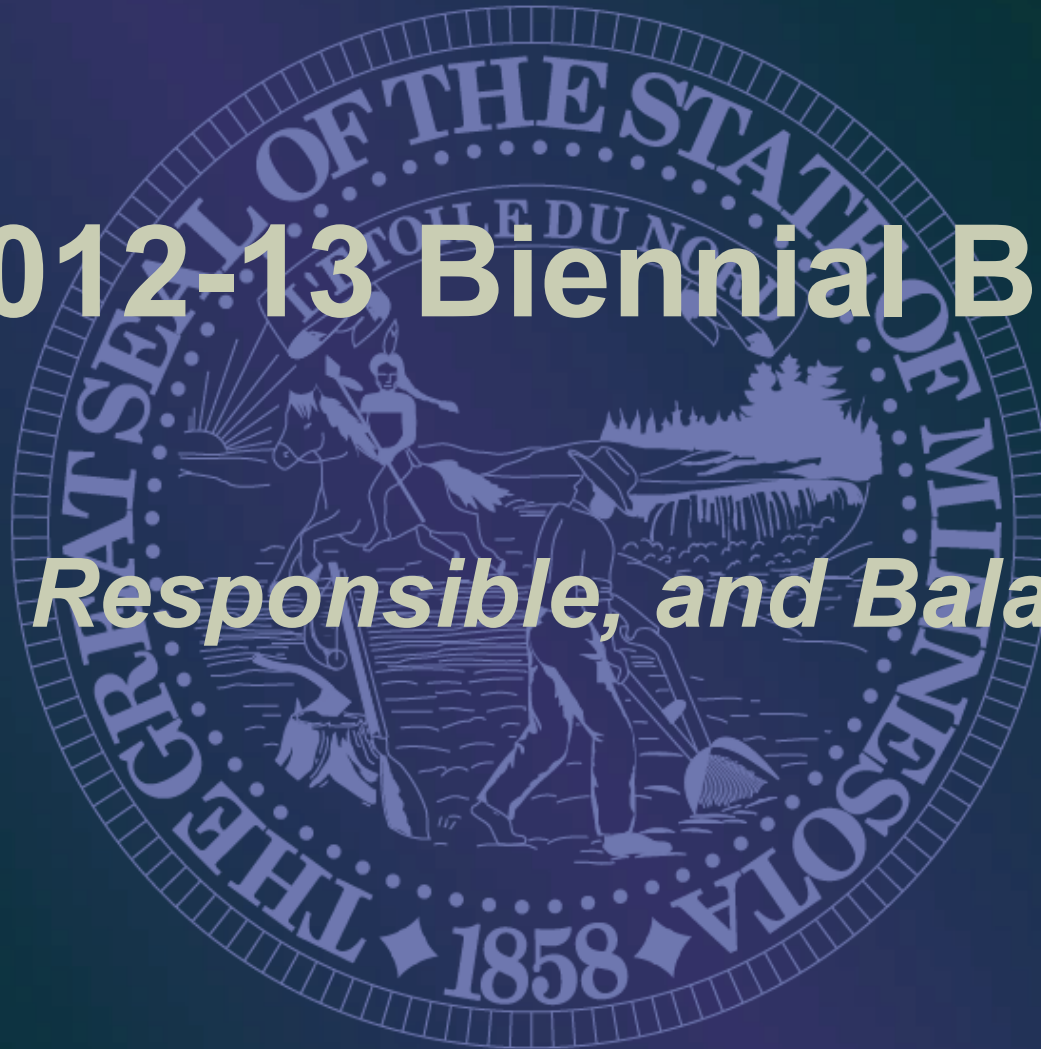


STATE OF MINNESOTA

GOVERNOR MARK DAYTON

FY 2012-13 Biennial Budget

Fair, Responsible, and Balanced





Governor Mark Dayton FY 2012-13 Proposed Budget

SOLUTION MUST ADDRESS UNDERLYING PROBLEMS

Our budget problems are long-standing and in part, self-inflicted

- Revenues lost during the recession are permanently gone
- Reliance on one-time solutions has hidden the problem and left us with the most significant budget deficit in the State's history
- Without immediate action, Minnesota will face persistent budget problems



Governor Mark Dayton FY 2012-13 Proposed Budget

BUDGET ADDRESSES \$6.2 BILLION FORECAST SHORTFALL – BALANCED APPROACH

General Fund (\$ in millions)	November Forecast FY 2012-13	Governor's Proposed Actions	Governor's Budget FY 2012-13
Beginning Balance*	\$674	\$(14)	\$660
Revenues	32,443	4,129	36,572
Expenditures	39,030	(1,940)	37,090
Reserves	<u>275</u>	<u>(136)</u>	<u>139</u>
Budget Balance	\$(6,188)	\$6,191	\$3

* Beginning balance reflects Governor's recommendations affecting FY 2011, including tax conformity and deficiency funding for the Judicial Standards Board, Tax Court, Secretary of State and Dept. of Public Safety.



