all the corporate franchise tax estimated payment dates conform with the federal estimated payment dates, effective for tax years beginning after December 31, 1997.

RATIONALE:

Under current law the first estimated tax payment is due on the 15th day of the third month of a company's tax year. However, under current federal law the first estimated tax payment is due on the 15th day of the fourth month of a company's tax year. Minnesota and federal law currently have the same estimated payment dates for the second, third and fourth payments.

In order to simplify tax compliance, the first estimated tax payment date will be moved one month later so that it falls on the same date as the first estimated tax payment to the federal government.

PROGRAM OUTCOMES:

Enactment of this proposal will simplify tax compliance by synchronizing state and federal payment dates. Under current law some taxpayers are unpleasantly surprised to find out their first estimated tax payments are late because they paid the first payment in the fourth month of their tax year instead of the third month.

LONG-TERM IMPACT:

The initiative reduces taxpayer confusion by making all the estimated payment dates fall on the same dates for both state and federal payments. This program results in a shift of revenue, with the primary impact occurring in the first year.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Environmental Income Tax Addback/Federal Depletion Conformity

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$(100)	$(200)	$(300)	$(300)	$(300)

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 290.01

GOVERNOR'S RECOMMENDATION:

The Governor recommends the elimination of the depletion modifications for corporate franchise tax filers. He also recommends adding a modification for the income-based federal environmental tax.

RATIONALE:

Elimination of the depletion modification will make Minnesota law conform with the way depletion is calculated for federal purposes, reducing the complexity of corporate income tax calculation. Under current law, cost depletion is allowed for state purposes; this initiative will change the method of calculation to a percentage depletion. The burden of paperwork required by taxpayers to conform with Minnesota law is high and the revenue loss from conformity is slight.

The rationale to add a modification for the income-based federal environmental tax is based on the long-standing principle that income-based taxes must not be permitted to reduce federal taxable income. Federal taxable income is the starting point to compute the corporate franchise tax. Current federal law allows an environmental tax under IRC section 59A to be taken as a tax deduction to reduce the amount of federal taxable income. The environmental tax is 0.12% of the amount of federal alternative minimum taxable income that exceeds $2 million.

PROGRAM OUTCOMES:

The proposal will reduce the complexity of current franchise tax law with respect to depletion, and treats the environmental tax in the same manner as other taxes.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Reduction of Composite Income Tax Rate

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(700)	$(800)	$(900)	$(900)

Statutory Change? Yes X **No** ____
If yes, statutes(s) affected: M.S. 289A.08, Subd. 7

GOVERNOR'S RECOMMENDATION:

The Governor recommends that the income tax rate on composite returns filed by partnerships, "S" corporations, and estate and trusts on behalf of nonresident partners, shareholders, and beneficiaries be reduced from 8.5% to 8%, effective for tax years beginning after December 31, 1996.

RATIONALE:

Nonresident partners, shareholders, and beneficiaries may elect to be included on a composite return filed by the entity if they have no other Minnesota-source income. However, nonbusiness deductions, the standard deduction, and personal exemptions are not allowed on the composite return, and the income allocated to the individual is multiplied by 8.5%. Reducing the rate from 8.5% to 8% will treat these composite filers more fairly by better approximating the amount of tax liability they would have incurred had they filed as individuals.

PROGRAM OUTCOMES:

More nonresidents will elect to be included on composite returns, rather than filing individually.

LONG-TERM IMPACT:

The proposal will facilitate compliance with Minnesota tax laws for nonresidents and will reduce administrative burdens.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Job Training Tax Credit

	F.Y. 1997	1998-99 Biennium F.Y. 1998	1998-99 Biennium F.Y. 1999	2000-01 Biennium F.Y. 2000	2000-01 Biennium F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(100)	$(400)	$(500)	$(400)

Statutory Change? **Yes** __X__ **No** ____
If yes, statutes(s) affected: M.S. 290, proposing new statute

GOVERNOR'S RECOMMENDATION:

The Governor recommends the creation of a jobs tax credit program that targets graduates of a qualified jobs training program.

