

Minnesota Budget Bites

Fiscal and tax information in bite-sized pieces

December 1999

The November '99 Forecast: Where Did All This Money Come From?

The Minnesota Department of Finance prepares forecasts in November and February. The November '99 forecast estimates revenues and expenditures for the 2000-2001 biennium and provides planning estimates for 2002-2003. The forecast is the starting point for budget decisions in the 2000 session. In the forecast, revenues are adjusted based on predicted economic conditions and expenditures are based on current law and adjusted for inflation and predicted caseload increases.

The forecast numbers do not reflect any policy proposals by the Governor or legislature. Significant budget changes in the 2000 session or economic conditions different from those predicted will bring about different results than predicted by the forecast.

What Does the Forecast Say?

The forecast estimates General Fund Revenues for the state for the 2000-2001 biennium of \$23.549 billion, \$1.154 billion more than was estimated at the end of last legislative session. This means that if no legislative changes are made to either taxing or spending, the state would bring in \$23.549 billion by June 30, 2001. This unanticipated revenue, combined with funds the state had on hand at the end of the 1999 fiscal year, plus a few other adjustments to expected spending and transfers leaves a revised forecast balance for June 30, 2001 of \$1.584 billion. This \$1.584 billion will be commonly referred to as "the surplus," but it is simply a measure of expected revenues by the end of 2001 if no spending or tax changes are made. Only \$453 million is currently on hand.

Where Did The Money Come From?

The Good News, Part 1: Wages and salaries in Minnesota grew by 8.7% in 1998, or 4.2% when adjusted for inflation - the highest growth rate in state history.

This means that revenues from all major tax sources are expected to be larger than predicted at the end of the 1999 legislative session; the most significant increases are in the income tax (up 3.5% from end-of-session estimates) and the motor vehicle sales tax (up 5.6%).

The Good News, Part 2: Strong economic growth predicted for 2000 and beyond.

A more optimistic prediction for the economy is the primary reason for increased projected revenues. A slowing of the economy predicted for 1999 by the state's economic consultants, DRI, did not occur, and in addition, DRI drastically changed their forecast for the future, predicting very strong growth for both 2000 and 2001, with only a 10% chance of recession before 2002. The state's Council of Economic Advisors, however, caution that DRI's forecast provides no "cushion" to protect state revenues if the economy grows less slowly than forecasted, which would occur in the event of a slowing of growth even without a recession. Minnesota's budget reserve is also well below the recommended level of 5% of biennial spending.

Where will this money go - or not go?

Some of the surplus has already been spoken for: \$43 million will go for per pupil school aids in the 2001 fiscal year and \$1.013 billion (60% of the forecast balance plus interest) will be deposited into the Property Tax Reform Account for future action by the Legislature. The remaining \$571 is called the "available balance," but again, this is revenue that has not yet been collected.

The forecast includes a 0.9% increase in state expenditures, or \$209 million. This includes \$103 million in unspent funds from 1999 to be spend in 2000-2001, \$43 million in increased K-12 education spending in 2001, and \$63 million in increases in K-12 education due to increased enrollments and increased spending for health care. This is offset by reductions in anticipated spending, particularly in family support programs. The TANF Reserve is estimated at \$164 million.

The full forecast is available at <http://www.finance.state.mn.us>



Minnesota's Tax Rankings: How Do We Measure Up?

We often hear Minnesota described as a high tax state, with tax rankings mentioned as proof. However, if we look closer at how Minnesota compares to other states, we find the picture is more complex. Among our findings:

- ✓ Minnesota ranks among the 10 highest states in total state and local taxes, income taxes, corporate income taxes, and commercial and apartment property taxes.
- ✓ Minnesota ranks in the bottom half for sales taxes, gasoline taxes, income taxes on low-income families, and property taxes on low value homes.
- ✓ Rankings must be approached with caution, as they are usually based on averages that do not allow us to see how the tax affects individual taxpayers. For example, although our income tax is 5th highest on married couples with high incomes, it is the lowest on low-income families. Similarly, although Minnesota ranks 1st on property taxes on high value commercial and industrial property, we are 18th on low value industrial and 27th on low value homes.

