

## The first step

Governor's budget recommendations increase overall spending, while erasing projected deficit and boosting budget reserve

By JEFF JONES

The major work of the 2003 legislative session got unofficially underway Feb. 18 when Gov. Tim Pawlenty handed lawmakers a sweeping budget proposal that on one hand represents the state's largest budget and on the other eliminates the state's largest-ever projected deficit.

Keeping good on a promise not to raise taxes, Pawlenty and Finance Commissioner Dan McElroy presented a budget plan for fiscal years 2004-05 that would raise K-12 education spending, use the state's tobacco endowment, freeze wages for public employees, cut funding for most state agencies and programs, and dramatically change the way the state gives aid to local governments.

The cuts represent an overall reduction in anticipated base budgets for the various functions paid for by the state's general fund.

Standing under a sign that read "Tough Choices Today for a Better Future Tomorrow," Pawlenty called the difficult decisions his administration has had to make "no different" than the sacrifices that families, businesses, organizations, and institutions across the state are having to make in the midst of a poor economy, massive layoffs, and fears of terrorism at home and war abroad. "Now it's just the government's turn," he said.

Weighing in at \$28.1 billion, the proposed general fund budget represents a 3.8 percent, or \$1 billion, spending increase over the current biennium that ends June 30.

During the past 10 years, Pawlenty said, state spending has risen by about a 13 percent biennial average, with enough tax income to sustain that growth. Pawlenty called such increases, achieved in the economic boom years of the 1990s, part of an "economic mirage."

"The economy of the mid- and late-1990s caused state policymakers, including me, to

make decisions based on the economic projections of those times and of those years. And that has deflated. It has popped. It has burst," said Pawlenty, who spent 10 years in the Minnesota House of Representatives.

Projections released last November predicted a 14.3 percent state spending increase for the next biennium but only a 6.6 percent increase in revenues, contributing to projections of an unprecedented \$4.2 billion deficit. Under the Minnesota Constitution, the state's general fund cannot be in deficit at the end of a fiscal year.

A campaign promise not to raise taxes meant that Pawlenty has had to reconcile the bulk of that deficit through significant cuts in spending, though some accounting shifts and fee hikes are also part of his proposal.

### Budget nuts and bolts

The governor pledged to spare public school classrooms from the cuts. Because K-12 Education was projected to account for nearly 40 percent of general fund expenditures, that promise rendered untouchable the largest piece of the spending pie. Because of cuts to other areas of government, K-12 education makes up about 43.5 percent of the proposed 2004-05 budget.

The largest savings, nearly one-third of the

governor's plan, would come from cuts to health and human services programs. They include consolidating the General Assistance Medical Care program with the state's MinnesotaCare program, adding or increasing fees and co-payments for some health services, and lowering reimbursement rates to doctors and hospitals. Tighter proposed eligibility requirements would affect thousands of low-income Minnesotans who receive state subsidized health care, forcing them to pay higher premiums or leave the program entirely. New welfare rules would be aimed at discouraging pregnancy by eliminating increased cash benefits for additional children.

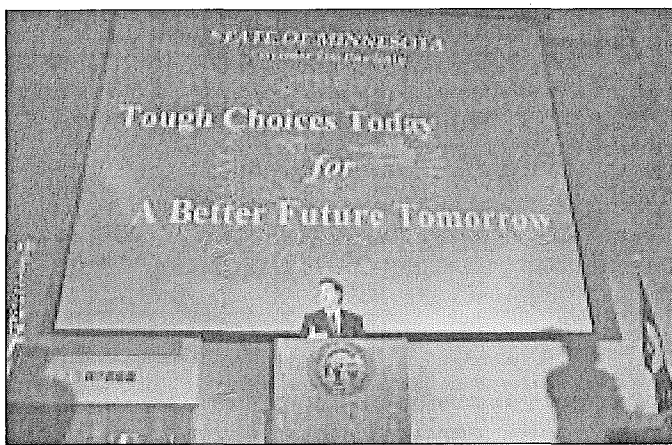
The plan would change the way aid is distributed to city and county governments, cutting the overall amount of such spending by 28.8 percent for cities and 20.1 percent for counties from the current biennium. It would also limit those governments' ability to raise property taxes to compensate for losses in state funding. Governments that have been able to keep spending in check over the past three years would be rewarded with smaller cuts.

Funding for higher education would make up 9 percent of general fund spending under the plan, after 15 percent and 10 percent cuts to the University of Minnesota and Minnesota State Colleges and Universities system, respectively. However, the state schools would be limited in how they can compensate for the cuts because of a proposed 15 percent limit on tuition hikes.

The plan would also favor distributing state grant funds for higher education to individuals rather than institutions by giving a \$60 million increase to the Higher Education Services Office for state grants that provide student financial aid.

The budget proposal also includes a two-year wage freeze for public employees, from state workers to local government employees and public school teachers. Pawlenty said the freeze would help ensure public wages are not "out of sync" with the private sector and also help prevent layoffs. "We have a situation where if the wage freeze is not enacted by the Legislature, we'll see the net effect being fewer government employees paid higher, trying to do more with less," he said.

Other cost-saving measures in the proposed budget include:



Gov. Tim Pawlenty delivered his budget proposals for 2004-05 on Feb. 18 at the Harold Stassen Revenue Building.

- a 15 percent reduction for the governor's and other constitutional offices and the Legislature;
- a 20 percent budget reduction for minority services offices — including the Council on Black Minnesotans, the Council on Asian Pacific Minnesotans, the Indian Affairs Council and the Council for Chicano/Latino Affairs — that provide services and act as governmental liaisons for minority communities;
- reducing subsidies to ethanol producers;
- increasing prison capacity by double-bunking prisoners at some state prisons;
- reducing funding for courts and public defenders; and
- a 25 percent cut in state funding to public television and 35 percent cut for Minnesota Public Radio.

