

Money Matters

A Publication of the House Ways and Means Committee Staff on Government Finance Issues

The February Revenue Forecast & Governor Carlson's Supplemental FY 1998-99 Budget Recommendations

Abstract: Part one of this paper summarizes the February 1997 forecast of revenues and the Minnesota economic outlook for the remainder of the FY 1996-97 biennium and the FY 1998-99 biennium. In Part two, fiscal analysts provide a summary of Governor Arne Carlson's supplemental budget requests, organized by House fiscal committee and division.

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Part one.

The February 1997 Revenue Forecast

February Forecast Projects \$344 Higher FY 1996-97 Balance; Rising Trend Adds \$548 Million to FY 1988-99 Forecast

Introduction and Overview: A revised state revenue and expenditure forecast and the Governor's supplemental budget recommendations were released during the week preceding March 3. This section of the paper summarizes the revenue forecast issued in February 1997 and includes comparisons to the February 1996 and November 1996 forecasts.

Table 1.

Revenue Changes – February Forecast (Dollars in millions)

Feb. Forecast FY 96-97 Revenue Change	\$236.0	
Feb. Forecast FY 96-97 Expenditure Change	(\$108.0)	
Change - FY 96-97		\$344.0
Feb. Forecast FY 98-99 Revenue Change	\$267.0	
Feb. Forecast FY 98-99 Expenditure Change	(\$281.0)	
Change - FY		\$548.0
<hr/>		
Subtotal - Forecast Change		\$892.0
Forecast Cost -Law Change – K-12 Caps		\$600.0
Net Difference:		\$292.0
Additional Revenue From Nov. 96 Forecast		\$1,438.0
Total Forecast Revenue Available		\$1,730.0

In the new forecast, projected revenues have improved substantially over the November 1996 forecast and projected expenditures have decreased substantially. The November 1996 forecast showed a projected \$1.438 billion balance at the end of the FY 1998-99 biennium. The February forecast shows a revenue increase of an additional \$892 million.

However, because legislation repealing the caps in K-12 Education has now been signed into law, the forecast's FY 1998 – 2001 planning estimates are adjusted to show a reduction of \$600 million (\$270 million cost and \$300 million to offset inflation) in resources available for spending in the FY 1998-99 biennium. The FY 2000-01 planning estimate carries an additional \$826 million adjustment for the caps and inflation. The expenditure *forecast* numbers include a 3 percent per year inflation increase to account for the expected increase in the prices government expects to pay for goods and services; however, in his *budget* the Governor recommends funding inflation at 2.5 percent per year for salaries, and cost adjustments for rent increases.

In February 1997 the economists observed that “the U.S. economy continues to exhibit championship form” and, quoting a Merrill Lynch economic report, “the best of all possible economies just keeps rolling along.”

Just one year ago, “uncertainty” was the forecast watchword. The state economists and the national forecasters expected a slight economic downturn but feared a serious slump in the second half of 1996. Cautious expectations of a modest recovery in 1997 were hedged by worries about a Minnesota labor shortage, compounded by “unusual uncertainties” in the federal budget deadlock and pending federal program cuts that had potential to overshadow the economic forecast in impact on the state budget. In fact, the national economy rebounded quickly from a brief winter slowdown. By November 1996, a recovery was well underway and state economists added \$793 million to the FY 1996-97 forecast balance (prior to adjustments required by law for disposition of any surplus revenues). Between the November and February forecasts, national GDP in the fourth quarter of 1996 was 4.7 percent — double the rate used in the fall forecast. The sea change in economic expectations and performance between February 1996 and February 1997 explains much of Minnesota’s forecast revenue surplus.

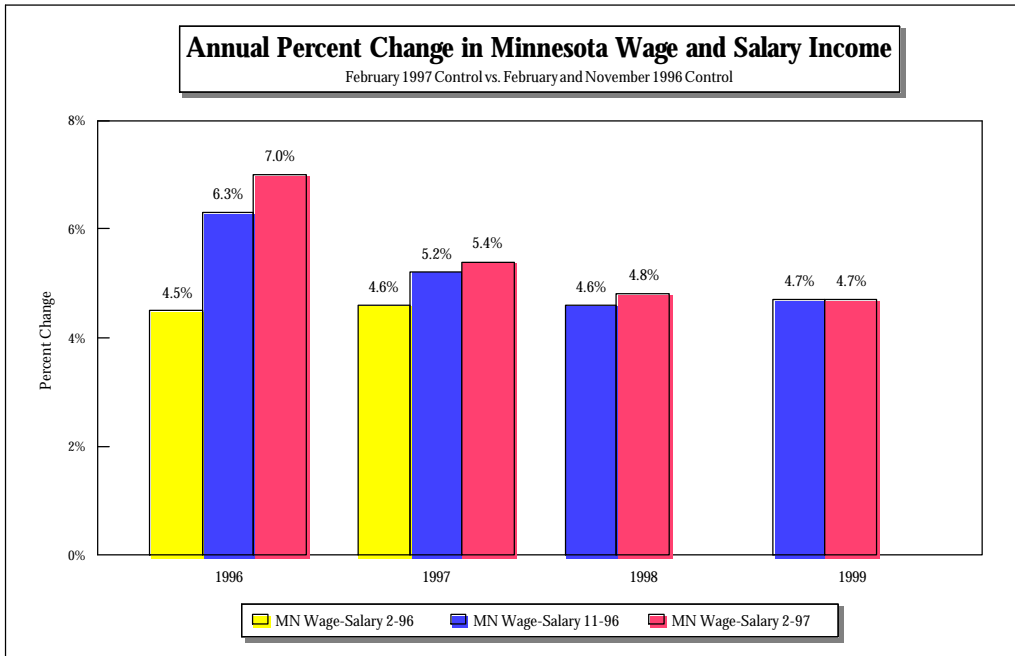
Strong growth projected for state and national economies

The “Control” forecast of annual GDP growth for FY 97 was adjusted upward in February by nearly 0.5 percent to 3.0 percent by Data Resources, Inc. (DRI), Minnesota’s national forecaster. This is a *one-time* base adjustment — longer-term growth expectations for FY 98 (2.3 percent) and FY 99 (2.0 percent) were unchanged. The Control forecast is assigned the highest probability at 55 percent. Economists foresee nothing on the national economic horizon nor in President Clinton’s 5-year budget to derail U.S. GDP growth from a 2.0 to 2.5 percent annual growth trend. On the other hand, DRI seems to think that “Control” is as good as it gets: unlike the past they did *not* issue a rosier forecast alternative. A “Boom-Bust” alternative forecast scenario with a 1999 recession has a 35 percent probability. The gloomiest alternative with a third-quarter 1997 recession has only a 10 percent probability. The only clouds on the horizon are worries about the economy’s ability to attain continued growth in productivity to offset wage growth.

“State economy continues to outperform the forecasts” — Forecast document headline

The Minnesota economy is expected to follow the same path as the national economy. Minnesota wage growth in 1996 (before adjusting for inflation) was a startling 7 percent vs. the 6.3 percent rate expected in the prior forecast. The Minnesota state economists observed substantial increases in individual income tax withholding receipts (in the \$50 million/month positive variance range) in recent months, mainly due to higher average earnings as opposed to a higher level of employment. One economist noted that Minnesota wage growth appears to be occurring in high-wage jobs in low-wage industries. The Minnesota Council of Economic Advisors also focused on increased labor costs as “the most likely starting point for the future cost increases which eventually will bring this expansion to an end.”

Rising productivity is essential to sustain low inflation. If the projected productivity gains are not realized, while a recession is not automatic, economic growth would drop below expectations and state revenues could tumble by as much as they are now expected to soar.



