

*Prefatory Comments: All slides present information on General Fund activity with the exception of the MN Price of Government slide, the K-12 Education Slide, and the two effective tax rate and tax incidence slides. The General Fund has typically accounted for about 60 percent of all state operating funds.*

**Page 1** – Title Page.

**Page 2** – Presentation Outline.

**Page 3** – Pages 3, 4, and 5 present information on changes in revenues, spending and MN personal income since 1970. Slide 3 shows gross changes in revenues and spending with the green line being revenues and the red line being spending. Amounts are in nominal dollars and are not adjusted for inflation or normalized to changes in population demographics or the MN economy.

Revenues and spending have grown over time. General Fund revenues declined on an annual basis in four years: FY1986, FY1999, FY2008 and FY 2009, however, the decline in FY1999 is after sales tax rebates. Otherwise, revenues would increase in this year as the revenue amounts shown on the graph are after the property tax rebates of 1997 and 1998 and the sales tax rebates of 1999 and 2000. If revenues were compared on a biennium-to-biennium basis, revenues declined over the previous biennium for the first time (since 1970) in FY 2008-09 and are projected to decline again in FY 2010-11. Spending declined in five years, FY1983, FY1986, FY2004, FY2009 and projected to decline for FY2010. If compared on a biennial basis, spending is projected to decline for the first time in FY 2010-11.

**Page 4** – Page 4 shows gross changes in revenues, spending and MN Personal Income, all of which have grown continuously since 1970 with the exceptions noted on the previous slide for revenues and spending. MN personal income has not declined since 1970 either on a year-to-year or biennium-to-biennium basis. For reference, 1 percent of MN Personal Income = \$2.2 billion in FY2009. Because revenues and spending are placed on the same axis as MN Personal Income, it may look like MN personal income has been growing at a faster rate but Slide 5 shows us that ratio since 1970.

**Page 5** – Page 5 shows that revenues and spending have ranged from 7.5 to 9.0 percent of personal income but have been mostly between 7.5 and 8 percent since the early 1980's. While current spending levels as a percentage of personal income are within that range, revenues as a percentage of personal income are at their lowest levels since 1986, which declined to 7.0 percent for one year (and prior to that since 1970-1973). The wide variation in the early 1970's largely reflects substantial carryforwards from FY 1968-69 into FY 1970-71.

**Page 6** — shows the MN Price of Government measure; which was first completed for CY 1990 and compares only revenues as a percent of MN personal income but does so for all state funds as well as for local government revenues. This measure then captures the overall state and local finance relationship, as well as shifts in funding sources from the general fund to another state fund and vice-versa. Total state and local revenues have ranged from a high of 17.7% to a low of 15.4%, but have been generally near or below 16% since 2000. Also visible from this graph is a decrease in state resources and increase in local own source resources.

**Page 7** – Page 7 is another approach to assess revenue and spending trends over time by showing the cumulative annual average change in revenues and spending compared to two common indices, MN personal income and CPI.

The dashed red and green lines in the background are show the percent change in revenues (green) and spending (red line) from one year to the next year. The noisiness of these dashed lines illustrate how percentage changes from one year to the next can vary widely, such as due to economic changes, but also accounting shifts, takeover of the general education levy in 2002, transfer of programs or revenues into or out of the General Fund, accelerated sales tax collections, etc. The dark red and green lines show the cumulative annual average change. In other words, as of 1980, this line shows the average annual change from 1970 to 1980 (10 years). For FY 2000, this line shows the average annual change from 1970 to 2000 (30 years). The average annual change in revenues and spending since 1970 is about 8 percent. The tendency might be for this line to flatten out, which it does, but it also shows a general decline over time.

An important characteristic of this measure, however, is that the further right you go on this average annual change line, the larger the change it would take to change the direction of the line. Consequently, a small blip up or down after 40 years may reflect as significant a change as a broader swing on the left hand side of the chart. In addition, the year in which the annual average change calculation begins also matters; starting at 1980 for example, may bring the whole line down somewhat. Also shown on here for comparison are the annual changes in MN Personal Income and CPI.

**Page 8** – Page 8 and 9 present the same spending information in different formats. This is major general fund spending categories as a percent of general fund spending. Page 8 allows each category to be compared to the others – the category with steady growth has been health & human services. K-12 Education has been the largest share in almost all years since 1970.

**Page 9** presents the same spending information in an area graph – again you can see the HHS slice growing.

**Page 10** – Education – This chart is one that is not state general fund. It shows school district revenue sources as a percent of Minnesota personal income. This compares school district revenue to personal income. Data is from 1983 and after is from a different source than the earlier data – that is the reason for the vertical line. As a percent of personal income, school district revenue has remained relatively flat since the mid 1980s. State aid and property taxes made a significant change in the early 2000s when the state took over the general education levy. The bump in federal funds in FY 2010 is due to federal stimulus funds.

More detailed information on both the K-12 Education and Health & Human Services is in the supplemental information (see separate publications).

**Health Care** : Pages 11 and 12 The page 11 graph shows the spending for medical assistance and general assistance medical care – the major health care programs as a percent of general fund spending.