RATIONALE:

Under this initiative, employers would be allowed a credit against the corporate franchise tax equal to part of the job and retention fees paid to qualifying job training programs. The job training programs will provide training of disadvantaged workers, and be reimbursed by payments from the firms who hire their graduates. The employers then receive a tax credit to offset the placement and retention payments made to the job training programs. The maximum credit is $8,000 upon hiring a qualified graduate and $6,000 per year for each qualified graduate after the retention requirements are met. The proposal limits the total amount of credit certificates issued each year for five years.

PROGRAM OUTCOMES:

This initiative will encourage the training and hiring of work-ready employees from a group of hard-to-employ workers.

LONG-TERM IMPACT:

Unemployed workers will be provided an avenue to enter the workforce.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Extension of Sales Tax to Indoor Plant Care

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$700	$700	$700	$800

Statutory Change? **Yes** _X_ **No** ____
If yes, statutes(s) affected: M.S. 297A.01, Subd. 3(i)(vi)

GOVERNOR'S RECOMMENDATION:

The Governor recommends extending the sales tax to indoor plant care, effective July 1, 1997.

RATIONALE:

In 1987 the legislature imposed the sales tax on lawn care, garden care, and related services. At that time, the law was interpreted administratively as applying only to outdoor plant care. For reasons of fairness and uniformity, the tax should also apply to indoor plant care.

PROGRAM OUTCOMES:

This proposal would improve understanding of the sales tax law by removing the artificial distinction between services for outdoor and indoor plant care.

LONG-TERM IMPACT:

The benefit is increased simplicity of the sales tax system.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Extension of 2.5% Farm Machinery Sales Tax Rate to Nursery and Greenhouse Equipment

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(600)	$(600)	$(700)	$(700)

Statutory Change? Yes _X_ No ____
If yes, statutes(s) affected: M.S. 297A.01, Subd. 15

GOVERNOR'S RECOMMENDATION:

The Governor recommends including machinery used by commercial nurseries and greenhouses in the statutory definition of "farm machinery" for sales tax purposes, effective July 1, 1997. Currently, purchases of machinery used by nurseries and greenhouse is taxed at the regular sales tax rate of 6.5%. Farm machinery is presently taxed at the rate of 2.5%. (Used farm machinery is exempt through June 30, 1997.)

RATIONALE:

The sales tax law does not include the raising of ornamental or flowering plants including nursery stock in the definition of activities qualifying for the farm machinery tax benefit. For reasons of fairness and equal treatment, the Governor proposes extending the 2.5% rate to machinery used by nurseries and greenhouses.

PROGRAM OUTCOMES:

This initiative will remove the arbitrary exclusion of nursery and greenhouse industries from the farm machinery tax benefit.

LONG-TERM IMPACT:

Reducing the sales tax burden will make Minnesota nursery and greenhouse products more competitive with products grown in other states and countries. It will also enhance tax simplicity and understandability.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Extension of Sales Tax to Additional Types of Prepared Food

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$3,000	$3,300	$3,500	$3,600

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 297A.01, Subd. 3(c)(3)

GOVERNOR'S RECOMMENDATION:

The Governor recommends simplifying and clarifying the application of the sales tax to sales of prepared food, effective July 1, 1997.

RATIONALE:

Generally, food sold in grocery stores is exempt, while food served in restaurants is taxed. However, current law taxes all heated food and drinks, as well as sandwiches and ice cream products prepared by the retailer. These circumstances have been confusing and frustrating for taxpayers. For instance, supermarket sales of heated casseroles and baked chickens are taxable, while unheated items like potato salad and coleslaw are exempt.