Forecast of lower spending adds \$381 million to forecast balance

Changes in the expenditure forecast add \$108 million to current biennium balance and \$281 million to FY 1998-99 resources. Almost all the reduction in expenditures for FY 1996-97 (a \$106 million reduction compared to the November forecast) is due to reductions in health care and family support costs in the Department of Human Services. By FY 99, caseload reductions of 9 percent for elderly and disabled on Medical Assistance and 12 percent for Aid to Families for Dependent Children are predicted. Details by finance division and agency are covered in part two of this document.

The FY 1998 – 2001 expenditure projections (which, as noted above are *planning estimates* based on *current law* and not to be confused with the budget) now predict FY 1998-99 spending at \$19.981 billion, and FY 2000-01 at \$21.845 billion, taking into account the repeal of K-12 education funding caps. These figures assume current law and are adjusted for expected growth in education enrollment, human service caseload, net tax capacity, change in households and other factors affecting entitlement programs.

Table 2.

**FY 1998-2001 Expenditure Planning Estimates
February 1997 Revenue Forecast and Change from November 1996 Forecast
(\$ in thousands)**

	Forecast (Amt.) FY 1998-99	Difference vs. 11-96 Forecast	Forecast (Amt.) FY 2000-01	Difference vs. 11-96 Forecast
Education/ Children & Families	\$6,709,956	\$614,516	\$7,332,078	\$841,510
Property Tax Recognition	\$0	\$0	\$0	\$0
Post-Secondary Education	\$2,171,040	\$779	\$2,311,684	\$0
Local Aids & Credits	\$2,450,641	(\$319)	\$2,443,221	(\$23,704)
Other Major Local Assistance	\$958,568	\$592	\$1,043,065	(\$1,662)
Health Care	\$3,615,038	(\$241,058)	\$4,463,699	(\$331,268)
Family Support	\$476,577	(\$41,013)	\$503,754	(\$71,645)
State Operated Institutions	\$897,259	(\$9,863)	\$987,308	(\$11,424)
Legislative, Judicial & Const'al	\$481,531	\$1,326	\$509,225	\$0
State Agencies	\$1,360,548	(\$5,726)	\$1,448,729	(\$1,531)
Debt Service & other	\$545,759	(\$138)	\$581,809	(\$577)
Estimated Cancellations	(\$20,000)	\$0	(\$20,000)	\$0
<i>Subtotal:</i>	<i>\$19,646,917</i>	<i>\$319,096</i>	<i>\$21,604,572</i>	<i>\$399,709</i>
Dedicated Expenditures	\$240,510	\$0	\$240,510	\$0
Total Spending:	\$19,887,427	\$319,096	\$23,845,082	\$399,709

Source: MN Department of Finance, Minnesota Financial Report, 2/97, pp. 39-40.

FY 1996-97 Revenue Forecast of \$19.335 billion is up \$236 million over November's prediction

The February forecast predicts that Minnesota's General Fund resources for FY 1996-97 will rise to \$19.335 billion, \$236 million (1.2 percent) above November forecast levels. When the books are closed, FY 1996-97 income tax receipts are forecast to grow by 19 percent, and general sales tax receipts are projected at 13.3 percent over the FY 1994-95 biennium. Net nondedicated revenues are now forecast to grow by 12.0 percent (adjusted for the transfer of revenues to the Cambridge settlement fund).

FY 1996-97 revenues from the “big four” taxes — individual income tax, general sales tax, corporate income tax and the sales tax on motor vehicles — are now forecast to reach \$16.752 billion, as displayed on Table 2. A \$177 million increase in revenues from the four major taxes for FY 97 accounts for 75 percent of the overall \$236 million increase over November’s projections.

The individual income tax and a small increase in investment earnings account for most of the increase over the November 1996 forecast. Rising individual income tax receipts alone added \$169 million to the new FY 1996-97 forecast over November. Nontax revenues, mainly investment earnings, were adjusted upward by \$34 million. State economists look for small increases in the general sales tax and motor vehicle sales tax revenues and a small decrease in corporate income tax revenues, while all other tax receipts are forecast to increase by \$22 million.

Table 3.
Change in FY 1996-97 Current Biennium Revenues
November 1996 to February 1997 Forecast
February 1996 to February 1997 Forecast

General Fund	(\$ In Thousands)				
	<u>2-96 Forecast</u> <u>FY 1996-97</u>	<u>11-96 Forecast</u> <u>FY 1996-97</u>	<u>2-97 Forecast</u> <u>FY 1996-97</u>	<u>Difference:</u> <u>11-96 vs. 2-97</u>	<u>Difference:</u> <u>2-96 vs. 2-97</u>
Actual & Estimated Resources:					
Balance Forward From Prior Year	\$1,020,499	\$1,020,499	\$1,020,499	\$0	\$0
Current Resources:					
<u>Net Non-Dedicated Revenue</u>					
Individual Income Tax	\$8,082,400	\$8,511,932	\$8,681,032	\$169,100	\$598,632
Sales Tax	\$5,854,000	\$5,930,068	\$5,941,868	\$11,800	\$87,868
Corporate Income Tax	\$1,325,100	\$1,376,535	\$1,369,935	(\$6,600)	\$44,835
Motor Vehicle Sales Tax	\$717,600	\$756,119	\$758,719	\$2,600	\$41,119
<i>Subtotal, Big Four Taxes:</i>	<i>\$15,979,100</i>	<i>\$16,574,654</i>	<i>\$16,751,554</i>	<i>\$176,900</i>	<i>\$772,454</i>
<u>Other Non-Dedicated Revenue</u>	<u>\$1,682,710</u>	<u>\$1,754,959</u>	<u>\$1,811,416</u>	<u>\$56,457</u>	<u>\$128,706</u>
<i>Subtotal Net Non-Ded. Revenue</i>	<i>\$17,661,810</i>	<i>\$18,329,613</i>	<i>\$18,562,970</i>	<i>\$233,357</i>	<i>\$901,160</i>
Dedicated Revenue	\$203,080	\$267,243	\$267,243	\$0	\$64,163
Transfers In	\$547,169	\$473,422	\$476,151	\$2,729	(\$71,018)
Prior Year Adjustments	\$40,900	\$28,971	\$28,971	\$0	(\$11,929)
<i>Subtotal-Current Resources</i>	<i>\$18,452,959</i>	<i>\$19,099,249</i>	<i>\$19,335,335</i>	<i>\$236,086</i>	<i>\$882,376</i>
Total Resources Available:	\$19,473,458	\$20,119,748	\$20,355,834	\$236,086	\$882,376

Note: In addition to changes in the economy, the February 1996 to February 1997 comparison includes the impacts of legislation enacted in 1996.

Table 3 also shows the differences between the expectations for FY 1996-97 revenues now and one year ago in the February 1996 forecast. Individual income tax revenues in the February 1997 forecast are up \$598.6 million (6.9 percent), the big four tax revenues together are up by \$772.5 million (4.6 percent), and bottom line net resources are now forecast to come in \$882 million above the amounts anticipated a year ago.

FY 1998-99 Revenue Forecast totals \$20.752 billion, up \$268 million over November.

The February 1997 forecast of \$20.752 billion in net nondedicated revenues for FY 1998-99 is 7.9 percent over FY 1996-97 levels as projected in November. The new forecast predicts that General Fund revenues from the big four taxes will be \$18.214 billion for FY 1998-99, \$230 million (1.3 percent) over the November forecast, and \$1.24 billion (6.8 percent) over the February 1996 forecast (see Table 4).

Almost all additional revenue over November's assumptions comes from the individual income tax and sales taxes. The income tax forecast was raised by \$185 million (1.9 percent), and sales tax receipts by \$53 million (0.8 percent). The state forecasters expect corporate income taxes to increase by \$14 million while Motor Vehicle Sales Tax receipts fall off by \$22 million.

Individual income tax net receipts are forecast to grow by 9.7 percent and the general sales tax by 10.3 percent in the FY 1998-99 biennium over FY 1996-97. This represents expectations of slower biennium-to-biennium growth for the two major taxes than the 19 percent and 13.3 percent growth rates for the current biennium compared to FY 1994-95.

