

Governor's Budget Briefing

Minnesota Council of Nonprofits
February 25, 2005

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Minnesota's Current Budget Situation

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The Budget Situation

- \$495 million surplus in 2004-05. Committed to:
 - Cash flow account
 - Budget reserve
 - Start to buy back shifts in Education Funding
- \$700 million deficit in 2006-07; \$1.38 billion with inflation
- \$490 million surplus in 2008-09; \$1.35 billion deficit with inflation

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How Did We Get Here?

- Surpluses in the 1997 to 2001 Legislative Sessions have been followed by projected deficits from FY 2002 to FY 2007; deficits in FY 2008 and FY 2009 if the impact of inflation is included
- Why?
 - Economic slowdown
 - Unsustainable budget choices in surplus years
 - Repeated short-term deficit solutions

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Minnesotans Are Hurting From Past Budget Solutions

Programs & Services Survey

- State government funding cuts:
 - 59% in 2003, 54% in 2004
- Local government funding cuts:
 - 48% in 2003, 52% in 2004
- Increased demand for services:
 - 58% in 2003, 63% in 2004
- Maintaining same level of service:
 - 60% in 2003 and 2004

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Impact of Past Budget Solutions

- Damage to nonprofit infrastructure
- Loss of referral partners
- More costly alternatives
- Basic needs unmet
- Less ability for self-sufficiency and independence

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How the Governor Describes His Budget

- Holding Government Accountable
- Setting Priorities
- Spending Smarter

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Governor's Major Initiatives

- Public Safety – meth, sex offenders
- Education funding formula changes
- Health Care cuts
- Investments in biotechnology sector
- Keeping “no new taxes” pledge

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What's Missing from the Governor's Budget

- No real vision to move the state forward - Minnesota stuck in a holding pattern
 - Few reforms, just cuts
- Balances the budget, but only on paper
 - Ignores the impact of inflation
 - Counts on \$200 million payment from tribes for casino – no deal in place
- Little progress made on the state's priorities, and moves backwards on others

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Revenue Increases: \$196 million net in 2006-07

- \$200 million gaming licensing fee
- \$178 million in tax changes
- \$68 million from increased tax compliance
- \$33 million in other changes
- -\$283 million in lost Health Care revenues

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Spending Cuts: \$504 million net in 2006-07

- | Areas with Increases | Areas with Reductions |
|-----------------------|--------------------------------------|
| ▪ Education +2.2% | ▪ Taxes –2.6% |
| ▪ Higher Ed +0.8% | ▪ Health –8.7% |
| ▪ Public Safety +6.3% | ▪ Jobs & Economic Opportunity –11.5% |
| ▪ Debt Service +7.8% | ▪ Ag & Environment –11.3% |
| | ▪ Transportation –2.2% |
| | ▪ State Gov't –1.5% |

House Fiscal Analysis – General Fund Only

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Education

- Governor's Highlights
 - Increase in per pupil formula for 2006-07
 - Temporary compensatory revenue for Hmong refugees and ESL for adult refugees
 - “QComp” Alternative Compensation program for teachers
 - “Get Ready, Get Credit” programs allowing high school students to earn college credit

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Education

- Areas of Concern
 - Costs shifted on property tax levies
 - No increase in general education formula in 2008-09
- Missing Pages
 - Restoration of cuts to early childhood programs

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Higher Education

- Governor's Highlights
 - "Redeployed" higher education funding to targeted programs
 - Establish independent post-secondary institution in Rochester

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Higher Education

- Areas of Concern
 - Funding intended for enrollment increases is used for new initiatives
 - Small increases in student aid insufficient to cover increased costs
- Missing Pages
 - Relief for students facing double-digit tuition increases

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Agriculture, Environment & Natural Resources

- Governor's Highlights
 - Creates new Department of Environmental Protection (combining Pollution Control Agency and Office of Environmental Assistance)
- Areas of Concern
 - Shifts from general fund support to numerous fees and taxes