The Governor's initiative would bring all foods prepared for immediate consumption into the sales tax base. In this way, food items prepared by stores, supermarkets, and delicatessens will be treated the same way they are treated when sold by restaurants.

PROGRAM OUTCOMES:

The proposal would make taxation of prepared food more uniform and understandable, and it would enhance administrative efficiency by reducing the compliance burden on taxpayers.

LONG-TERM IMPACT:

Taxpayers and the Department of Revenue will benefit from having a simpler and more efficient tax structure.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Sales Tax Exemption of For-Profit Hospitals

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$(100)	$(100)	$(100)	$(100)	$(100)

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 297A.25

GOVERNOR'S RECOMMENDATION:

The Governor recommends exempting sales to hospitals of items used in patient treatment. The exemption would not apply to clinics, doctors' offices, or to any other medical facility not operated as a hospital. Effective retroactive to January 1, 1996.

RATIONALE:

Hospitals are not categorically exempt from sales tax. Until recently, most hospitals in Minnesota have been exempt either as nonprofit institutions or as agencies of local governments. The proposal would provide equal sales tax treatment to hospitals, regardless of their organization or ownership.

PROGRAM OUTCOMES:

This initiative recognizes the changing nature of the health care industry. Hospital consolidations and the increasing participation of the private sector have blurred the distinction of nonprofit and for-profit status. The proposal provides a level playing field in the sales tax area.

LONG-TERM IMPACT:

The health care sector would benefit from tax savings and removal of the economic distortions caused by uneven tax policy.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Sales Tax Exemptions of State Hospitals and Veterans' Homes

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$(600)	$(600)	$(600)	$(600)	$(600)

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 297A.25, Subd. 11

GOVERNOR'S RECOMMENDATION:

The Governor recommends exempting state hospitals and state veterans' homes from sales tax, effective retroactive to January 1, 1996. This recommendation complements the recommendation to exempt for-profit hospitals.

RATIONALE:

State government has been liable for sales and use tax since 1987. (University of Minnesota Hospitals are specifically exempt.) Because they are operated by state agencies, state hospitals and veterans' homes have had to pay tax on most of their purchases. In the interest of cost containment and in the context of a changing health care environment, the Governor believes that eliminating these institutions' sales tax liability is sound tax and fiscal policy.

PROGRAM OUTCOMES:

The initiative would give tax relief to a significant amount of health care-related expenditures.

LONG-TERM IMPACT:

Through the proposed tax relief, state institutions will have additional funds to improve patient and resident services. State hospitals and veterans' homes would also be on a level sales tax playing field with other similar institutions.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Sales Tax Exemption of Fuel Used by Fire Trucks and Emergency Vehicles

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(100)	$(100)	$(100)	$(200)

Statutory Change? Yes _X_ No ____
If yes, statutes(s) affected: M.S. 297A.25, Subd. 7

GOVERNOR'S RECOMMENDATION:

The Governor recommends a sales and use tax exemption of fuel purchased by a state agency or local unit of government for use in emergency rescue vehicles and fire trucks and apparatus, effective July 1, 1997.

RATIONALE:

As vehicles not requiring registration, governmental fire trucks and ambulances are exempt from the highway fuels excise tax imposed under M.S. Chapter 296. However, because most governmental units, with the exception of school districts, are liable for sales and use tax, they have had to pay tax on the sales price of fuel used in these vehicles. The proposal would remove their sales/use tax liability in this area.

PROGRAM OUTCOMES:

This initiative eliminates all taxes on fuels used in governmental emergency vehicles and fire trucks and apparatus.

LONG-TERM IMPACT:

By lowering the cost of providing emergency services, governments should be able to use the tax savings for equipment and quality improvements.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Sales Tax on University of Minnesota Athletic Ticket Sales

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$(800)	$(800)	$(800)	$(800)

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 297A.25, proposed new statute

GOVERNOR'S RECOMMENDATION:

The Governor recommends removing the University of Minnesota's liability to remit sales tax on tickets to University athletic events, effective July 1, 1997. Under this recommendation, the University would continue to collect tax on ticket sales.