Table 4.

**Change in FY 1998-99 Outlook
November 1996 to February 1997 Forecast
February to February 1997 Forecast**

General Fund

(\$ In Thousands)

2-96 Forecast

Planning

Estimates	11-96 Forecast	2-97 Forecast	Difference:	Difference:
<u>FY 1998-99</u>	<u>FY 1998-99</u>	<u>FY 1998-99</u>	<u>11-96 vs. 2-97</u>	<u>2-96 vs. 2-97</u>

Actual & Estimated Resources:

Balance Forward From Prior Year	\$633,957	\$1,319,023	\$1,662,800	\$343,777	\$1,028,843
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Current Resources:

Net Non-Dedicated Revenue

Individual Income Tax	\$8,680,200	\$9,341,100	\$9,525,800	\$184,700	\$845,600
Sales Tax	\$6,200,500	\$6,501,100	\$6,553,700	\$52,600	\$353,200
Corporate Income Tax	\$1,333,100	\$1,384,900	\$1,399,300	\$14,400	\$66,200
Motor Vehicle Excise	\$760,000	\$756,200	\$734,700	(\$21,500)	(\$25,300)
<i>Subtotal: Big Four Taxes:</i>	<i>\$16,973,800</i>	<i>\$17,983,300</i>	<i>\$18,213,500</i>	<i>\$230,200</i>	<i>\$1,239,700</i>

Other Non-Dedicated Revenue

	\$1,618,376	\$1,762,552	\$1,818,951	\$56,399	\$200,575
<i>Subtotal Net Non-Ded. Revenues</i>	<i>\$18,592,176</i>	<i>\$19,745,852</i>	<i>\$20,032,451</i>	<i>\$286,599</i>	<i>\$1,440,275</i>

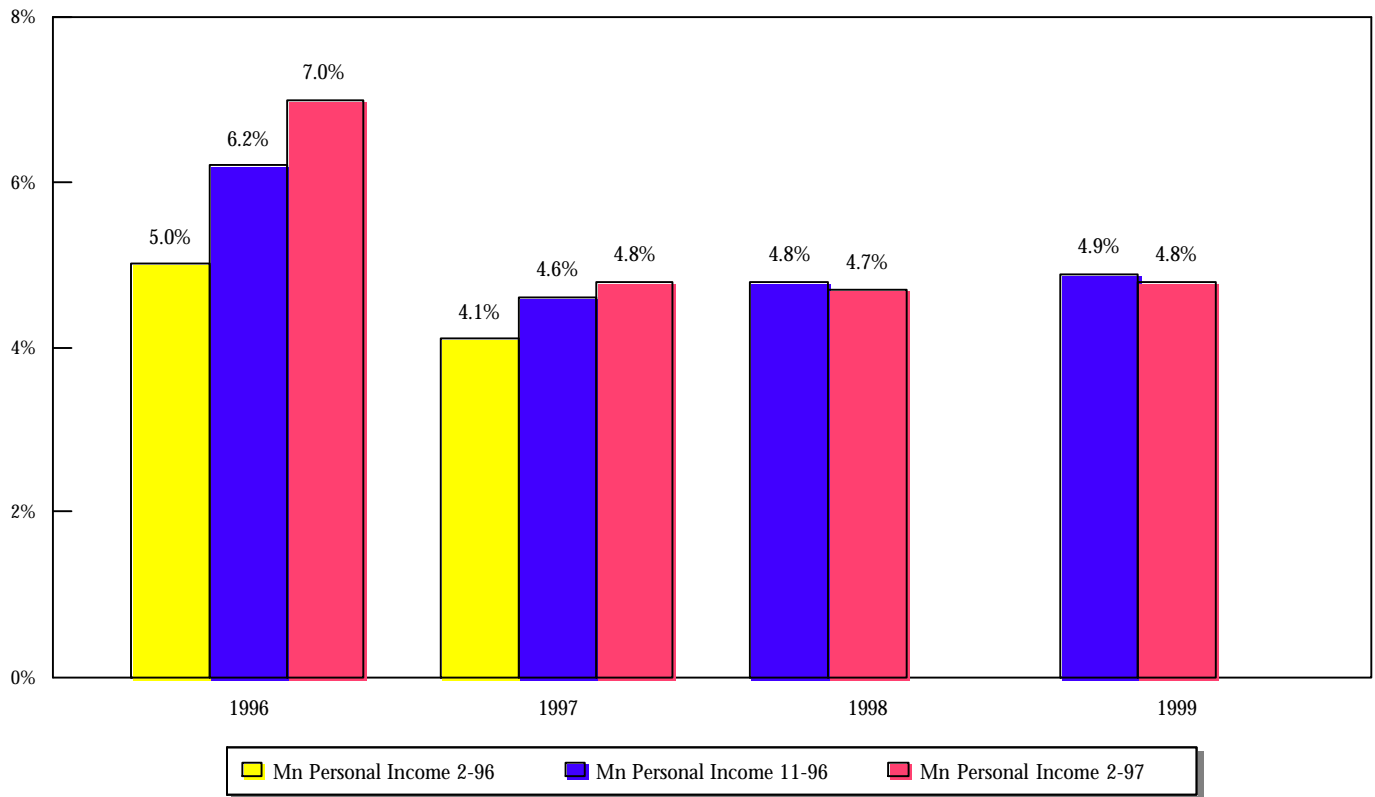
Dedicated Revenue	\$162,000	\$240,510	\$240,510	\$0	\$78,510
Transfers In	\$474,986	\$457,480	\$438,475	\$19,005	(\$36,511)
Prior Year Adjustments	\$40,900	\$40,900	\$40,900	\$0	\$0
<i>Subtotal-Current Resources</i>	<i>\$19,270,062</i>	<i>\$20,484,742</i>	<i>\$20,752,336</i>	<i>\$267,594</i>	<i>\$1,482,274</i>

Total Resources Available	\$19,904,019	\$21,803,765	\$22,415,136	\$611,371	\$2,511,117
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Note: In addition to changes in the economy, the February 1996 to February 1997 comparison includes the impacts of legislation enacted in 1996.