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Economic Development

- Governor's Highlights
 - Level funding for Arts Board
- Areas of Concern
 - Significant reductions in housing programs
 - Eliminates several programs for at-risk youth
 - Eliminates Displaced Homemaker program

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Economic Development

- Missing Pages
 - Reversing previous reductions in
 - Housing programs
 - Opportunities for at-risk youth
 - Services to persons with disabilities

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Health & Human Services

- Governor's Highlights
 - "Contains growth" in health care costs
 - Increased funding for supportive services to help end long-term homelessness
 - Improved mental health benefits
 - 2% nursing facility rate increase and reform
 - Increases for methamphetamine and sex offender programs

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Health & Human Services

- Areas of Concern
 - "Containing health care costs" means cutting people off of health care
 - Major refinancing of health care programs
 - "Managing growth" in waiver programs
 - 5% reduction in hospital rates
 - Delay of regional projects under Children and Community Services grants
 - Continued freeze in child care provider rates

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Health & Human Services

- Missing pages
 - Reversing reductions in cash assistance for MFIP recipients
 - Eliminating copayments in health care programs
 - Eliminating the cap on dental care
 - Reducing fees for parents of children with disabilities
 - Reversing eligibility changes in health care programs

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Health & Human Services

- Missing pages
 - Reversing continuing care and chemical health grant reductions
 - Restoring funding to smoking prevention programs lost with the elimination of the Tobacco Endowment
 - COLA for providers

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Public Safety

- Governor's Highlights
 - Funding increases to meet constitutionally mandated obligations
 - Some increases for methamphetamine and sex offender enforcement and programs
- Areas of Concern:
 - Increased fees
 - Partial restoration of crime victim assistance grants

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Public Safety

- Missing pages
 - Address growing need for Legal Aid services
 - Erosion of funding for Battered Women's Shelters
 - Restoration of juvenile justice and other Dept. of Corrections grants that were eliminated

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Transportation

- Governor's Highlights
 - Proposed constitutional amendment to dedicate Motor Vehicle Sales Tax to highways and transit
- Areas of Concern
 - Transportation projects delayed
 - Reduces general fund spending by increasing fees
 - Does not account for potential loss of \$300 million annually of general fund dollars due to constitutional amendment

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State Government

- Governor's Highlights
 - Initiatives supporting our troops
- Areas of concern
 - 2.5% reduction suggested to constitutional officers and legislature will impact public access to information

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State Government

- Missing pages
 - Across the board reductions in past have decreased staffing and agencies' ability to serve the public
 - Consideration of impact on state employee contract negotiations

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State & Local Finance

- Governor's Highlights
 - No reductions to Local Government Aid
 - Renters' Credit cut
 - Eliminate Political Contribution Refund
- Areas of Concern
 - Renters' Credit cut
 - Single Sales Factor

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State & Local Finance

- Missing Pages
 - Federal conformity – marriage penalty relief for non-itemizers
 - Acknowledgment of local governments' need for revenues
 - Genuine revenue increases as part of a long-term solution to the state's budget problems

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Intermission

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There is a better way to balance the budget

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A Better Way

- The Minnesota Council of Nonprofits calls for a 2006-07 budget that will:
 - Solve the deficit by returning to fiscal responsibility,
 - Raise adequate revenues to protect Minnesota's economic future and quality of life, and
 - Make strategic investments.

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Return to Fiscal Responsibility

- Minnesota should return to sound budgeting principles in the 2005 Legislative Session by:
 - Balancing the budget in both the 2006-07 and 2008-09 budget cycles
 - Acknowledging the impact of inflation
 - Maintaining adequate budget reserves
 - Protecting the state's credit rating/avoiding gimmicks

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Raise Adequate Revenues

- Raise adequate revenues to protect Minnesota's economic future and quality of life
 - Income tax – based on ability to pay
 - Tax reforms to modernize and stabilize the state's tax system
 - Maintain tax fairness