RATIONALE:

This proposal provides the University with a modest amount of financial support for program funding.

PROGRAM OUTCOMES:

By allowing the University to retain the sales tax revenue, the proposal allows the University to retain dollars generated through University of Minnesota sponsored events.

LONG-TERM IMPACT:

The University will be able to budget the forgone tax revenue to needed areas of investment.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Fuels Tax Exemption for Vehicles with Power Take-Off (PTO) Units

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$200	$200	$200	$200
Trunk Highway Fund	$-0-	$(400)	$(500)	$(500)	$(500)

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 296.18, Subd. 1

GOVERNOR'S RECOMMENDATION:

The Governor recommends a highway fuels excise tax exemption for gasoline and special fuels used to run a PTO unit. PTO units tap energy from the vehicle's engine to power equipment such as cement mixers, lifts, pumps, etc. The exemption would be obtained through a tax refund. Under this initiative, the Department of Revenue would adopt rules to determine the rates and percentages required to administer the exemption. Effective July 1, 1997.

RATIONALE:

Generally, fuel used for off-road purposes such as farm machinery is not subject to the excise tax. This proposal would ensure that only the fuel consumed to propel the vehicle on the public roads is taxed.

PROGRAM OUTCOMES:

The proposal maintains the philosophy that only fuel used to propel road vehicles is subject to the highway fuels excise tax, whose revenues are used solely for road and highway construction and maintenance. Under this proposal, PTO fuels become subject to the sales and use tax; these fuels are now exempt from the sales tax because they are taxed under the excise tax.

LONG-TERM IMPACT:

This initiative replaces the current excise tax with a sales tax and provides an apportioned rate for commercial vehicles that have off-road power needs similar to the treatment of farm machinery.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Repeal the Unfair Cigarette Sales Act

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
General Fund	$-0-	$800	$800	$800	$700

Statutory Change? Yes _X_ **No** ____
If yes, statutes(s) affected: M.S. 325D.30 to 325D.42

GOVERNOR'S RECOMMENDATION:

The Governor recommends the repeal of the Unfair Cigarette Sales Act (UCSA), effective the day following final enactment.

RATIONALE:

This act represents governmental intervention in the marketplace pricing that is not imposed on the sale of other products. Its administration and enforcement is a continual problem for the department. The way the current law is structured, a profit margin is guaranteed on the sales of cigarettes through artificial price supports. Minnesota is one of 24 states with this type of law remaining on the books.

PROGRAM OUTCOMES:

This proposal would make cigarette products compete in the marketplace. It would induce a 5¢ drop statewide in the retail prices of cigarettes. Excise tax revenue would increase and distributor UCSA fees would be zero.

LONG-TERM IMPACT:

Minnesota will no longer need to enforce an artificial market support that is not a revenue contributor to the state.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Exemption of Home Health Care Providers Licensed by the Department of Health from MinnesotaCare Tax

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
Health Care Access Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
Revenues: ($000s)					
Health Care Access Fund	$-0-	$(400)	$(900)	$(900)	$(900)

Statutory Change? **Yes** _X_ **No** ____
If yes, statutes(s) affected: M.S. 295.50, Subd. 6

GOVERNOR'S RECOMMENDATION:

The Governor recommends the exemption of home health care providers licensed by the Minnesota Department of Health from the MinnesotaCare provider tax, effective January 1, 1998.

RATIONALE:

The current MinnesotaCare tax law exempts home health care providers licensed by the Department of Human Services. Some home health care providers, however, who are regulated by the Department of Health are not exempt from the tax. This proposal seeks to amend the current law exemption to include the latter category of home health care providers.

PROGRAM OUTCOMES:

If enacted, this proposal would reduce the MinnesotaCare tax revenue fund by the amounts specified above. It would promote equitable tax treatment of all home health care providers doing business in the state.

