Minnesota Budget Bites

Fiscal and tax information in bite-sized pieces

February 2000

The 2000 Legislative Session: What's in Store?

Two fiscal issues are on the table in the 2000 session: bonding for capital projects and the surplus. Governor Ventura has declared that this session's bonding bill will be much smaller than past bills. At the same time, the state is predicted to run a surplus, which many legislators are tempted to "give back" as a tax cut.

Background

Minnesota runs on a two-year or biennial budget cycle. During the odd-numbered years, the legislature passes the state's appropriations (spending) budget for the next two years. In the even-numbered years, the legislature passes the bonding bill. Bonding is the process by which the state borrows money to fund long-term projects.

The legislature's recent practice has been to approve a smaller supplemental appropriations bill during the bonding year and a supplemental bonding bill during the appropriations year. Governor Ventura has said there will be no supplemental appropriations bill this year.

Bonding

In the 2000 Capital Budget, the Governor describes his recommendations for capital projects to be funded during the next six years. The large majority of capital budget recommendations are funded through bonding.

The capital budget process begins with state agencies, higher education institutions, and local governments submitting requests to the Department of Finance. This year, $1.5 billion in requests were received. The administration used these priorities to judge the merits of requests:

1. Protect investments the state has already made.
2. Protect the life and safety of residents and state employees.
3. Complete important projects that have only been partially funded.
4. Make selective strategic investments consistent with *The Big Plan* and smart growth principles.

The 2000 Capital Budget differs from recent capital budgets in two ways: it is much smaller ($400 million in state general obligation bonds vs. $1 billion in 1998) and it does not fund any requests from local governments.

It remains to be seen whether the legislature will accept the Governor's proposals. The legislature must pass a bonding bill for any borrowing to occur. House leaders have indicated that the total cost of their bonding bill will be about the same as the Governor's. The Senate bill is expected to be higher, perhaps around $600 million.

The Surplus

Although Governor Ventura says there will be no supplemental budget, there is money available for spending, according to the November '99 forecast. The forecast is prepared by the Department of Finance and is the starting point for budget decisions in the 2000 session. The forecast estimates a balance of $1.58 billion, which is called "the surplus." This is a measure of expected revenues by June 30, 2001, if no spending or tax changes are made and all economic predictions in the forecast are correct. Only $453 million is currently on hand.

Tax Cuts

Already the legislature is discussing reducing the surplus in the short term through rebates and in the long term through tax cuts. It is important to keep a few things in mind as tax cuts are proposed.

Minnesotans all pay about the same share of income in total state and local taxes - around 12% in 1998. However, taxpayers meet that obligation in different ways. Lower-income Minnesotans pay more of their taxes as sales and excise taxes, middle- and upper-income people pay more as income taxes. This variation means that cutting just one type of tax does not bring "across the board" benefits. Last year's income tax cuts brought no tax relief for 20% of Minnesota's low-income income tax filers.

The Minnesota Budget Project will be evaluating tax cuts and other proposals to spend the surplus this session by asking the following questions:

- What are the distributional effects?
- How will it affect the state's long-term ability to fund services and programs?
- What are the trade-offs?
- Who are the ultimate winners and losers?

Visit the Minnesota Budget Project web site at www.mncn.org/bp for analysis of these proposals or more detailed information on the Governor's Capital Budget and the state's tax situation.

Improving Access to Unemployment Insurance

In a time when more low-income families are relying on their work efforts to make ends meet, the Reemployment Insurance (RI) system should provide a temporary means of assistance for persons out of work. Unfortunately, many low-income families are excluded from the RI system. In 1998, only 47% of unemployed Minnesotans received unemployment benefits. This is in part because eligibility is based on the conditions of job loss, the length of work history, and the level of earnings.