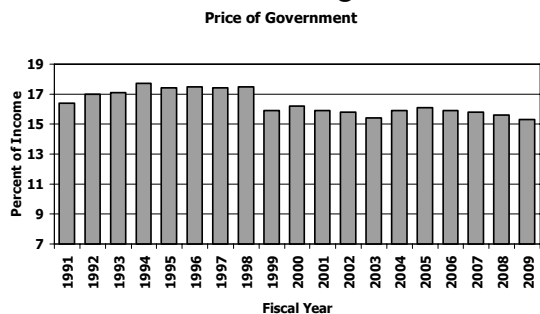
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The Case for Raising Revenues

- Minnesota led the nation in tax cuts in surplus years
- Taxes are lower today
 - 1997: average Minnesotan spent 13% of income in state and local taxes
 - 2005: under 11%

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The Case for Raising Revenues



Source: Minnesota Dept. of Finance ³⁶

Income Tax Surcharge Proposal

- 10% income tax surcharge
- Would raised \$1.3 billion in 2006-07 (in effect 1 ½ years)
- Based on ability to pay – family of 4:
 - Family income \$100,000 – \$480
 - Family income \$60,000 - \$213
 - Family income \$25,000 - \$19

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Make Strategic Investments

Key areas include:

- Early childhood programs
- Higher education and job training
- Transportation and mass transit
- Health care reform
- Clean environment and protect human health

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The Budget Process in the 2005 Legislative Session

Next Steps

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Milestones in the Legislative Budget Process

- February Forecast Released Feb. 28
- Budget Resolutions & Target Setting
- Legislative Budget Proposals Developed

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Forecasts

- Two forecasts prepared each year by the Department of Finance (November and February)
- Compares projected revenues and spending under current law – they do not reflect any policy initiatives
 - Revenues are adjusted for inflation
 - Spending not adjusted for inflation, except for forecasted programs
- Economic Updates released in January, April, July, and October

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Response to the February Forecast

- Change orders released in response to Forecast – available at www.finance.state.mn.us
- Change orders happen for two reasons
 - “Repricing” – updating fiscal impact of proposals
 - Substantive proposals

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Legislative Budget Resolutions

- Each body of the Legislature must pass a Budget Resolution
- The Resolution sets:
 - Maximum limit on general fund expenditures and revenues
 - Amounts set aside for budget reserve and cash flow account
- House - within 20 days of Feb. forecast release
- Senate - within 30 days of Feb. forecast release

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Setting Targets

- Setting Targets
 - Within 14 days of budget resolution adopted (by House Ways & Means or Senate Finance committees)
 - A resolution will set limits for each budget category

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Legislative Budget Proposals

- Each body will develop their own budget proposal
 - May largely mirror Governor's proposal
 - May be significantly different from Governor's proposal

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How Might Legislative Budget Proposals Differ from Governor's?

- Will they include gaming revenues & in what form?
- Will they want to increase spending on various priorities?
- Will they agree to Governor's cuts to health care?
- Will they put revenues on the table?
 - Dedicated funding – gas tax, cigarette tax
 - General revenues?

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The Last Step!

- Omnibus bills sent to Governor for Signature
 - Governor may "line item veto" individual spending items, or entire bill
- Enacted budget starts July 1.

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Another Cloud on the Horizon...

The Federal Budget Process

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Federal Budget Threats

- Pressure to reduce deficits used as a rationale to cut spending programs
- Large program cuts could come through several different budget process changes:
 - Direct cuts to programs
 - Reconciliation instructions
 - Caps on entitlements, discretionary, or all spending
 - Block grants

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Federal Budget Timeline

- Senate/House Budget Resolutions released week of March 7
- What can you do
 - Sign on letter
 - **Send your own letter**
- Stay tuned!

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Resources

- Minnesota Budget Project – www.mncn.org/bp/
- Minnesota Council of Nonprofits – www.mncn.org/policy.htm
- Center on Budget and Policy Priorities – www.cbpp.org (federal issues)

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