LONG-TERM IMPACT:

The apparent inequity facing home health care providers regulated by the Minnesota Department of Health, relative to those licensed by the Department of Human Services, under current MinnesotaCare tax law would be eliminated. Horizontal equity would be promoted.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Removal of Property Tax Refunds from Property Tax Statement

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
Property Tax	$-0-	$-0-	$-0-	$9,100	$10,900
Aid to Local Govt.	$-0-	$-0-	$(2,650)	$(2,370)	$(2,370)
Revenue Dept	$-0-	$-0-	$(95)	$-0-	$-0-
Total	$-0-	$-0-	$(2,745)	$6,730	$8,530
Revenues: ($000s)					
General Fund	$-0-	$-0-	$-0-	$-0-	$-0-

Statutory Change? Yes _X_ No ____
If yes, statutes(s) affected: M.S. Laws 1995, Ch. 264, Art. 4, As Amended by Laws 1996, Ch. 471, Art. 3

GOVERNOR'S RECOMMENDATION:

The Governor recommends repeal of the 1995 legislative provision (as amended in 1996) that places state property tax relief on the property tax statement beginning in taxes payable year 1999, instead of being paid to individuals.

RATIONALE:

The 1995 Omnibus Tax Bill contained a provision to change the means of payment of Homeowner's and Special (Targeting) Tax Relief from a state-issued check to individuals to a payment directly to counties, effective for taxes payable 1998. Counties would then distribute the tax relief as a reduction of taxes payable on individuals' property tax statements. The 1996 Omnibus Tax Bill changed the effective date of the law to taxes payable 1999.

The Governor recommends repeal of this provision because it increases costs for local governments, is complex to administer, and will be confusing to taxpayers. Changing the means of payment to a reduction on the property tax statement requires an annual appropriation of nearly $2.4 million to compensate counties for additional administrative requirements. Accomplishing the change requires that a taxpayer's property taxes paid used to calculate tax relief be lagged by 1 year. The same property taxes paid will be used for *2 years in a row* to calculate the property tax relief due a taxpayer, who might rightfully expect an increase based on their current property tax liability.

Repeal of this provision reduces expenditures by $2.745 million in F.Y. 1999 and $2.370 million in F.Y. 2000 due to the cancellation of appropriations to counties and the Department of Revenue for administrative costs. In F.Y. 2000, however, elimination of the administrative cost appropriation is more than offset by elimination of $9.1 million in savings originally produced by authorizing law. The law produced savings by calculating property tax relief on a lagged basis -- beginning in 1999, property tax relief will be calculated using *prior year* taxes payable. As a result, property taxes paid in 1998 will be used for the calculation of both 1998 and 1999 tax relief, producing savings over the amount of property tax relief previously forecast. These savings will be eliminated by the recommended repeal, resulting in a net cost in F.Y. 2000 of $6.73 million and a net cost of $8.53 million in F.Y. 2001.

PROGRAM OUTCOMES:

This provision will save local administrative dollars and allow homeowners to clearly see the effect of local spending decisions. Ultimately, it will help contain the cost of local government services.

F.Y. 1998-99 BUDGET RECOMMENDATION

ITEM TITLE: Elimination of Local Government Aid Inflation Adjustment

		1998-99 Biennium		2000-01 Biennium	
	F.Y. 1997	F.Y. 1998	F.Y. 1999	F.Y. 2000	F.Y. 2001
Expenditures: ($000s)					
General Fund					
- State Operations	$-0-	$-0-	$-0-	$-0-	$-0-
City LGA inflation Adjustment	$-0-	$-0-	$(8,984)	$(18,192)	$(27,630)
Revenues: ($000s)					
General Fund	$-0-	$-0-	$-0-	$-0-	$-0-

Statutory Change? **Yes** _X_ **No** ____
If yes, statutes(s) affected: M.S. 477A.03, Subd. 2

GOVERNOR'S RECOMMENDATION:

The Governor recommends repeal of the provision that increases Local Government Aid paid to cities in 1998 and thereafter by one plus the percentage increase in the implicit price deflator for government purchases of goods and services for the 12-month period ending March 31 of the previous year.