Features of Reemployment Insurance

- The Unemployment Insurance system (called Reemployment Insurance in Minnesota) is jointly administered by the federal and state governments. Within certain restrictions set by the federal government, states have the authority to determine who is eligible and how much and how long benefits can be received.
- The Unemployment Insurance system is funded by state and federal taxes levied on employers.
- Eligibility is limited to persons who leave work for “good cause”, are actively looking for and are available for full-time work, and meet the minimum earnings requirement.
- Benefits vary depending on how much the RI recipient earned during the base period. Benefits are generally limited to 26 weeks, although they may be extended in times of high unemployment or large layoffs.
- RI recipients have access to Minnesota’s Workforce Centers, which provide workshops in job hunting and job-seeking skills, computers and printers to create resumes, job listings, and a library of employment and job search materials.

Barriers to Reemployment Insurance

- Individuals with shorter work histories are ineligible for RI, since only those with sufficient earnings during the base period are eligible. The base period is the first four of the last five completed quarters before the RI claim is filed. The base period can exclude as much as six months of recent employment.
- RI is only available to persons available for full-time work, excluding persons who seek part-time work to balance employment and child rearing responsibilities.
- RI eligibility requires a “good cause connected to employment” for leaving the job, such as a serious illness or sexual harassment. Unavailability of child care or family illness are not considered good cause.
- RI benefit levels may be insufficient to support a family. In Minnesota, the minimum weekly benefit amount is $38 and the maximum is $410. The low level of benefits means that few families can subsist on RI alone.

Policy Options

Advocates for working families suggest the following options to improve access to the Unemployment Insurance system for low-income families:

- Consider more recent employment: Eleven states have a “movable base period” that considers a more recent period of employment to determine the eligibility and benefit levels of unemployed workers.
- Provide allowances for dependents: Thirteen states provide additional benefits to families with dependent children to supplement low benefit levels and reduce the number of families who might otherwise turn to welfare.
- Expand the definition of “good cause” for voluntarily leaving work: The definition of “good cause connected to employment” should recognize lack of child care and transportation as legitimate reasons for leaving employment.
- Allow part-time workers to be eligible, if family obligations limit the feasibility of full-time work.
- Use RI to cover family leave: In 1999, states were given the flexibility to expand UI to include parents of newborn or newly adopted children (given that the parent meets all other conditions for collecting UI).

At the end of 1999, there was a $688 million positive balance in Minnesota’s RI Fund. This indicates that some expansion of eligibility and benefits is affordable within the current funding system.

Sources: Bureau of Labor Statistics, 1998; California Budget Project, Making the Unemployment Insurance System Work For California's Low Wage Workers, August 1997; Minnesota Department of Economic Security; Center on Budget and Policy Priorities and Economic Policy Institute, Pulling Apart, 2000.

From Jobs for Workers To Workers for Jobs

In 1998, the Citizens League's report *Help Wanted: More Opportunities Than People* described the long-term labor shortage facing Minnesota. A new report issued by this civic group, *From Jobs for Workers to Workers for Jobs*, follows up on the 1998 report and takes a closer look at Minnesota's shortage of skilled workers for high tech jobs. It argues that future economic growth in Minnesota requires more attention to workforce development.

The report describes the following challenges facing the state:

- Economic and demographic conditions create an urgent need to address the high skill needs of both employers and workers.
- When it comes to workforce training, public agencies and programs are still largely focused on unemployment reduction.
- Employers are providing training but it is mostly to meet short-term and specific needs.
- Too many high school graduates lack the basic skills needed in the workplace and the math and science knowledge necessary to go into many high skill occupations.
- Students need stronger career counseling to pursue the training needed for high skill, high wage jobs.
- Minnesota's public post-secondary institutions are generally not meeting the large-scale needs of employers or workers.
- Publicly funded training programs for unemployed and disadvantaged workers are seen as services to individuals in need and not as parts of the state's workforce training strategy.