**Page 11** shows this spending as a percent of general fund spending since 1970. As a percent of general fund spending, health care costs have shown steady growth. A note – this does not include spending from the health care access fund. [Spending from the health care access fund began in 1993 and now exceeds \$500 million per year.]

**Page 12** provides more detail on general fund health care spending since 1989, again as a percent of general fund spending. These numbers assume that GAMC ends in FY 2011 due to the veto of that program's funding. Notice the growth in spending on waived services and home care and a decline in spending on long term care facilities.

**Page 13** – These next three slides focus in on revenue trends. Slide 13 illustrates the major sources for General Fund revenues as a share of all General Fund revenues. Income taxes and the general sales tax continue to be the largest sources, amounting to 76% of total revenues in FY2010-11. Corporate taxes have been a declining share as illustrated by the narrowing yellow area and are now about 4%. You can also see the General Fund phase-out of motor vehicle sales tax revenues as per the recently passed constitutional amendment that dedicated that revenue stream for highway and transit purposes. The blue area at the top reflects other, non-tax revenues which includes fees but can also be significantly affected by one-time transfers of revenues into the General Fund from other funds. It is important to note that this chart shows relative shares, so that, even though revenues have been declining as illustrated in Slide 3, the relative shares by tax types may still vary. For example, while income tax revenue projections for FY2010-11 declined by \$2.5 billion from February 2008 to FY 2009, projections for all revenues have declined by \$4.1 billion so income taxes still make up a large.

**Page 14** – Page 14 recaps effective tax rates as presented in the 2009 Tax Incidence Study (the most recent study) completed by the MN Department of Revenue. The effective tax rate is the ratio of taxes paid to income. This chart shows the average effective tax rate for households in each of the ten income deciles. The chart compares 2006 effective tax rates, which is the most recent year for which actual taxes paid have been studied, to the projected effective tax rates for 2011 given the economic conditions and tax structure in place at the time of study. Overall, the effective tax rate for total state taxes has declined somewhat while the effective tax rate for state and local taxes combined has increased. The effective tax rate for the second through ninth income deciles is higher for 2011 than for 2006 while the effective tax rate for the bottom and top income deciles is lower.

**Page 15** – Page 15 provides another measure for assessing relative tax burden, also taken from the DOR Tax Incidence Study. “The Suits Index” uses the effective tax rates to compare tax burdens across income categories, with a progressive tax being one in which the effective tax rate rises as income rises. The ‘Suits Index’ theoretically ranges from positive 1 to negative 1. A proportional tax has a Suits Index of zero. The Suits Index would be a positive 1 if the total tax burden were paid by those in the highest income bracket, and a regressive tax has a Suits Index between 0 and – 1, with – 1 being the most regressive. As measured by the Suits Index, the most recent tax incidence study indicates the tax system becoming more regressive.

**Page 16** – Page 16 shifts back to an overview of budget balance and current budget conditions. This chart shows the annual difference between current revenues and current spending, often referred to as ‘structural balance,’ since 1970. Current revenues exclude balance carryforwards and current spending excludes reserves. Positive balances in some years are often used to offset negative balances in other years. The two negative structural balance columns on the right hand side of the chart recap the ongoing budget gap currently projected between revenues and spending, and the growing magnitude of the structural imbalance.

**Page 17** begins several pages on the current budget situation. Page 17 illustrates the situation with the general fund budget for the current biennium, fiscal years 2010 and 2011. The top bar is the February forecast. The forecast projects a \$4.57 billion deficit. That deficit would have been \$6.4 billion without the increase in federal matching fund for medical assistance under the federal stimulus.

The second bar shows the changes in the enacted budget following the end of session and after Governor's vetoes. The changes are \$225 million in revenue increases and \$1.717 billion in cuts. Of the cuts, \$785 million were offset by one-time federal stimulus funds. The other \$932 million includes the General Assistance Medical Care (GAMC) veto of \$383 million.

The third bar shows the remaining \$2.676 billion deficit.

The final bar illustrates the unallotments and other actions taken to resolve that deficit. Many of these actions are one-time and some have costs are assumed to be re-paid in the next biennium.

**Page 18** shows what we know has happened since the end of session – fiscal year 2009 revenues were \$150 million below forecast. This affects FY 2010 and 2011 because the balance from FY 2009 is carried forward into FY 2010.

**Page 19** is parallel to page 17 but for the next biennium – fiscal years 2012 and 2013. The February forecast projects a \$5.133 billion deficit for FY 2012-13. Changes in the enacted budget reduced that to \$3.105 billion. The effect of the unallotments and other administrative actions, (re-paying of payment delays) increase the FY 2012-13 problem to \$4.431 billion as reported by the Department of Finance – now Minnesota Management and Budget. In addition to that \$4.431 billion, there are several other issues – fully restoring GAMC after the veto would cost \$889 million, repaying the K-12 property tax revenue recognition shift would cost \$601 million, and adding inflation at a CPI rate would add \$1.328 billion - that would increase the FY 2012-13 problem to over \$7.2 billion.

**Pages 20 and 21** provide information on the budget situation during the 2009 session and illustrate components of the primary proposals considered during the session.