Governor Mark Dayton FY 2012-13 Proposed Budget

COMPONENTS OF GOVERNOR'S BUDGET SOLUTION

FY 12-13 Forecast Deficit		(\$6,188)
Delay School Shift Buyback		1,455
Net Expenditure Reductions		485
Permanent Expenditure Reductions	950	
New Expenditures	(465)	
Increased Resources		4,129
Permanent Tax Increases	2,438	
Temporary Income Surtax	918	
Health Care Surcharges	877	
Adj. to HCAF Transfer, Other Revenues	(104)	
Temporary Reduction - Cash Flow Account		136
FY 2011 Deficiencies, Tax Conformity		(14)
Total – Actions Taken		<u>\$6,191</u>
Budget Balance		\$ 3



Governor Mark Dayton FY 2012-13 Proposed Budget

FY 2012-13, PROPOSED GENERAL FUND EXPENDITURES — PROTECT PRIORITIES

General Fund \$ in millions	Forecast FY 2012-13	Expenditure Reductions	New Expenditures*	Proposed FY 2012-13
K-12 Education	\$14,346	(\$15)	\$52	\$14,383
K-12 Shift	1,302	(1,455)	0	(153)
Higher Education	2,917	(171)	0	2,746
Local Aids & Credits	3,469	0	0	3,469
Health & Human Svcs.	12,346	(680)	331	11,997
Public Safety	1,783	(6)	45	1,822
Debt Service, Capital	1,187	(0)	9	1,196
All Other Areas	1,680	(78)	28	1,630
Total Expenditures	\$39,030	(\$2,405)	\$465	\$37,090

* New expenditures include targeted investments in K-12 education, public safety, and assume enactment of the Governor's bonding bill. Most of the new expenditures in health & human services relate to increased provider reimbursements associated with health care surcharges.



Governor Mark Dayton FY 2012-13 Proposed Budget

GENERAL FUND EXPENDITURE GROWTH

- One-time federal stimulus and savings from K-12 payment shifts distort underlying expenditure growth figures. On an “apple-to-apples” basis, expenditures will increase 7.5 percent under the Governor’s budget compared to FY 2010-11.

General Fund Expenditures (\$ in millions)	FY 2010-11	Proposed FY 2012-13	\$ Change	% Change
Nominal (Unadjusted)	\$30,326	\$37,090	\$6,763	22.3%
K-12 Shift Savings	1,889	----		
Federal Stimulus	2,272	----		
Comparable (Adjusted)	\$34,488	\$37,090	\$2,602	7.5%



Governor Mark Dayton FY 2012-13 Proposed Budget

FY 2012-13, GENERAL FUND REVENUE PROPOSALS — PROTECT THE MIDDLE CLASS

General Fund \$ in millions	Proposed FY 2012-13
4 th Tier Income Tax at 10.95%	\$1,890
Temporary 3% Surtax on Incomes Over \$500,000	918
State Property Tax on Home Values over \$1M	84
Closing Corporate and Other Loopholes	430
Health Care Surcharges	877
Other Tax Revenues	34
Adj. to HCAF Transfer, Other Revenues	<u>(104)</u>
Total Revenues	\$4,129

95% of tax filers will see no tax increases



Governor Mark Dayton FY 2012-13 Proposed Budget

BUDGET HELPS CREATE STRUCTURAL BALANCE

- Proposed budget changes will significantly reduce the ongoing gap between revenues and expenditures