### Fund transfers, aid reductions

While spending cuts account for \$2.9 billion of the budget-balancing plan, another \$1.6 billion would be reaped by emptying other funds into the general fund.

The largest of these transfers involves more than \$1 billion from the state's tobacco endowment funds, which would all be transferred for general fund purposes under the proposal. Pawlenty said some public health programs the endowment finances would instead receive funding from portions of the state cigarette tax.

Money from the Health Care Access Fund, which funds the MinnesotaCare program, would also be transferred to the general fund.

When all the proposed transfers and spending reductions are taken together, they would erase the projected deficit and produce a \$500 million budget reserve. Pawlenty said that surplus is an important part of his plan.

"We need to have proper reserves so that we can manage unexpected crises in the coming months and years," he said.

"We need to have reserves so that bond houses will understand and see that we are serious and are undertaking prudent measures to have some cushions in place."


### Legislators react

House Republican leaders said the governor has laid out a good roadmap for the Legislature to follow. House Speaker Steve Sviggum (R-Kenyon) challenged critics of the plan to offer one of their own, or explain what taxes they would raise.

DFL leaders said they needed time to study the plan, but their immediate concerns

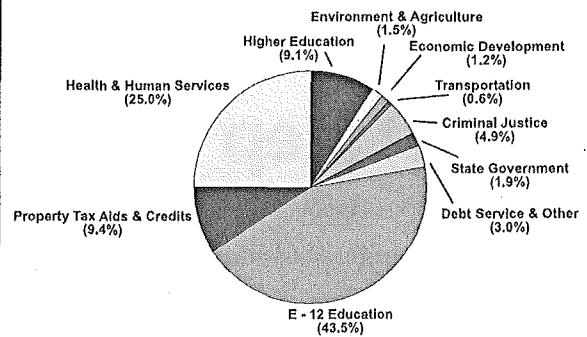
stemmed from the proposed cuts to local government aid and to special education.

Referring to Pawlenty's no-tax pledge, House Minority Leader Matt Entenza (DFL-St. Paul), said, "The rhetoric is not matching reality." Cuts to local government aid, he said, would simply pass the burden on to property owners in the form of higher property taxes.

Some House and Senate committees began hearing detailed overviews of the governor's plan Feb. 19. The 2003 Legislature must establish the budget prior to the start of the fiscal year July 1. The regular session must end by May 19, as prescribed in the state constitution. 

## Proposed General Fund Spending

\$28.1 Billion



Source: Gov. Pawlenty's 2004-05 Budget proposal

## Not alone

### Statistical analyses show that many states are dealing with significant budget shortfalls

House members recently weighed comparisons of Minnesota's budget woes to other states and found that it's near the top in state spending per capita. And despite the projected deficit, it still collects large amounts of revenue. The budget deficit also ranks in the top 15 according to several sources.

Earlier this month the National Conference of State Legislatures (NCSL) released a state budget survey and determined that state budgets "are under siege." The survey attributes the faltering economy to the decline in the stock market, contractions in manufacturing and high-tech sectors, and soaring health care costs.

NCSL officials presented the statistics to the House Ways and Means Committee Feb. 12 and 13. Committee Chair Rep. Jim Knobloch (R-St. Cloud) said the purpose of the meetings was to give members a national perspective as they prepare for budget deliberations.

Another source of state statistics examined was the Governing 2002 State and Local Sourcebook. That analysis shows that the state collects nearly as much revenue as it spends because Minnesotans have higher incomes and therefore pay more income tax than workers in other states. Minnesota ranks sixth in total spending measured per capita. When compared to the percentage of personal income, Minnesota comes in at 24. Wisconsin ranked 20th.

The committee also examined Minnesota's budget gap compared with other states. In 2003 the deficit totaled \$356 million, which is 2.5 percent of the state's general fund budget. The 2004 numbers stand at a little more than \$2 billion, which is a jump to 15 percent of the general fund budget.

To remedy the deficit, 29 states have imposed across-the-board budget cuts, Medicaid spending has been cut in 13 states, higher education in 12, and nine states have cut elementary and secondary education and corrections spending, according to the NCSL survey. The number of states that have eliminated state employee travel and have enacted state employee layoffs is both at nine.

NCSL says there's no definite way to measure taxing in states. Some of the key figures to keep in mind are wealth in the state, demographics, and state-local taxes combined, compared to state taxes alone.

The Governing Sourcebook measures the total revenue states bring in by combining state and local taxes. Minnesota comes in fourth when comparing those figures with percentage of personal income. Wisconsin ranks third.

The sourcebook's welfare figures include many health and human services areas such as Medicaid and nursing homes, in addition to the insurance programs for low-income residents

and other social service programs that provide assistance to low-income individuals. The analysis shows that Minnesota ranks second per capita in welfare spending, and seventh in spending as a percentage of personal income.

Rep. Fran Bradley (R-Rochester), who chairs the House Health and Human Services Finance Committee, pointed out a drop in state welfare recipients by nearly 40 percent since 1993. He said there's still going to be great pressure in health and human services spending when solving the budget deficit.

Rep. Loren Solberg (DFL-Grand Rapids) said Minnesota has higher standards for nursing homes compared to other states, and the legislators need to remember that when budget cutting.

The NCSL survey shows the state's public safety rankings as a percentage of local and state spending is low at 44th overall. Nevada is ranked number one.

When examining the state's prison population, Knobloch said Minnesota ranks low because of more community involvement rather than jail time. Rep. Neva Walker (DFL-Mpls) said although the prison population is small, the state ranks in the top five in number of African-Americans behind bars.

(P. JANOVEC)