Our high rankings on some taxes reflect the fact that our state's tax system is less regressive than those of other states (in a regressive tax system, lower-income people pay a higher percentage of their income in taxes than do upper-income people. In a progressive tax system, upper-income people pay a higher percentage of income in taxes). Minnesota is unusual in the degree to which it relies on the income tax as a revenue source - in most states, the largest source of revenue is the sales or property tax. Minnesota's progressive income tax offsets the regressive sales and property taxes. In addition, there are some taxes that aren't collected in Minnesota, such as local income taxes, gross earnings taxes on businesses, taxes on personal property (e.g. household goods), and intangibles taxes on assets, stocks, and bonds.

Minnesota is ranked #1 for the amount of tax reductions in 1998; it remains to be seen how this 18% tax reduction will affect our rankings.

Where possible, we have measured taxes as a share of personal income. This measure is seen as most appropriate, as it takes into account the taxpayer's ability to pay.

TYPE OF TAX	RANK
Total State and Local Taxes as a percentage of personal income (1996)	5
Income tax as a percentage of income (1996) (among 42 states with an income tax)	5
· By income (a married one-earner family) (1994)	
- \$200,000	5
- \$50,000	13
- \$25,000	24
- \$10,000	40
Property Tax as a percentage of personal income (1996)	18
· Homestead (1995)	
- Low value	27
- High value	14
· Commercial (1995)	
- Low value	9
- High value	1
· Industrial (1995)	
- Low value	18
- High value	1
· Apartments (1995)	2
Corporate Income Taxes as a percentage of personal income (1996)	10
Sales Taxes (state and local) per \$1,000 of income (1996)	26
Excise taxes (includes cigarette, alcohol, beverage, etc.) per \$1,000 of income (1997)	15
State gasoline taxes (1996)	26
State cigarette taxes (1996)	19

Sources: Maryland Budget and Tax Policy Institute, *Chartbook of Taxes in Maryland*, 1999; MN Taxpayer's Association data presented to A Special Fiscal Seminar For Newly Elected State and Local Public Officials, 1998; Department of Revenue, *Comparison of 1994 Individual Income Tax Burdens by State*, 1995; Minnesota Taxpayer's Association, *How Does Minnesota Compare in Taxes: 1993, 1994*.

A more detailed version of this fact sheet is available at our website, www.mncn.org/bp or order by mail on page 4.

Food for Thought and Action: Research Reviews

Economic Development in Minnesota: High Subsidies, Low Wages, Absent Standards

In *Economic Development in Minnesota, Good Jobs First*, a project of the Institute on Taxation and Economic Policy, looks at over 550 economic development reports covering \$176 million in loans, grants, and tax increment financing (TIF) by cities, regional bodies, and state agencies. To augment the information in this database, they conducted interviews with public officials involved in economic development. As the title implies, their research found that in many cases, the public did not appear to be getting a good value for their investments in economic development deals. Among their findings:

- ✓ Wages promised and paid are low, compared to state and industry averages.
- ✓ Officials appeared to be willing to accept poor job quality, as 64.2% of deals were approved despite projected wages 20% or more *below* industry averages.
- ✓ These low wages are surprising, as the majority of jobs are in the high-wage manufacturing sector.
- ✓ These low-quality jobs mask hidden taxpayer costs, as many of the jobs created would leave families eligible for other state supports: 64.5% pay wages at which a family of three is eligible for MinnesotaCare, 25.1% eligible for food stamps, and 5.4% below the federal poverty line.
- ✓ Although businesses are supposed to pay back assistance if they do not meet job creation goals, there is no evidence of such recapture (or “clawbacks”) being put into effect.
- ✓ Many economic development deals show a poor cost-benefit relationship - no significant relationship was found between the amount of assistance provided and the wages paid. The average cost per job of all deals studied was \$18,715. Nearly 200 deals were approved with subsidies per job that equaled more than one year’s wages, 48 at more than 5 years’ pay, and 18 at more than 10 years’ wages.

The actual jobs created and wages paid were often better than what was set out in economic development deals. In some projects, there seemed to be a conscious effort to make sure that the business would reach its goals - for example, by setting goals of one job created at minimum wage - so that there was no risk of clawback. It is difficult to judge the value of such proposals when they have little relationship to reality.

The authors of the report acknowledge that economic development may have other valid public purposes besides job creation. However, since these deals did not spell out other goals, it is difficult to determine whether the public’s interest was served in some other way. This

report, however, only measures the deals in terms of job creation and wages paid.