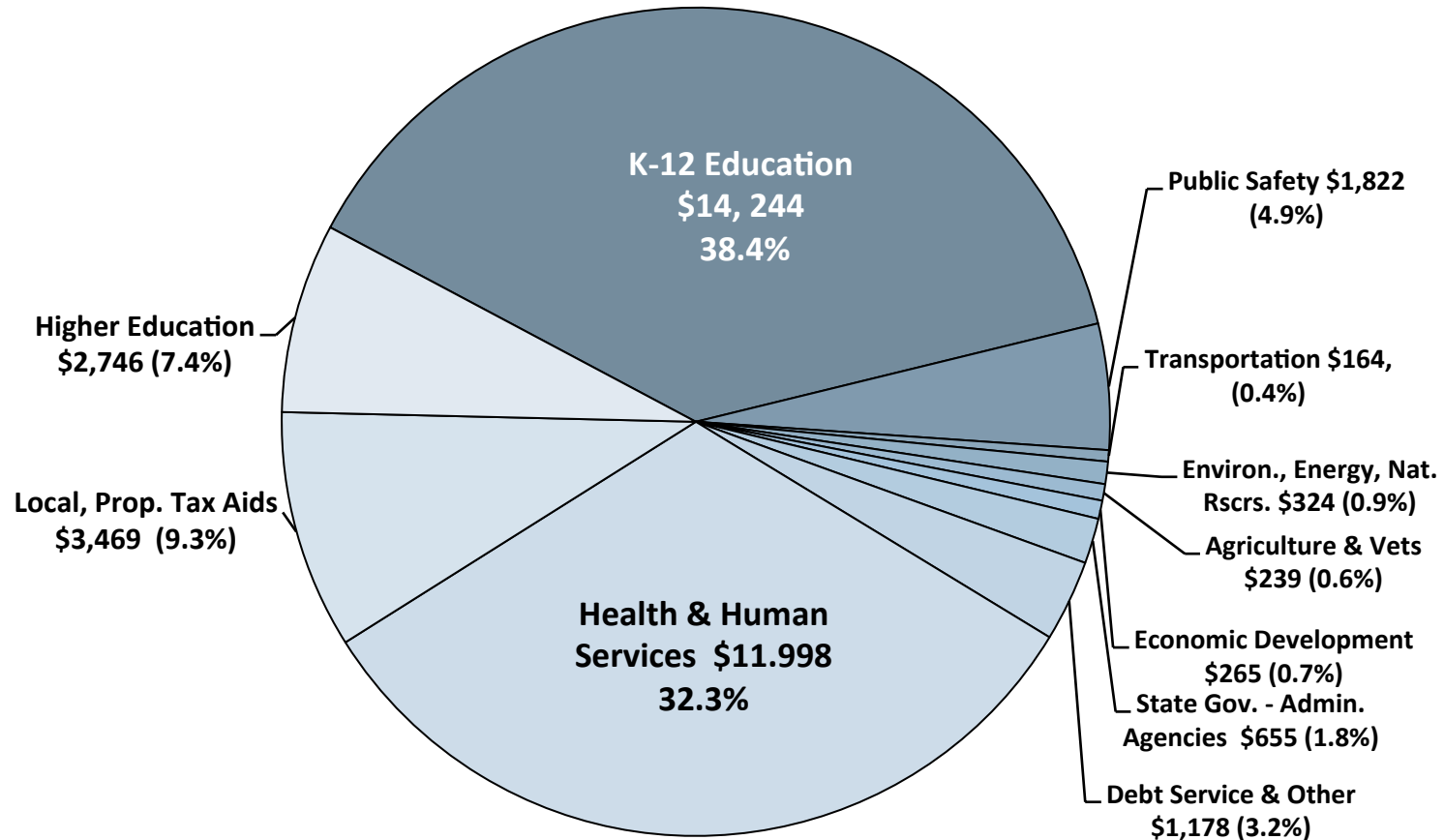
(\$ in millions)	FY 2014	FY 2015
Long-Term Structural Gap:		
Under November Forecast	\$(2,738)	\$(2,345)
Under Governor's Budget	\$(672)	\$(465)