Annual Percent Change in Minnesota Personal Income

February 1997 Control vs. February and November 1996 Control



Revenue Planning Estimates, FY 2000-01

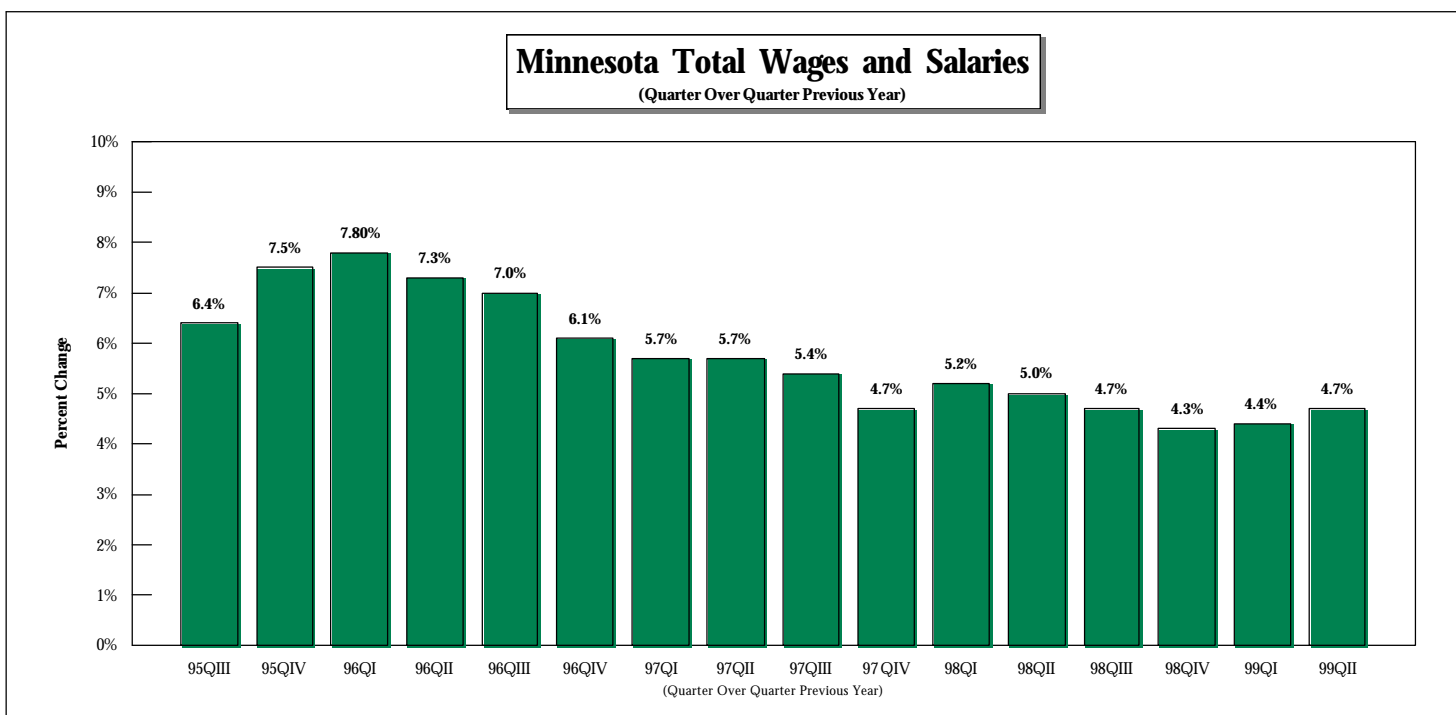
State economic forecasters also projected revenue trends forward by one additional biennium. These projections — based on current law and used as a baseline planning estimate (*not* an explicit forecast) — project that FY 2000-01 resources will total \$22.462 billion, 8.2 percent more than the 1998-99 forecast. The 2000-01 planning estimate is up by \$312 million, (1.5 percent) over November’s estimate. Forecasters project 9.3 percent growth in the “big four” taxes, but scant growth is expected for all other tax and non tax revenue sources.

The state forecasters caution that, “Other things equal, stronger than anticipated growth in any one of those years will add significantly to revenues available in the 2000-01 biennium. Similarly, should the economy grow more slowly than forecast during any of the next three years, the revenue outlook for 2000-01 will deteriorate. These revenue planning estimates are only a guide to the level of future revenues, not a guarantee. If the economy remains strong through 1999, the planning estimates are likely to underestimate future revenues. But if the economy fails to perform at the high level anticipated in the February DRI Control, the planning estimates will overstate future revenues. Actual revenues could exceed or fall short of these estimates by as much as \$1.5 billion, depending on the economy’s performance during the next five years.”

Individual income tax is the largest contributor to state revenue growth

The largest contributor to the state’s improved revenues is the personal income tax. On a February-to-February forecast comparison basis an additional \$1.44 billion of individual income tax receipts are expected in the forecast budget period FY 97 through FY 99. This constitutes more than 70 percent of the estimated revenue increase from the four major state taxes and it reflects wage growth and the forecasters’ positive outlook for the economy.

Income tax revenue soars, as wage growth adds nearly \$1 billion to the forecast. Wages make up 70 percent of the Minnesota individual income tax base. The new Minnesota forecast projects real (after-inflation) wage growth of approximately 2 percent, which is built into the forecast base. An increase in the base level wage estimate for 1995 of \$40 million and built into the forecast base adds \$160 million to the income tax forecast over time. Tax year 1995 final income tax payments were \$100 million over forecast, which raises the starting point for all subsequent years — the equivalent of \$500 million in increased revenues in the forecast window, according to Ways and Means Committee testimony by the State Economist, Dr. Tom Stinson. Forecasters are expecting an additional \$110 million in income taxes from wages in TY 1996. After raising the estimate of wage growth in the November forecast, the state continued to receive withholding significantly above estimates. In this forecast, the Department of Finance made “pretty substantial” changes in estimates of wage growth rates for FY 1996-97 and for FY 1998-99. The economists also increased the relative weight for wage income and slightly lowered the weight for nonwage sources of income in the forecast. In all, compared to last February’s forecast, higher-than-expected wage growth adds almost \$1 billion to the five-year forecast, Dr. Stinson said.



The state continues to have a very tight labor market. An indeterminate part of forecast growth in income tax on wages stems from persons taking second jobs and working more overtime, conversion of part-time jobs to full-time, as well as take-up employment of the unemployed and underemployed. These components of state revenues from labor income are the first to go in an economic downturn, they warned. In a five-year forecast, relatively small changes in the base year can yield high levels of change when carried through the forecast period.

The unanticipated increase in farm income, unusual one-time merger and acquisition activity and increased distributions from tax-deferred retirement accounts (the latter stemming from a combination of demographics and stock market activity and thought to be permanent) added \$300 million to the forecast.

Comparatively minor change predicted for Sales Taxes

Sales and use tax up slightly— Sales tax revenue, on the other hand, is projected to be close to past forecasts, coming in only \$12 million above November forecast estimates for FY 97 and \$87.9 million over the current biennium outlook in February 1996. According to the State Economist, three-fourths of the forecast's growth in sales taxes is expected to come in the next biennium, when FY 1998-99 sales tax receipts are expected to reach \$6.554 billion, up \$53 million since the last forecast and up \$353.2 million over last February's forecast. Dr. Stinson said that Department of Finance forecasters attribute nearly the entire change in the sales tax forecast to higher expectations for purchases of consumer durables and business capital equipment. Economists do not foresee a consumer recession in 1997-98, but they caution that unprecedented levels of consumer debt loads, a rising personal bankruptcy rate and the absence of pent-up demand at this point in the expansion leave little room for increased household consumption. The forecast booklet also contains an interesting discussion of whether and to what degree consumer spending is influenced by burgeoning paper gains in the stock market, and how consumption might be affected by a major market correction.

Revenues from the **Sales Tax on Motor Vehicles** (STMV) are forecast to end FY 97 at \$378 million, up \$3 million over the November forecast and \$41.1 million above the estimate of last February for the FY 1996-97 biennium. But the economists revised the FY 1998-99 STMV forecast of \$734 million downward by \$22 million from November, based on the DRI forecast of a lower dollar volume in vehicles and parts.

Other tax and nontax revenues

Corporate income tax revenues for FY 97 are projected to be \$668 million, or \$7 million (1 percent) below November's forecast, though a combination of higher refunds and lower estimated payments. For the FY 1998-99 biennium the estimate of \$1.339 billion is \$14.4 million above November's estimate. While the revised outlook is \$66.2 million over last February's expectations, it represents only 1 percent growth in corporate profits in the next biennium over the levels economists expect for FY 1996-97. As always, the state economists advise that corporate revenues are the most volatile of state revenue sources.

Cambridge Bank case no longer is accounted for as a corporate tax revenues adjustment. In the previous budget and the February 1996 forecast, the Cambridge Bank judgment was counted as a subtraction from corporate income tax receipts. Ultimately after legislation, bonds were issued, backed by a stream of revenues from the state lottery and numerous fees and special accounts. Approximately \$196 million in tax refunds (90 percent) have been paid to claimants in the Cambridge State Bank case. It is estimated that \$16.6 million in General Fund Revenues would be required to pay off the judgment; however, the outcome of several pending appeals could "materially" increase that amount.

Other taxes and nontax revenues now are expected to yield an additional \$56 million in FY 1996-97 compared to the November forecast, \$128.7 million above February 1996. Revenue from these sources now is expected to total \$943 million in FY 97. The forecast adjustment includes \$34 million from improved investment earnings, \$10 million from the inheritance tax, \$7 million from insurance gross premiums taxes and \$2.8 million in mortgage registration and deed taxes, all compared to November's estimates.

