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Issue Brief 1 — 2011

TOUGH BUDGET CHOICES

Most of this legislative session will be focused on establishing our budget for the next two years. The continuing global recession has reduced revenues due to layoffs, salary cuts, and less sales tax spending. Growing numbers of kids in school, people with disabilities needing service and medical inflation increases the demand for and cost of services. The combined impact is a projected \$6.2 billion shortfall, 16% of our General Fund.

Understanding Governor Mark Dayton's Budget

The major expenditure changes the governor proposes are:

- Increased funding for K-12 education, including offering all day kindergarten to all children.
- Absorbing some unavoidable increases in the cost of medical care while cutting back on administrative costs and putting tighter controls on payments to insurance companies.
- Cuts to the rates paid to home care agencies and nursing homes serving those with disabilities and seniors.
- Cuts to higher education but not student aid.
- Protecting property tax payers by not cutting basic aids to cities and counties. Owners of homes over \$1 million in value will see an increase.
- Administrative streamlining and reforms.
- A bonding bill that will put people to work and take care of our campus buildings, bridges (including the Plymouth Av Bridge), and a limited number of local projects.

My Take:

With 1 in 7 households having experienced a layoff in the last year, these are tough times for many. For too long we've endured rising property taxes, rising tuition, and increased class sizes. We need a budget that promotes shared responsibility and a balanced approach. The income tax better reflects people's ability to pay than property taxes. I support making our tax system more progressive and fair.

Getting kids off to a good start and supporting higher education is also a strong priority of mine. While there will be cuts I won't agree with, I like the focus on results, reform and accountability. In 3500 pages of detail, there are many other choices we are just starting to review. His is a courageous and responsible proposal for tough times. I welcome your ideas.

The major revenue changes the Governor proposes are:

The Governor proposes to raise about \$4 billion in new revenue via increases for those with very high incomes. 95% will see no increase. It's important to understand that low and middle income taxpayers pay more as a percentage of their income in state and local taxes than the wealthy. That to me isn't fair.

| Portion of the Population | Total Income | State and Local Tax Burden as Percent of Income (projected to 2011) |
|---------------------------|---------------------|---|
| Lowest 90 percent | Less than \$137,000 | 12.3% |
| Top 10 percent | \$137,000 or more | 10.1% |
| Top 5 percent | \$194,000 or more | 9.7% |
| Top 1 percent | \$481,000 or more | 8.8% |

Gov. Dayton proposes to make our tax system more progressive through two major changes that will only impact 5% of earners:

1. A new fourth tier income tax bracket for higher income households. The increase would not apply to all of their income, only the amount over a high threshold based on household size. It applies to married households with taxable incomes over \$150,000 (generally these households would earn about \$200,000 gross and have their income reduced to that level by deductions and credits - but there can be much variation in this). Singles would be impacted with taxable incomes of \$85,000 or more (\$120,000 is a likely figure on their W-2 earning statements).
2. A temporary surcharge for earnings over \$500,000. The additional 3% is calculated only on the dollars over a half million in earnings.

Give me your take on the budget – see the reverse side

Join the Budget Balancing Discussion

This is a dollar graphic of the current use of General Fund dollars. How would you deal with a 16% reduction in the amount available? You would have to cut expenditures or could support revenue increases by the equivalent of 16 cents.

To keep it simple we have not added the complications regarding school enrollment growth and other cost drivers. Most of the “easy” cuts have been made in the billions cut in the last budget.

I’m a co-chair of the bipartisan Redesign Caucus and while some of our work is now being implemented, we’re busy doing more. But we’ve learned most reforms take a while to implement and the savings are delayed as a result.

I look forward to your input on this and other issues that we face this Session. Thanks!

Duane Saeffler

As of last year, for every dollar you paid in state taxes to the General Fund:

- 40 cents was spent on K-12 Education
- 28 cents was spent on Health Care and Human Services
 - 6 cents on Medical Assistance for Elderly and Disabled
 - 5 cents on Health Care for Children and Families
 - 6 cents on Home and Community-Based Waiver Services for Elderly and Disabled
 - 3 cents on Nursing Homes
 - 2 cents on General Assistance Medical Care
 - 1 cent on Child Care
 - 1 cent on State Operated Services (civil commitment)
 - 0.3 cents on Welfare Programs
 - 4.5 cents spent on other health care programs
- 9 cents was spent on Higher Education
- 9 cents was spent on Property Tax Relief
- 5 cents was spent on Public Safety
- 3 cents was spent on Debt Service
- 2 cents was spent on State Government
- 1 cent was spent on the Environment
- 1 cent was spent on Agriculture and Veterans Affairs
- 1 cent was spent on Economic Development
- 1 cent was spent on Transportation (note that most transportation funding comes from dedicated sources not included in the General Fund)