An issue that the researchers explored in their interviews with public officials was the use of incentives in competition for businesses. Few officials talked about competition with other states, but instead described companies getting competing bids from two or more Minnesota cities after deciding to leave their current Minnesota hometowns.

The report includes specific recommendations to better invest the state’s money, including:

- ✓ Set wage floors at 85% of the area industry average.
- ✓ Cap subsidies at a certain dollar amount per job created.
- ✓ Make clawback provisions proportional, rather than having the business lose the entire subsidy.
- ✓ Put anti-piracy provisions in place to prevent subsidies being used in competition between cities.
- ✓ Enhance disclosure and compliance provisions.

The report is available free on the internet at www.ctj.org/html/minmenu.htm, or for \$5 from the Institute on Taxation and Economic Policy at 202-626-3780.

Corporate Welfare Activist Handbook

The Minnesota Alliance for Progressive Action (MAPA) clearly describes and explains all types of corporate subsidies including those covered in the Good Jobs First report - but also going well beyond them - in their *Corporate Welfare Activist Handbook*. The handbook includes a description of the 1999 corporate welfare act provisions, definitions of the various kinds of corporate subsidies (putting such arcane topics as Tax Increment Financing into easy to understand language), and step-by-step instructions for public involvement. Including corporate tax breaks in their analysis, MAPA describes \$1.76 billion in corporate welfare spending in Minnesota in 1997.

The purpose of the handbook is to get the public involved, and its real strength is the clear action steps, complete with resource phone numbers and web pages, and criteria that citizens can use in judging local business subsidies.

The handbook is driven by a well-articulated policy viewpoint, and therefore some readers may feel the case studies are chosen to put the worst possible spin on corporate subsidies. However, the handbook should be praised for giving interested members of the public a clear picture of how to take action.

The report is available from MAPA at (651) 641-4050. A \$10 donation is suggested.

Census Undercount Would Cost the State Millions

April 1, 2000 is the official date for the 2000 census, although census forms will start arriving in mailboxes across the country in March. Federal and state governments use census information to determine the distribution of funding for critical services, to apportion Congressional seats, and drawing legislative districts.

However, it is a tremendously difficult task to count every individual in the United States. According to the Census Bureau, the 1990 census missed 8.4 million people. Minnesota's census count was short 19,511 people, 82.5% of whom were children and the majority of whom were people of color. Minneapolis had the highest net undercount at 6,154, followed by St. Paul at 3,727.

Why is an accurate census important?

Census numbers are used by the federal government to allocate over \$100 billion in funds each year for services including housing, community development, education, public health, and job training. Census information is also used at the state, local, and tribal levels for planning decisions like locating new schools and police and fire stations, designing roads and public transportation systems, and distributing funds for services.

According to David Birkholz of the Minnesota Census 2000 Roundtable, Minnesota will lose approximately \$2,500 in federal funding over the decade for each person missed by the Census. This will amount to over **\$40 million** in lost funding if we have the same undercount as in 1990.

What can you do to ensure that the 2000 Census is more accurate?

The 2000 Census must do a better job of reaching traditionally undercounted populations: people of color, children, city residents, and the poor. This is where community organizations can help: by providing publicity about the census, assisting families in completing their census forms, and recruiting people from historically undercounted communities for the many employment opportunities related to the Census. The Census Bureau is developing partnerships with local officials and community organizations to benefit from their experiences and wisdom.

For information, call Laura Lambert, Minneapolis Complete Count Committee at (612) 673-2506, Maya Petrovic, St. Paul Census Task Force at (651) 266-6647, David Birkholz, Minnesota Census 2000 Round Table at (651) 297-2360, or Joe Greary, Census Bureau Minnesota at (651) 296-7939.

Materials Available From the Minnesota Budget Project

All Minnesota Budget Project publications are free of charge and are also available from our website at www.mncn.org/bp. Check off your choices below and return this page to us.

- Send me email notices when new materials, including this newsletter, are posted to the website.
- Send me this newsletter (*Minnesota Budget Bites*) by mail.
- Send me the report *An Introduction to Property Tax Reform in Minnesota* (20 pages).
- Send me the fact sheet *Minnesota Tax Burdens: Who Pays and How Much?*
- Send me the fact sheet *Minnesota's Tax Rankings: How Do We Measure Up?*

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The Minnesota Budget Project provides independent research, analysis, and outreach on budget and tax policy issues, emphasizing issues affecting low- and moderate-income persons and the organizations that serve them.

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