In the next biennium, the "other revenues" category is expected to total \$1.819 billion, up \$56 million (3.2 percent) from the November forecast and \$200.56 million above last February's forecast. Investment income was marked up \$15 million over November to \$115 million for FY 1998-99. The inheritance tax forecast was raised by \$20 million, insurance gross premiums taxes by \$9 million and mortgage and deed taxes by \$6 million over November 1996 expectations.

For more information on the revenue and expenditure forecast, contact Bill Marx at 296-7176, or M. J. Hedstrom at 296-1237.

Part two.

The Governor's Supplemental Budget Recommendations

Introduction and overview: Because the Governor had already funded the K-12 Education caps in his January budget, he has approximately \$840 million of additional revenue in FY 1998-99 to spend in the supplemental budget recommendations. The Governor's recommendation for allocation of the \$840 million is shown on Table 5.

Table 5

Governor's Supplemental Budget Recommendations (Dollars in Millions)

Additional Income Tax Rebate	\$489.0
Other State Tax Changes	\$3.9
Property Tax Reductions	\$250.0
K-12 Education	\$13.4
Family & Early Childhood Education	\$53.0
Higher Education	\$29.8
Health & Human Services	(\$33.2)
Environment & Natural Resources	\$9.5
Economic Development	\$17.9
Housing	\$5.0
Transportation	\$0.8
Judiciary	\$0.3
State Government	\$0.4
Total	\$839.8

In addition to these recommendations, the Governor recommends \$20 million from the General Fund for the emergency snow and flood assistance bill. In his January budget he recommended taking this amount from the budget reserve. This amount decreases the balance carried forward into FY 1998-99 by \$20 million.

Debt Service Recommendations

A periodic recalculation of the debt service model has shown a change in previous debt service projections. The state will incur increased debt service costs of \$4.578 million in fiscal 1998 and decreased costs of \$4.719 million in fiscal 1999. The net savings is \$141,000 for the biennium.

For more information on Capital Investment Finance issues, contact John Walz at 296-8236.

Economic Development Finance Recommendations

Governor Carlson's supplemental budget recommendations included four initiatives for agencies within the jurisdiction of the Economic Development Finance Division. In one of the initiatives, the Governor recommended that the Department of Trade and Economic Development receive a one-time appropriation of \$5.0 million as a pass through to the Minnesota Public Facilities Authority. The additional funds are identified as associated with the Wastewater Infrastructure Funding ("WIF") Program, which provides grants to cover part of the cost of eligible wastewater treatment construction projects. To be eligible for WIF, a project must be so expensive to construct that the user fees necessary to service the construction debt would exceed a limit. The funds from the Governor's initiative, however, will be used for projects that do not qualify for WIF. Instead, \$2.4 million will be given to the City of Cambridge to reduce its debt from a previous project, and the remaining \$2.6 million will be used for economic development projects that meet certain criteria for providing financial benefits to the state.

In the other three initiatives, the Governor recommended that additional appropriations be made to the Department of Economic Security. The Governor recommended that \$490,000 be added to the appropriation for the Youth Intervention Program, which would bring the total appropriation to \$1.79 million. The Governor also recommended that \$2.4 million be added to the appropriation for the Centers for Independent Living, which would bring the total appropriation to \$4.556 million. Finally, the Governor recommended a one-time appropriation of \$10.0 million to establish a new program called the Hire Education Loan Program ("HELP"). HELP will consist of a revolving loan fund from which businesses may obtain interest-free loans to finance training programs for existing and prospective employees. Public and private providers of worker training will compete for contracts with employers to provide the HELP-financed worker training.

For more information on Economic Development Finance issues, contact Bill Connors at 296-5813.

Housing Finance Recommendations

The Governor's supplemental budget proposal for the Minnesota Housing Finance Agency (MHFA) is \$5 million above his January biennial budget recommendation. The MHFA programs receiving additional funds plan to use the additional funds to expand their commitment to meeting basic housing needs.

The Governor's Housing and Housing Finance Agency Division Supplemental budget recommendations.

- Increase funding for the Rental Assistance for Family Stabilization (RAFS) program. Currently, this program provides rental assistance to families on public assistance. The additional funding for this program would expand the eligibility for this program to include families making a transition off welfare into employment. (Total FY 1998-99 cost: \$2.5 million)
- Increase funding for the Home Ownership Assistance Fund program. This program provides home ownership assistance counseling, below market interest rates, equity contribution loans and down payment assistance. The additional funding for this program will be used to target the "most financially able" people in subsidized housing to move into home ownership. This rationale for this proposal is to move more people into home ownership and subsequently "free-up" more room in subsidized housing for the very low-to-low income. (Total FY 1998-99 cost: \$2.5 million).

Implications of the Governor's Supplemental Budget Recommendation: The Governor's Supplemental Budget Recommendations adds an additional \$5 million to the Minnesota Housing Finance Agency (MHFA) to increase the overall base level funding of the Housing and Housing Finance Division to \$53 million in the FY 1998-99 biennium. Welfare reform is the likely impetus behind the Governor's supplemental recommendations to increase funding for programs that assist people that are employed and/or are moving into employment.

For more information on Housing Finance issues, contact Cynthia Coronado, 296-5384.

Environment & Natural Resources Finance Recommendations

The Governor recommends an additional \$10.1 million of spending from the General Fund in his supplemental budget for the Environment and Natural Resources area of the budget.

The details of the supplemental budget recommendations by agency are as follows.

Department of Natural Resources

- \$1.5 million for an initiative to aid in the restoration of white pine forests.
- \$600 thousand for cost associated with the Mille Lacs Lake treaty harvest court decision.
- \$200 thousand for purchase of equipment to be used in snowmobile enforcement activities.
- \$1.2 million for the ecological services section to increase collection of ecological data on Minnesota ecosystems.
- \$376 thousand for a water channeling project in the city of Marshall.
- \$70 thousand for the Lake Charlotte water control project.
- \$1.524 million for an increase to the Metropolitan Regional Parks operations and maintenance program grant.

Minnesota Department of Agriculture

- \$592 thousand increase to the forecasted cost of the Ethanol Producer payments program.
- \$1 million to increase the dairy diagnostics activities.
- \$800 additional funding for the wheat scab research program.

Agriculture Utilization Research Institute

- \$2 million to restore the reduction recommended in the Governor's original budget recommendations.

Pollution Control Agency

- \$200 thousand for continuation of the deformed frog investigation.

For more information on Environment and Natural Resources Finance, contact Jim Reinholdz at 296-4119.

Higher Education Finance Recommendations

The Governor's supplemental budget recommends an additional \$29.76 million for higher education over his January budget. Of this money, \$100 thousand is for increased work study. This brings his total recommendation for additional work study to \$1.1 million, an increase of 6.7 percent. In addition, the Governor recommends an additional \$1.4 million in non-AFDC child care grants. This is a reallocation from anticipated savings to the State Grant Fund due to federal financial aid changes and has no net effect on General Fund expenditures. \$29.66 million of the additional money goes to the University of Minnesota for a total increase of \$145.8 million(15.7 percent) over the adjusted base budget or \$92.4 million (9.4 percent) over FY 1996-97 appropriations.

Supplemental recommendations at the University fund the following six initiatives:

- Quality classroom initiative — \$10 million. This money is for general repair and modernization of 200 classrooms throughout the University.

- Health education and research — \$6 million. This initiative provides funding for seven research based health care programs at the Academic Health Center. The programs are aimed at: rural health, aging, adolescent health, primary care research, health care systems research, brain research, cancer, pharmaceutical research, and genetics and immunology.
- Academic quality — \$10 million. This money may be used for one-time investments to reward faculty, purchase equipment and technology and other investments needed to recruit and retain high quality faculty.
- Women's ice sheet/tennis facility — \$3 million. Provides the final portion of the \$10 million in state funding recommended by the Governor in 1996. The 1996 bonding bill appropriated \$7 million.
- Eastcliff renovation — \$500 thousand. This money, to be matched by non-state, non-student funds, is to substantially complete the repair and renovation master plan for Eastcliff.
- New value creation, Carlson School of Management — \$160 thousand. This initiative is meant to advance research in the areas of quality and innovation and to develop training programs and seminars for business. It is expected that private contributions will be double the state contribution.