Governor Mark Dayton FY 2012-13 Proposed Budget

PROTECT PRIORITIES

Proposed FY 2012-13 General Fund Expenditures: \$37.090 Billion
\$ in millions

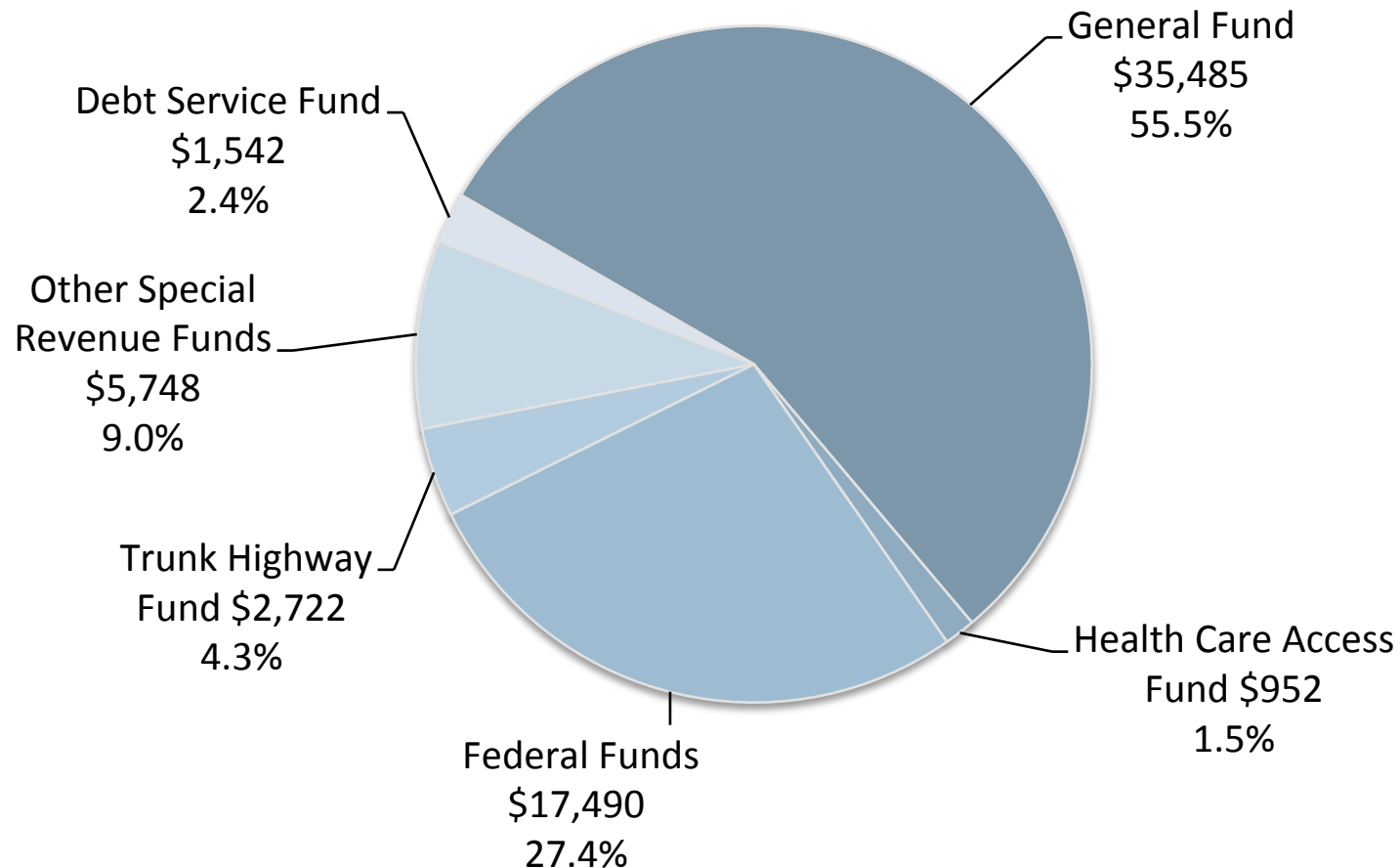




Governor Mark Dayton FY 2012-13 Proposed Budget

PROPOSED BIENNIAL EXPENDITURES – ALL FUND SOURCES

Total State and Federal Funds \$63.939 Billion





PROTECT MINNESOTANS FROM PROPERTY TAX INCREASES

- Makes no reductions to local government aid programs
- Avoids shifting the state budget problems onto cities and counties, and ultimately property tax payers
 - Ensures that decisions to raise property taxes will be truly local ones
- Reduces pressure on local governments to increase property taxes that fall more heavily on low-income Minnesotans as a share of income
- Fully funds income-based Property Tax Refund programs for homeowners and renters