RATIONALE:

The Governor is concerned that the current aid program has the effect of reducing the accountability of city governments to taxpayers for local spending decisions. The entire local government aid structure must be looked at in property tax reform.

PROGRAM OUTCOMES:

Eliminating the inflation adjustment to Local Government Aid to cities in 1998 and following will prevent the aid from growing by about 2.5% per year. The elimination of the aid growth will reduce the estimated total revenues of cities by less than 0.1% statewide.

LONG-TERM IMPACT:

In the long term, eliminating the automatic inflationary growth of Local Government Aid to cities will reduce the dependence of city governments on this aid, and increase accountability to local taxpayers.

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Appendix - Governor's Price of Government Recommendation Table

Governor's 1997 Price of Government Recommendation
State & Local Revenues, C.Y. 1990-2000
Percent of Personal Income
($ in Thousands)

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001
State Revenues											
Tax Revenues:											
Individual Income Tax	2,972,983	3,144,636	3,471,374	3,539,994	3,753,268	4,135,332	4,370,900	4,189,700	4,677,400	4,871,100	5,075,700
General Sales Tax	1,965,209	2,193,451	2,378,482	2,522,271	2,722,596	2,901,268	3,028,100	3,171,500	3,328,100	3,467,100	3,607,200
Corporate Income Tax	457,934	420,278	509,534	551,822	665,757	701,735	672,700	644,400	679,900	713,600	756,000
Gasoline & Special Fuels Taxes	430,213	437,817	441,619	457,614	468,738	495,458	516,716	531,451	546,700	559,579	572,811
Motor Vehicle License Tax	351,664	370,650	404,655	425,036	452,317	475,669	491,383	494,886	510,984	514,880	531,377
Motor Vehicle Excise Tax	236,720	270,356	296,284	332,994	347,523	381,219	374,900	371,300	384,900	401,400	418,400
Health Care Taxes	0	0	13,566	64,532	145,978	171,597	194,331	205,426	217,384	230,077	242,975
All Other Taxes	549,253	585,022	662,167	759,729	754,684	812,280	808,001	812,902	831,255	845,127	858,137
Subtotal - State Taxes	6,963,976	7,422,210	8,177,681	8,653,992	9,310,861	10,074,558	10,457,031	10,421,565	11,176,623	11,602,863	12,062,600
Non-Tax Revenues:											
Fees & Charges	249,168	338,879	326,518	366,305	358,331	390,518	429,131	429,598	462,951	440,960	417,991
Investment Earnings	172,861	109,360	77,989	79,419	120,028	150,555	142,089	141,233	116,091	107,820	102,457
Post-Secondary Tuition	354,404	379,134	409,787	415,135	417,787	415,775	442,210	460,916	476,143	485,511	490,819
All Other Resources	570,118	560,559	571,254	650,922	613,591	725,717	723,214	702,245	687,475	680,641	680,928
Subtotal - State Non Tax Revenues	1,346,551	1,387,932	1,385,548	1,511,781	1,509,737	1,682,565	1,736,644	1,733,992	1,742,660	1,714,932	1,692,195