To address these conditions, the Citizens League makes five recommendations:

- An independent "training czar" should set and coordinate policies to meet the state's workforce needs.
- The legislature needs to invest in increasing the skills of the incumbent workforce and should support such investment by employers.
- The legislature should support improvements in the K-12 education system to better align the long-term educational pipeline with the needs of the new economy.
- The Minnesota State Colleges and Universities (MnSCU) system needs more incentives and flexibility, coupled with more accountability, to meet the skill needs of incumbent workers and to prepare new workers for the new economy.
- The legislature should orient training programs for disadvantaged and unemployed workers toward bringing individuals into the workforce.

From Jobs for Workers to Workers for Jobs gives a good overview of the shortage of high skill workers. The authors note that in understanding workforce development, we need to think about how to better serve those who are already in the workforce. Training programs must take into account that their students will be persons with work and family responsibilities in addition to training needs.

The report does lack details on how to implement its recommendations. Also, while there is strong support for increased investments in customized training, the report acknowledges that there is no evidence that this will have a comprehensive effect on meeting the state's overall skill-development needs.

If trying to get a comprehensive view of the state's workforce challenges, this report provides one piece of the puzzle. Other pieces of the workforce system are addressed in the *Governor's Workforce Development Framework* and *Minnesota Inventory of Employment and Training Programs*. The legislature has also called for a report on ways to redesign the workforce development system; it is expected in mid-February.

A group of nonprofit employment and training providers called the Community Workforce Alliance have argued that workforce development redesign should include the following:

- A long-term state commitment to investment in workers and jobs.
- Investments in those sectors of the service delivery system that have demonstrated effectiveness.
- Recognition of the value of targeting programs to the unique needs of specific communities.
- Access to training through a continuum of services provided to all workers.
- Recognition that health care, child care, housing, and transportation are workforce development issues.
- State funds should be used to leverage federal and private resources.

The range of reports and recommendations demonstrate the complexity of issues that policymakers face in addressing Minnesota's workforce development needs.

The Citizens League report is available on the internet at www.citizensleague.net/studies/workforce/finalreport.htm. The other reports mentioned are available at front.mnplan.state.mn.us/critical_issues/workforce.html and www.des.state.mn.us/eandtstudy/

The Rich Get Ahead, The Poor Get Left Behind

Income inequality has widened significantly in Minnesota, according to a new analysis of Census Bureau data. The Center on Budget and Policy Priorities and the Economic Policy Institute have found that from the late 1970's to the late 1990's, the poorest 20% of Minnesota families have seen their incomes stagnate around $16,464, which is near the poverty line for a family of four. On the other hand, the wealthiest 20% have seen their incomes grow by 43%. The average income of the wealthiest 20% is now 8.8 times bigger than the average income of the poorest 20%; this is up from 6.1 times in the late 1970's.

The growing gap in household incomes reflects a trend in increasing inequality in wages. Several factors have contributed to increasing wage inequality. A shift from manufacturing to service jobs, globalization, and increased productivity have combined to increase the number of low-paying jobs and decrease the number of high-paying jobs which require less than a college education.

Labor market policies also play a role in the growing wage gap. The purchasing power of the minimum wage has declined 18% from 1979 to 1997. The rate of unionization has also declined; only 14% of the workforce was unionized in 1997, compared to 24% in 1979.

Demographics are also a factor in income inequality. It is becoming increasingly difficult for families to make financial progress without having two workers in the home. At the same time, the percentage of female-headed households has increased from 8% to 11% of all households.

What can be done to turn the tide on growing inequality? Advocates for family self-sufficiency will be asking the Minnesota legislature to support strategies that raise the standard of living for families on the bottom of the income scale, including:

- Guaranteeing all Minnesotans benefit from tax policies and rebates.
- Providing all workers with opportunities for education and training.
- Ensuring a support system is in place for welfare recipients who are working but unable to support their families.
- Supporting the work efforts of low- and moderate-income Minnesotans through resources for child care, transportation, and affordable housing.

For more information about income inequality, see www.mncn.org/bp/iicover.htm or contact the Minnesota Budget Project at (651) 642-1904 x30.

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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