PRIORITIZE TARGETED INVESTMENTS IN EDUCATION

- Protect state funding of General Education Aids
 - School aid payment shift through FY 2013
 - Buys back aid payment shift 10% per year, beginning in FY 2014
- Make Key Investments in Strategic Areas of Priority
 - Early Childhood
 - Optional all-day Kindergarten
 - Statewide early childhood rating system
 - Rewarding Achievement and Innovation and Disseminating Best Practices
 - Governor's Excellence in Education Award
 - Governor's Achievement Gap Innovation Fund
- Target resources closer to the classroom
 - Eliminate small programs that divert resources from primary priorities



LEADING ON HEALTH CARE REFORM

- Jumpstart Minnesota's Health Benefits Exchange
 - Leverage federal funding for planning and implementation
 - Develop a streamlined eligibility determination system for public programs
- Reform payment and care delivery for publicly-funded managed care programs
 - Reduce administrative costs to the lowest in the nation, increase competition through competitive bidding, and improve outcomes through payment and care delivery reform and reducing hospital readmissions
- Continue funding for state health reform
 - Statewide Health Improvement Program (SHIP)
 - Reporting on health care cost and quality
- Provide incentives for health care providers to implement electronic health record technology



MAINTAIN CORE SAFETY NET & SLOW EXPENDITURE GROWTH

- Protect access to health care for people with the lowest incomes
 - Continue coverage for all children and for adults with incomes below 200% of poverty
 - Eliminate MinnesotaCare coverage for adults with incomes above 200% of poverty

- Manage growth in long-term care programs by targeting resources to people with the highest needs
 - Extend current caps on disability waiver growth and transition lower need people with disabilities to less expensive community living alternatives
 - Limit growth in fast growing components of services for seniors through targeted rate reductions and higher eligibility criteria



MAINTAIN CORE SAFETY NET & SLOW EXPENDITURE GROWTH

- Protect core safety net services for those most in need: children and vulnerable adults
 - Prioritize county reductions to protect mental health and basic child/adult protection functions
 - Fully fund adoption assistance to ensure abused and neglected children can find permanent homes
 - Continue GA cash assistance, but combine and reduce emergency GA and MSA programs
- Share the burden of the state's budget challenge with service delivery partners
 - Increase existing MA surcharges by net \$627 million
 - Reduce home and community-based service rates by 4.5% and nursing facility rates by 2%
 - Delay inpatient hospital rebasing six months



PROTECT CRITICAL HIGHER EDUCATION FUNDING

- State Grant Program, providing access to higher education to low and middle-income students, protected from reductions
- Funding for MnSCU and University of Minnesota reduced by 6% from FY 2012-13 current law funding levels
- Other savings realized by targeting reductions at smaller grant programs and those that are not as effective for students in need



ENSURE PUBLIC SAFETY BY PROTECTING CORE SERVICES

- Fund anticipated cost increases in court system to maintain current service levels
 - Help courts operate efficiently and reduce backlog
 - Provide for more adequate public defender staffing and constitutionally required representation
- Prevent significant layoffs at correctional institutions
 - Restore significant reductions made to agency's base budget
 - Maintain chemical dependency treatment at Faribault
 - Streamline offender supervision and make general administrative reductions of 5%



Reform of State Government Services

PROVIDING BEST POSSIBLE VALUE FOR TAX PAYER DOLLARS

- 6% reduction in state employee workforce
- Manage for results through frequent, focused, and data-driven reviews of state agency progress toward key outcomes
- Expedite regulatory review of utility filings through targeted investments at Commerce and the Public Utilities Commission
- Reform managed care contracting in publicly-funded health care programs by reducing administrative expenses, increasing competition, and improving outcomes
- Use a shared services model to provide operational support for the state's smallest agencies, boards, and commissions



INVESTMENTS AND REDUCTIONS REFLECT PRIORITIES

- Military and Veterans Affairs
 - Added funding for National Guard's tuition reimbursement program and Higher Education Veterans Program
 - New operating funds for:
 - 21-bed specialty care/Alzheimer's unit at Fergus Falls Veterans Home
 - Adult day care center at Minneapolis Veterans Home
- Up to 10% reductions in all other budget areas
 - Hold Departments of Military Affairs and Veterans Affairs harmless
 - Minimize impacts to those who are vulnerable and those seeking employment
 - Consider whether other sources of funding are available for the activity
 - Maintain core operational capacity in state agencies