Subtotal - State Own Source Revenues	8,310,527	8,810,142	9,563,229	10,165,773	10,820,598	11,757,123	12,193,675	12,155,557	12,919,283	13,317,795	13,754,795
Federal Grants	2,260,587	2,530,697	2,778,303	3,133,023	3,212,969	3,292,314	3,753,905	3,775,769	3,925,586	4,257,027	4,210,841
TOTAL STATE REVENUES	**10,571,114**	**11,340,839**	**12,341,532**	**13,298,796**	**14,033,567**	**15,049,437**	**15,947,580**	**15,931,326**	**16,844,869**	**17,574,822**	**17,965,636**
Local Non-School Revenues											
Tax Revenues:											
Property Tax	1,781,966	1,979,384	2,090,992	2,165,435	2,219,505	2,328,357	2,449,028	2,540,677	2,662,049	2,803,311	2,947,158
Sales Tax	49,852	52,750	60,272	64,023	74,381	78,433	81,892	85,757	90,002	93,765	97,580
Other Taxes	34,131	39,188	42,272	47,093	48,511	52,088	55,928	60,052	62,801	65,669	68,687
Subtotal - Local Taxes	1,865,949	2,071,322	2,193,536	2,276,551	2,342,397	2,458,878	2,586,848	2,686,486	2,814,852	2,962,745	3,113,425
Non-Tax Revenues:											
Special Assessments	203,949	207,957	239,171	241,280	227,548	234,603	241,944	249,589	260,763	272,416	284,671
Licenses and Permits	58,168	62,802	68,530	72,874	78,211	84,176	90,610	97,557	101,860	106,345	111,059
Charges for Services	343,549	371,433	393,946	440,250	437,166	461,966	488,382	516,533	537,194	558,639	581,119
Investment Earnings	326,643	291,536	260,507	253,102	260,010	263,419	266,874	270,376	270,376	270,376	270,376
Selected Enterprise Revenues	1,238,569	1,418,282	1,527,277	1,627,881	1,750,121	1,877,174	2,013,454	2,159,632	2,250,651	2,345,327	2,444,737
Miscellaneous Revenues	300,126	305,924	317,825	329,629	366,829	391,054	417,582	446,652	465,295	484,676	505,020
Subtotal - Local Non Tax Revenues	2,471,004	2,657,934	2,807,256	2,965,016	3,119,885	3,312,392	3,518,846	3,740,339	3,886,139	4,037,779	4,196,982
Subtotal - Local Own Source Revenues	4,336,953	4,729,256	5,000,792	5,241,567	5,462,282	5,771,270	6,105,694	6,426,825	6,700,991	7,000,524	7,310,407
Intergovernmental Revenue:											
State Aid	1,751,600	1,704,411	1,733,571	1,809,720	1,816,841	1,875,203	2,409,474	2,150,628	2,100,395	2,116,581	2,134,185
Local Aid	66,439	72,799	72,554	66,338	72,497	72,543	72,543	72,543	72,543	72,543	72,543
Federal Aid	542,064	470,091	441,744	530,827	509,880	509,047	509,047	509,047	509,047	509,047	509,047
Subtotal - Intergovernmental Revenue	2,360,103	2,247,301	2,247,869	2,406,885	2,399,218	2,456,793	2,991,064	2,732,218	2,681,985	2,698,171	2,715,775
TOTAL LOCAL NON-SCHOOL REVENUES	**6,697,056**	**6,976,567**	**7,248,661**	**7,648,452**	**7,861,500**	**8,228,063**	**9,096,758**	**9,159,043**	**9,382,976**	**9,698,695**	**10,026,182**

Governor's 1997 Price of Government Recommendation
State & Local Revenues, C.Y. 1990-2000
Percent of Personal Income
($ in Thousands)