For more information on Higher Education Finance issues, contact Doug Berg at 296-5346.

K-12 Education Finance Recommendations

For the FY 1998-99 biennium, the Governor recommends \$6.43 billion in state aid for K-12 education. This compares with the February forecast of current law 1998-99 K-12 education spending of \$6.53 billion, a decrease of \$93.3 million, or 1.4 percent, from forecast to Governor's recommendation for the FY 98-99 biennium. When compared to current spending for the FY 1996-97 biennium of \$5.86 billion (exclusive of shift reduction payments), the \$6.43 billion recommended for the FY 1998-99 biennium represents a 9.7 percent increase in spending, biennium to biennium.

The Governor's supplemental budget recommendations include an additional \$53.2 million for K-12 education (exclusive of Early Childhood and Family programs and the \$250 million for the Education Homestead Credit) for the 1998-99 biennium.

Specific Recommendations

\$39.7 million in forecast adjustments.

The largest forecast changes are in the General Education Program (\$12.6 million increase) due to a reduction in school district excess fund balances (school districts had lower fund balances, so the reduction in aid due to the excess fund balance penalty was lower than was expected), the Permanent School Fund (\$8.1 million reduction in forecast receipts), and Special Education (\$30.1 million increase in excess cost and transportation aids that was unforeseen in the January budget).

- \$12.7 million for Capital Expenditure-Health and Safety Aid and Abatement Aid increases. These programs were not fully funded in the Governor's January budget recommendations. The increased funding reduces the proration that would have occurred if the January recommendation had been adopted. In addition, increasing the state aid in these programs reduces their associated levies, which provides property tax relief.
- \$250,000 in FY 98 for an Advanced Placement Study, to explore ways to better coordinate the advanced placement program with post-secondary institutions.
- \$250,000 in FY 98 and FY 99 for the Homework Helpline, to sustain its ongoing operations. The Homework Helpline is currently funded with a Blue Cross and Blue Shield grant.

Implications: The Governor's budget for K-12 education is a reduction from forecast of \$93.3 million. The reason that it is a reduction is that the FY 1998-99 budget forecast includes a 3 percent inflation amount applied to state aid for planning purposes (the 3 percent is not applied to the levy portion of district revenues). The implication of the \$93.3 million reduction is that the Governor's budget as recommended would not cover the expected inflationary increases districts may face during the next biennium, if inflation is close to the 3 percent per year expected during that period.

For more information on K-12 Education Finance issues, contact Greg Crowe at 296-7165.

Family & Early Childhood Education Finance Recommendations

The Governor's supplemental budget proposals for the Office of Community Services within the Department of Children, Families and Learning.

The Governor's supplemental budget recommends an additional \$53 million in the FY 1998-99 biennium. Most of the Governor's supplemental proposals expand the scope of services and/or infrastructures of existing early childhood, prevention and self-sufficiency programs within the Office of Community Services. With this expansion, the Governor proposes to establish a new Head Start/Learning Readiness/Early Childhood and Family Education Block Grant program to provide more flexibility and coordination among programs and increase capacity to respond to the demand for services.

The Governor's Family and Early Childhood Education Division supplemental budget recommendations.

This section provides the details of the Governor's budget for the Family and Early Childhood Education Finance Division. Fiscal impacts are for FY 1998-99, unless otherwise indicated. If enacted, the Governor's supplemental budget would:

Early Childhood

- Add additional funds to Head Start to allow more low-income families to participate in this anti-poverty program. The Governor's January biennial budget recommended \$2 million each year for Head Start. The Governor's supplemental budget recommends an additional \$5 million each year. (Revised Total FY 1998-99 cost: \$14 million).
- Provide an additional \$29 million to child care assistance - basic sliding fee to fully fund the waiting list. The additional funds will serve at least 5,600 more working-poor families. The Governor's supplemental budget recommends \$10 million in FY 98 and \$19 million in FY 99, above the \$14 million that was recommended in his January biennial budget. (Revised Total FY 1998-99 cost: \$43 million.)
- Provide \$2 million in FY 98 as a one-time appropriation for Child Care Development to help expand and improve the infrastructure of Minnesota's child care system. The additional funds add to the Governor's January biennial budget proposal for \$1 million in FY 98 for Child Care Development. (Revised Total FY 1998-99 cost: \$3 million)
- Establish a Head Start/Learning Readiness and Early Childhood Education Block Grant to provide more comprehensive and coordinated services among programs and increased flexibility to direct funds based on capacity. (Revised FY 1998-99 cost: \$5 million.)

Prevention

- Increase the aid entitlement for Adult Basic Education (ABE) by \$2.1 million each year to enable ABE providers to offer new and expanded services to ABE learners. These funds are in addition to the Governor's request to increase the aid entitlement by \$1.05 million each year in his January biennial budget. (Revised Total Cost: \$6.3 million).
- Establish a Community Crime Prevention Initiative within the Office of Drug Policy and Violence Prevention. These funds will be used to create a mentoring program for youth on crime prevention (Total FY 1998-99 cost: \$1 million).

- Reduce funding for early intervention (ages 6-12), a Governor's initiative in the January biennial budget, by \$450,000 each year (Total FY 1998-99 savings: \$900,000).

Self-Sufficiency

- Adjust Transitional Housing by \$450,000 each year to restore its base level funding. (Total FY 1998-99 cost: \$900,000).
- Add \$1 million each year in additional funds to the Minnesota Economic Opportunity Grant (MEOG) which provide the infrastructure for Community Action Agencies (CAA). The additional funds will help support the expansion and refinement of services delivered through CAAs to low-income families. This increase is in addition to the \$2 million each year recommended in the Governor's January biennial budget (Total FY 1998-99 cost: \$6 million).

Implications of the Governor's Supplemental Budget Recommendations: The Governor's Supplemental Budget Recommendation adds an additional \$65 million to the Office of Community Services to increase the base level funding of the Early Childhood and Family Education Finance Division by \$146 million in the FY 1998-99 biennium. Approximately two-thirds of the overall increase in base level funding in the FY 1998-99 biennium is within the child care assistance programs such as AFDC/TANF, Basic Sliding Fee and Minnesota Families in Transition (MFIP). Funding for these programs has increased 132 percent since the FY 1996-97 biennium. Welfare reform is clearly the rationale for these significant increases in child care assistance programs. The demand for child care is expected to increase with more families transitioning off welfare and into employment. Programs for child care providers should also be increased proportionately. Although the Governor's supplemental budget requests additional funds to finance the expansion and improvement of the child care system, the increased funding for the child care development program is not proportionate with the anticipated demand and thus may result in a shortage of communities able to supply child care services.

For more information on Family & Early Childhood Finance issues, contact Cynthia Coronado, 296-5384.

Health & Human Services Finance Recommendations

The Governor's supplemental budget recommendation for Health and Human Services is a net reduction of \$315.7 million less than the Governor's initial budget recommendations. The reduction in spending for Health and Human Services is driven by lower forecast expenditures (\$282.1 million) in entitlement accounts for FY 1998-99. Minnesota's strong economy and lower than projected health care costs combine to lower anticipated spending for Health and Human Services. It is important to note that in FY 97 the revised forecast of expenditures in Health and Human Services is expected to decline by \$105.9 million.

(Information provided refers to direct appropriations out of the General Fund for the FY 1998-99 biennium unless noted otherwise. Increases or decreases are relative to the Governor's original budget recommendations.)