RAISE REVENUES FAIRLY AND RESPONSIBLY

- Most of the new revenue comes from increases in the income tax, the only progressive statewide tax
 - New 4th income tax tier at 10.95% for joint filers over \$150K, head of household filers over \$130K
 - 3-year, temporary surtax of 3% for all filers over \$500K (taxable income)
- State property tax on home values over \$1M
- Federal income tax conformity on most provisions promotes tax simplicity and helps average Minnesotans
 - Increased working family credit income limits
 - Qualified tuition and expenses deduction
 - \$250 educator classroom expenses deduction



Tax Revenue Changes

95% OF TAX FILERS WILL SEE NO TAX INCREASES

Example	Effective Tax Change After Federal Deductions
Typical Minnesota Single, 1.5 children, adjusted gross income of \$24,555 with home value under \$1 million	0.0%
Typical Minnesota Single, no children, adjusted gross income of \$25,398 with home value under \$1 million	0.0%
Single, no children, adjusted gross income of \$50,000 with home value under \$1 million	0.0%
Typical MN Household, married joint filer, 2 children, adjusted gross income of \$81,500 and avg home value of \$180,000	0.0%
Single, no children, adjusted gross income of \$100,000 with home value under \$1 million	0.1%
Married Joint Filer, 2 children, adjusted gross income of \$200,000 with home value under \$1 million	0.1%
Married Joint Filer, 2 children, adjusted gross income of \$500,000 with home value of \$1.5 million	1.9%
Married Joint Filer, 2 children, adjusted gross income of \$1 million with home value of \$2 million	3.1%



PROMOTE TAX EQUITY AND CLOSE LOOPHOLES

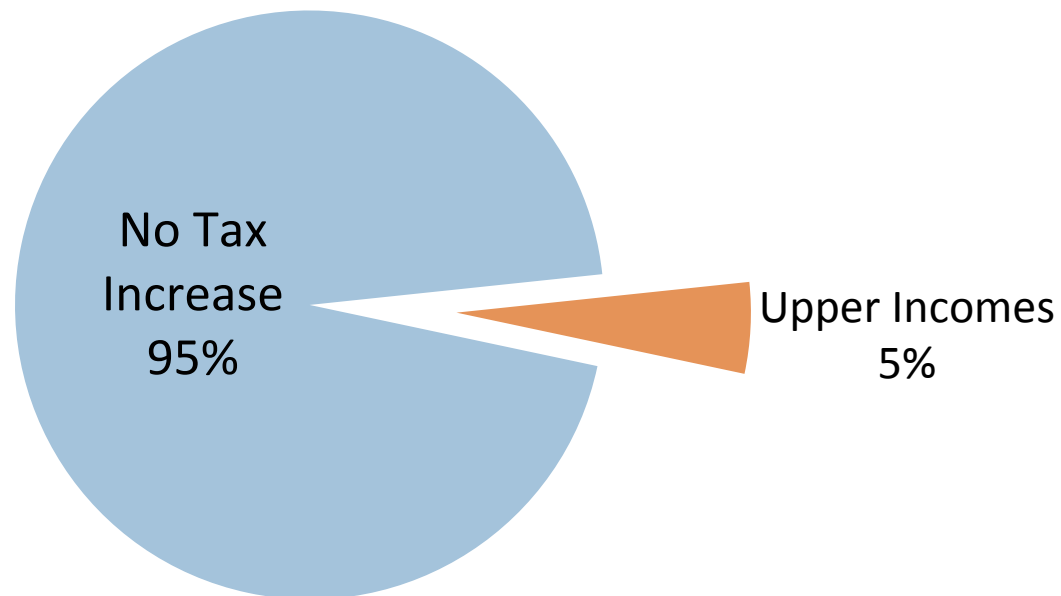
- Repeal corporate foreign royalty subtraction and foreign operating corporation provision
- Close “Snowbird” loophole that allows individuals to avoid Minnesota taxes by living out of state for part of the year
- Adopt corporate “nexus” and “economic substance” definitions that prevent corporations from avoiding Minnesota’s corporate income tax
- Level playing field for Minnesota businesses by capturing tax from remote sellers of products already taxable in Minnesota and creating sales tax equity on similar purchases (affiliate nexus)



Tax Revenue Changes

95% OF TAX FILERS WILL SEE NO TAX INCREASES

**Of the 2.5 million tax returns filed annually,
5 percent will see increases**



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