	C.Y. 1990 F.Y. 1991	C.Y. 1991 F.Y. 1992	C.Y. 1992 F.Y. 1993	C.Y. 1993 F.Y. 1994	C.Y. 1994 F.Y. 1995	C.Y. 1995 F.Y. 1996	C.Y. 1996 F.Y. 1997	C.Y. 1997 F.Y. 1998	C.Y. 1998 F.Y. 1999	C.Y. 1999 F.Y. 2000	C.Y. 2000 F.Y. 2001
School District Revenues											
Tax Revenues:											
Property Tax	1,358,929	1,516,894	1,614,766	1,783,311	1,877,076	1,946,457	2,084,212	2,160,651	2,272,861	2,367,740	2,512,251
Non-Tax Revenues:											
Sales & Fee Revenue	111,848	110,624	118,700	122,046	127,635	133,251	139,114	145,235	151,625	158,297	165,262
Other Miscellaneous Revenue	181,697	206,996	249,532	276,801	303,902	340,978	382,578	429,252	481,621	540,379	606,305
Subtotal - School District Non Tax Revenues	293,545	317,620	368,232	398,847	431,537	474,229	521,692	574,487	633,246	698,676	771,567
Subtotal - School Dist Own Source Revenues	1,652,474	1,834,514	1,982,998	2,182,158	2,308,613	2,420,686	2,605,904	2,735,138	2,906,107	3,066,416	3,283,818
Intergovernmental Revenue:											
State Aid	2,425,233	2,480,343	2,561,632	2,681,049	3,000,524	3,128,471	3,144,400	3,288,878	3,302,578	3,392,043	3,449,727
Local Aid	41,477	41,335	45,376	45,567	48,272	47,838	47,407	46,981	46,558	46,139	45,723
Federal Aid	182,435	200,860	224,445	236,807	248,375	248,375	248,375	248,375	248,375	248,375	248,375
Subtotal - Intergovernmental Revenue	2,649,145	2,722,538	2,831,453	2,963,423	3,297,171	3,424,684	3,440,182	3,584,234	3,597,511	3,686,557	3,743,825
TOTAL SCHOOL DISTRICT REVENUES	**4,301,619**	**4,557,062**	**4,814,451**	**5,145,581**	**5,605,784**	**5,845,370**	**6,046,086**	**6,319,372**	**6,503,618**	**6,752,973**	**7,027,643**
							248,375	248,375	248,375	248,375	248,375
							5,797,711	6,070,997	6,255,243	6,504,598	6,779,268
Total State, Local & School District Revenues									12,326,240		
Tax Revenues	10,188,854	11,010,426	11,985,983	12,713,854	13,530,334	14,479,893	15,128,091	15,268,702	16,264,336	16,933,348	17,688,276
Non-Tax Revenues	4,111,100	4,363,486	4,561,036	4,875,644	5,061,159	5,469,186	5,777,182	6,048,818	6,262,045	6,451,387	6,660,744
Intergovernmental Revenue	7,269,835	7,500,536	7,857,625	8,503,331	8,909,358	9,173,791	10,185,151	10,092,221	10,205,082	10,641,755	10,670,441
TOTAL ALL REVENUES	**21,569,789**	**22,874,448**	**24,404,644**	**26,092,829**	**27,500,851**	**29,122,870**	**31,090,424**	**31,409,741**	**32,731,463**	**34,026,490**	**35,019,461**
Less: Intergovernmental Revenues	**(7,269,835)**	**(7,500,536)**	**(7,857,625)**	**(8,503,331)**	**(8,909,358)**	**(9,173,791)**	**(10,185,151)**	**(10,092,221)**	**(10,205,082)**	**(10,641,755)**	**(10,670,441)**
Total Own Source Revenues	**14,299,954**	**15,373,912**	**16,547,019**	**17,589,498**	**18,591,493**	**19,949,079**	**20,905,273**	**21,317,520**	**22,526,381**	**23,384,735**	**24,349,020**
Minnesota Personal Income	**82,325,000**	**85,355,000**	**91,507,500**	**94,615,000**	**101,652,500**	**107,720,000**	**114,427,500**	**119,737,500**	**125,472,500**	**131,557,500**	**137,582,500**
Revenue as Percent of Personal Income	**17.4%**	**18.0%**	**18.1%**	**18.6%**	**18.3%**	**18.5%**	**18.3%**	**17.8%**	**18.0%**	**17.8%**	**17.7%**