Department of Human Services (DHS)

The Governor's supplemental budget recommendations for the Department of Human Services are \$152.1 million (FY 98) and \$166.0 million (FY 99) less than the Governor's original budget recommendations. Initiatives within the Governor's supplemental budget include:

- An increase of \$3.0 million for Child Welfare Prevention/Early Intervention activities to protect children at low risk of child maltreatment.
- An increase of \$2.6 million to extend the 30 1/3 income disregard to all recipients with earned income until the MFIP income disregards are implemented.
- An increase of \$3.9 million to privatize the adoptions of special needs children under the guardianship of the Commissioner of the Department of Human Services. This budget initiative is in addition to \$6.0 million included in the Governor's original recommendations.
- A net decrease of \$9.0 million (General Fund) and a net increase of \$9.0 million (Health Care Access Fund (HCAF)) as a result of transitioning GAMC clients to MinnesotaCare.
- A net increase of \$4.5 million (General Fund) and a net decrease of \$4.3 million (HCAF), as a result of reversing the Governor's budget initiative to align policies for MinnesotaCare, General Assistance Medical Care, and Medicaid.
- A technical change restores \$17.0 million (General Fund) and \$3.9 million (HCAF) to the Department's base for Medical Education and Research Costs (MERC). In this proposal, funding for MERC will be appropriated to DHS then transferred to the Department of Health.
- A decrease of \$4.1 million (General Fund) and \$114,000 (HCAF) for deeming the income of legal immigrant sponsors.
- In FY 2001, an increase of \$128.4 million (General Fund) and a decrease of \$161.4 million (HCAF) as a result of transferring monies from the general fund to the HCAF for General Assistance Medical Care clients transferred to the MinnesotaCare program.

Forecast Adjustments

The Governor's Supplemental Budget includes the following reductions related to the revised forecast:

- From the HCAF, a decrease of \$50.3 million for Minnesota Care grants.
- A decrease of \$59.3 million for Medical Assistance Basic Health Care grants for Families & Children
- A decrease of \$136.6 million for Medical Assistance Basic Health Care grants for the Elderly & Disabled.
- A decrease of \$8.9 million for General Assistance Medical Care.
- A decrease of \$9.0 million for Medical Assistance Long-term Care Waivers & Home Care.
- A decrease of \$12.9 million for Medical Assistance Long-term Care Facilities.
- A decrease of \$2.0 million for the Alternative Care Program.
- A decrease of \$3.9 million for Chemical Dependency Entitlement Grants.
- A decrease of \$29.4 million for Aid to Families with Dependent Children.

- A decrease of \$9.7 million for General Assistance.
- A decrease of \$3.7 million (General Fund) and \$566,000 (HCAF) for Acute Care inflation.
- A decrease of \$2.0 million for Accelerating State Financing of County programs.
- A decrease of \$3.1 million for Nursing Facility inflation & Waiver Limit Increases.
- A decrease of \$29.2 million (FY 98) and \$26.5 million (FY 99) in general funds for Welfare Reform. The reduction of base level funding for Welfare Reform will be replaced by Federal Temporary Assistance for Needy Families (TANF) block grant funding.

Department of Health

The Governor's supplemental budget recommendations for the Department of Health include increases of \$9.3 million and \$10.2 million in FY 98 and FY 99 respectively for Children's Health Initiatives. The Governor's recommendations include the following:

An increase of \$7.6 million for Children's Health Initiatives include the following programs:

- Tobacco-free Communities for Children,
- Minnesota's Healthy Beginnings, and
- Adolescent Pregnancy Prevention.

The addition of \$7.6 million supplements the Governor's earlier recommendation of \$7.6 million for Children's Health Initiatives.

Additional Children's Health Initiatives proposed in the Governor's supplemental budget recommendations include:

- An increase of \$4.0 million for an action plan to combat Fetal Alcohol Syndrome.
- An increase of \$3.0 million to develop a computerized Community Immunization Registry for Children.
- A one-time increase of \$650,000 in FY 98 to mitigate the scheduled reduction of federal funding for the Women, Infants, and Children (WIC) program.
- An increase of \$2.2 million for expansion of the Family Planning Special Project Grants program.
- An increase of \$2.0 million, which will be transferred to the Department of Corrections, for three pilot Juvenile Justice Assessment Centers. This initiative will conduct intake and screen entrants into the Juvenile Justice System.

For additional information on Health and Human Services issues, contact, Joe Flores, at 296-5483.

Judiciary Finance Recommendations

The Governor's supplemental budget contains an increase of \$335,000 for FY 98. The following are the two changes in the criminal justice area:

Department of Corrections

For FY 98 there is an increase of \$235,000 for the remote alcohol monitoring program.

Supreme Court

There is an increase of \$100,000 in FY 98 for policy development initiatives.

For more information on Judiciary Finance issues, contact Gary Karger at 296-4181.

State Government Finance Recommendations

Forecast related changes resulting from an increase in the projected amount of statewide indirect costs reduce the recommended total spending for this division by \$690,000 over the biennium. The Governor also recommended \$440,000 in additional appropriations for two items. The net effect of the supplemental recommendations for this division is a \$250,000 reduction in recommended General Fund spending.

Forecast-Related Changes

The February 1997 forecast shows an increase in indirect cost recoveries of \$690,000. These indirect cost receipts are shown as an offset, or negative expenditure, in the division's General Fund balance. *M.S. 16A.127* requires agencies to reimburse the General Fund for all statewide indirect costs, and the portion of agency indirect costs attributable to recoveries of general fund expenditures.

Governor's Office

The Governor requested an additional \$90,000 to fund nondiscretionary cost increases at the Governor's residence. The increase will fund an ongoing workers compensation claim of \$39,000 per year and increased taxes and utilities of \$6,000 per year.

Department of Employee Relations (DOER)

The Governor recommended an additional one-time appropriation of \$350,000 in FY 1998 for a study to determine the feasibility of an optional, employee-paid long term care insurance program for public employees.

For more information on State Government Finance issues, contact Helen Roberts at 296-4117.

Transportation Finance Recommendations

- An additional \$405,000 in FY 1998 and \$384,000 in FY 1999 in general fund money was appropriated to the Department of Public Safety. The money is to be used for reimbursements to the Trunk Highway Fund for administrative costs paid for, but not related to, the Trunk Highway System. Due to an oversight, these appropriations were left out of the Governor's original proposal.
- The Governor also had proposed adding \$25 million to MN/DOT's road construction budget for FY 1997. This has been amended, providing \$16 million for snow emergency purposes, \$8.905 million for road construction, and \$95,000 for State Patrol overtime costs related to winter storms.

For more information on Transportation Finance issues, contact John Walz at 296-8236.

Tax & Revenue Recommendations

Governor Carlson renewed his requests for the tax proposals in his original budget, and in the supplemental budget he added \$489 million to his request for a one-time individual income tax rebate. The supplemental budget document also sketched the outline of a property tax restructuring plan whereby the state would levy the property tax for general K-12 education funding. The property class rate structure would be compressed to reduce the share of the tax burden borne by commercial, industrial and apartment rental property. The shift in taxes onto homesteaded property would be partly-offset by a new \$250 million "education homestead credit." The Governor's FY 1998-99 tax break proposals now add up to \$1.3 billion according to the narrative that accompanied the supplemental budget.

The Governor's Education Homestead Credit

The Governor's property tax reform plan contains a provision called the "education homestead credit," which is designed to reduce much of the tax burden shift onto homesteads which would otherwise occur from compression of the property class rates. Advocates of the education homestead credit argue that it increases the accountability in the property tax system by making the subsidy provided to homestead properties more transparent.

Unlike the old homestead credit which existed prior to 1989, the cost of the education homestead credit would be determined by the state. The cost of the old homestead credit was largely determined locally, as a function of local spending and rising home market value. Under this proposal, the state sets and assumes responsibility for the "equalized" general education property tax levy which is calculated for each school district. The levy amount is used to determine a state determined education tax rate for each school district.

The cost of the education credit is equal to 50 percent of the state-determined education tax rate multiplied by the tax capacity of the homestead property, up to a maximum of \$310. This means that the education homestead credit amount provided to each homestead is mainly determined on the basis of: 1) the homestead's tax capacity (the greater the tax capacity, the greater the credit, up to a maximum credit of \$310); 2) the state-determined education tax rate for each school district, which is a function of the state-determined school levy and the adjusted net tax capacity of each school district (the greater the levy, the greater the credit; the lower the adjusted net tax capacity, the greater the credit).

The education homestead credit is designed to provide a subsidy to homeowners for education costs which are a state funding responsibility. It does not provide a subsidy for costs of programs and services which are locally determined.

For more information about the property tax, local government aid, and school levies contact Matt Shands at 296-4162.

Individual Income Tax Rebate Increased

Governor Carlson has increased his one-time income tax rebate to \$750 million, or 22 percent, of 1996 individual income taxes. The minimum rebate remains \$50 for filers who owed at least \$1 of state income tax. Otherwise, taxpayers would be refunded 22 percent of their 1996 after nonrefundable credits, before the working family credit and the dependent care credit (e.g., the amount on line 2 of Form M-1 A or line 9 of Form M-1). The average rebate will be about \$400, according to the supplemental budget summary. The filing process and payment schedule is not known at the time of this writing.

The maximum refund would be \$1,800 for married joint filers and \$900 for other filers. Taxpayers would reach the maximum refund at approximately \$150,000 of married joint income and about \$75,000 for individuals. The table below (provided by the Department of Revenue) shows the distribution of the refund for all filers, including nonresidents.

Table 6.
Governor's Rebate Proposal II, Tax Year 1996

All Filers

Federal Adjusted Gross Income	Number of Returns With Tax*	Income Tax		Rebate			% of Rebate To Tax
		Total (\$ 000's)	Average	Total (\$ 000's)	Average	% of Total	
Minnesota Residents:							
Less than \$10,000	226,593	\$22,780	\$101	\$11,588	\$51	1.6 %	50.9 %
10,000 -19,999	299,151	122,355	409	28,540	95	3.8	23.3
20,000 -29,999	308,761	265,806	861	58,716	190	7.9	22.1
30,000 -39,999	234,138	325,637	1,391	71,667	306	9.6	22.0
40, 000 -49,999	191,812	378,049	1,971	83,184	434	11.1	22.0
50,000 -74,999	317,133	943,166	2,974	206,972	652	27.7	21.9
75,000 -99,999	110,239	519,665	4,714	112,129	1,017	15.0	21.6
100,000 -199,999	74,357	601,317	8,087	113,270	1,523	15.2	18.8
200,000 -499,999	18,669	389,112	20,843	31,819	1,704	4.3	8.2
500,000 or more	4,361	409,268	93,847	7,427	1,703	1.0	1.8
Totals --	1,785,214	\$3,977,155	\$2,228	\$725,312	\$406	97.2%	18.2%
Nonresidents	93,304	\$ 134,846	\$1,445	\$ 21,237	\$228	2.8%	15.7%
All Filers	1,878,518	\$4,112,001	\$2,189	\$746,549	\$397	100.0%	18.2%

Source: Proposal estimated using the version of the HITS Model which is based on the November 1996 forecast. Minnesota Department of Revenue, Tax Research Division, March 3, 1997.

Implications — Cautionary notes. First, the distribution table (above) and the estimated cost of the rebate are based on the November 1996 revenue forecast and an earlier version of the income tax simulation model than that used for the February 1997 revenue forecast. Consequently, the tax expenditure for the rebate will be higher, or the rebate percentage would have to be reduced to fit the \$750 million price tag when post-forecast assumptions about the individual income tax are used for budget decisions. Second, the costs of the governor's other tax initiatives also were estimated by the Department of Revenue based on pre-February assumptions and they were not updated in the supplemental budget. Adjusting for the new forecast, especially in the individual income tax, will change the cost of conforming to federal law, "EdVest," the proposed education credits and other proposals. Third, fiscal notes for the administrative costs of the rebate and the other gubernatorial tax initiatives are not available at the time of this writing. Those costs are not funded by the Governor either in the original budget or in the supplemental recommendations. Finally, in the absence of a revised cash flow report and without legislative language for the timing of rebate payments, it is not known if the state will have adequate cash to pay the rebates when they are proposed.

For more information on individual income, sales & use, and excise taxes, contact M.J. Hedstrom at 296-1237.

Revised Price of Government Recommendations

The February 1997 Forecast had little impact on the current-law projection of the “Price of Government” ratios. Projected state revenues were significantly greater under the February 1997 Forecast compared to the November 1996 Forecast, but projected Minnesota Personal Income also was significantly greater. The tables below compare the Price of Government ratios based on current law under the November and February Forecasts.

FY 1998-99	November 1996 Forecast	February 1997 Forecast
Total State and Local Revenues	\$44,300,474,000	\$44,614,413,000
% of Minnesota Personal Income	18.1%	18.0%
State Revenues	\$25,527,813,000	\$25,816,052,000
% of Minnesota Personal Income	10.4%	10.4%
Local Revenues	\$18,772,661,000	\$18,798,361,000
% of Minnesota Personal Income	7.7%	7.6%

FY 2000-01	November 1996 Forecast	February 1997 Forecast
Total State and Local Revenues	\$47,921,918,000	\$48,333,931,000
% of Minnesota Personal Income	17.8%	17.8%
State Revenues	\$27,260,547,000	\$27,585,947,000
% of Minnesota Personal Income	10.1%	10.1%
Local Revenues	\$20,661,371,000	\$20,747,984,000
% of Minnesota Personal Income	7.7%	7.7%

The improved revenue forecast, however, has prompted Governor Carlson to recommend even larger tax reductions and rebates than he initially recommended. Those larger tax reductions and rebates have sharply reduced the Governor’s Price of Government recommendations. The Governor’s initial recommendations set the Price of Government revenue targets at 18.1 percent for FY 1998-99 and 17.9 percent for FY 2000-01. The tables below compare the Governor’s supplemental recommendations to the current-law based February 1997 Forecast.

FY 1998-99	February 1997 Forecast	Governor’s Supp. Rec.
Total State and Local Revenues	\$44,614,413,000	\$43,396,573,000
% of Minnesota Personal Income	18.0%	17.5%
State Revenues	\$25,861,052,000	\$24,852,112,000
% of Minnesota Personal Income	10.5%	10.0%
Local Revenues	\$18,798,361,000	\$18,544,461,000
% of Minnesota Personal Income	7.6%	7.5%

FY 2000-01	February 1997 Forecast	Governor's Supp. Rec.
Total State and Local Revenues	\$48,333,931,000	\$47,410,972,000
% of Minnesota Personal Income	17.8%	17.4%
State Revenues	\$27,585,947,000	\$27,375,088,000
% of Minnesota Personal Income	10.1%	10.1%
Local Revenues	\$20,747,984,000	\$20,035,884,000
% of Minnesota Personal Income	7.7%	7.4%

Implications: Enacting a budget consistent with adopting the Governor's supplemental recommendations would require large state tax rebates in FY 1998-99. For FY 2000-01, enacting a budget consistent with adopting the Governor's supplemental recommendations would require reallocating significant resources from current-law priorities to services now funded with property taxes in order to achieve sharp reductions in local revenues without increasing state revenues.

The Governor's supplemental recommendations assume that in FY 2000-01 more than \$700 million of state revenues will be spent to replace property tax revenues. The balance forward at the beginning of FY 2000-01 is forecast to be approximately \$290 million, and expenditures are estimated to exceed current resources by approximately \$90 million during that biennium. The supplemental recommendations assume that more than the balance of \$200 million will be eliminated through reductions in state taxes. Consequently, the Governor's supplemental recommendations assume that the entire \$700 million needed to reduce property taxes will be reallocated from current spending priorities.

For further information contact Bill Connors, 296-5813.

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