

Minnesota Budget Bites

Budget & tax information in bite-sized pieces

January 2003

November Forecast Shows Rough Sailing Ahead

At the end of the 2002 Legislative Session in May, lawmakers had passed a budget plan that appeared to balance the budget for the 2002-03 biennium but left a \$1.65 billion shortfall for the 2004-05 biennium.¹ However, the November 2002 Forecast shows that the state's budget outlook has become considerably worse since the end of the Legislative Session.

The Minnesota Department of Finance prepares Economic Forecasts twice a year, in November and February. For the current biennium (2002-03), the November Forecast shows a deficit of \$356 million. This means that based on current law and economic projections, by June 30, 2003, revenues are expected to be \$356 million less than spending. The 2002-03 deficit represents about 2.5% of total FY 2003 general fund spending.

For the 2004-05 biennium, the Forecast shows an additional \$4.204 billion deficit, based on current law, economic projections, and adjustments for caseload and enrollment changes. The deficit represents approximately 14% of the state's total general fund budget for 2004-05. Unlike past forecasts, estimated spending is not adjusted for the impact of inflation. If inflation were included, the deficit would be \$1.1 billion larger, or \$5.3 billion.²

Forecast Describes Both Declines in Revenues and Increases in Spending

Revenues continue to be less than expected at the end of the 2002 Legislative Session (hereafter called *end-of-session estimates*³), largely due to shortfalls resulting from the weak stock market and the fact that the economy has not bounced back as quickly as expected. At the same time, total spending is higher than end-of-session estimates, although the growth in spending is much smaller than the drop in revenues. The combination of lower revenues and higher spending results in deficits in both the current and upcoming biennia.

For the 2002-03 biennium, revenues have dropped 2.2% below end-of-session estimates (see Table 1). The largest percentage declines are in the individual income tax, which is 6.5% lower than end-of-session estimates, and the corporate income tax, which is down 7.5%. The large drop in

Table 1: November 2002 Forecast vs. 2002 End-of-Session Estimates

	Revenues & Transfers		Expenditures	
	Change in \$	Percent Change	Change in \$	Percent Change
2002-03	-\$574 million	-2.2%	\$76 million	0.3%
2004-05	-\$1.63 billion	-5.7%	\$926 million	3.1%

income taxes is largely due to significantly lower returns on non-wage income. For example, capital gains realizations fell by 55% for tax year 2001 and are expected to drop another 16% for tax year 2002.

Projected spending for 2002-03 is 0.3% above end-of-session estimates. The majority of the growth is in the area of Health Care, reflecting higher than expected health care costs and increased caseloads in publicly-funded programs.⁴

A similar pattern is shown for the 2004-05 biennium. As shown in Table 1, revenues have dropped 5.7% below end-of-session estimates, while total spending has grown 3.1%. Again, the decline in revenues is largely due to reductions in individual income taxes, which are down 9.9% from end-of-session estimates, although declines are also expected in the sales tax, corporate income tax, motor vehicle sales tax, and the statewide property tax.

The largest percentage increase in 2004-05 is in Health Care. Health Care is up 10.1% from end-of-session estimates, while overall spending is 3.1% higher. In all areas, spending has only been adjusted for enrollment, caseload, and inflationary increases as allowed in current law. Estimated spending does not reflect the impact of inflation on personnel costs or government purchases.

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MFIP Families and Sanctions: A Call for Services

*Legal Services Advocacy Project recently released a report called **MFIP Families and Sanctions: A Call for Services**. The executive summary by Regina Wagner, Khanh Nguyen, Maureen O'Connell, and Barbara Collins, is printed in its entirety below. The views expressed are those of the authors.*

The Minnesota Family Investment Program (MFIP) is designed to support the work efforts of very low-income Minnesotans with children. Participants who fail, without good cause, to comply with MFIP work requirements may be sanctioned by county agencies, resulting in a reduction in their MFIP grant of 10%, 30%, or, in certain counties, 100%. Participants can be sanctioned for several reasons from missing a meeting with a job counselor to refusing to work. Sanctions can have a significant affect on many participants because the financial penalty creates an even more precarious financial condition for already impoverished families.

According to recent studies, sanctioned participants are among the most vulnerable participants who continue to struggle to exit Temporary Assistance to Needy Families (TANF) and attain self-sufficiency. Sanctioned participants tend to have one or more of the following characteristics: lower educational attainment, more months on TANF, lower economic outcomes, and more barriers to employment than non-sanctioned participants. These barriers to employment include chemical dependency, physical and mental health problems, domestic violence, child care, and transportation. In addition, sanctioned participants tend to be people of color. There is also evidence that sanctions affect not only the adult participant, but also other household members - including young children.

The Minnesota Department of Human Services (DHS) in a 2000 report found that MFIP participants who had been sanctioned have lower MFIP exit rates than participants who have never been sanctioned. Beyond this difference, DHS has found no significant differences between sanctioned participants and the overall MFIP caseload. To better understand how participants with sanction histories compare to non-sanctioned participants, LSAP analyzed administrative data provided by DHS for the December 2001 MFIP caseload.

The report found that:

- ❖ More than one-fourth of the participants on the December 2001 MFIP caseload had been sanctioned during 2001, indicating that sanctions affect a significant portion of the MFIP caseload. Most participants resolved their sanctions within three months.
- ❖ Disparities in sanction rates exist between the racial and ethnic groups on MFIP.

- ❖ Sanctioned participants differ from non-sanctioned participants in key areas that point to greater difficulties in exiting MFIP, including: lower earnings, inability to retain continuous employment, and more months of MFIP cash assistance used. These outcomes indicate that sanctioned participants are likely to have multiple barriers to employment.
- ❖ Sanction resolution and prevention strategies that emphasize early intervention and the use of specialized staff to assess a participant's barriers to both employment and compliance are showing positive results.

More than one-fourth of the participants on the December 2001 MFIP caseload were sanctioned during 2001.

While the MFIP sanction rate for December 2001 was moderately low (less than 10% of the participants were in sanction that month), the impact of sanctions on the MFIP caseload is much greater when the sanction histories of MFIP participants are analyzed for a 12-month period. Over one-fourth of the participants on the December 2001 caseload (26.8%) had been sanctioned at some point during 2001. Most sanctioned participants (80%) had only one sanction interval during 2001, indicating that being sanctioned was a one-time occurrence for these participants during 2001. Most participants (77%) resolved their sanction within three months. These findings are consistent with DHS's earlier studies of sanction rates (*see chart 1 on facing page*).

Disparities in sanction rates exist between the racial and ethnic groups.

County agencies sanctioned African Americans and American Indians at much higher rates than participants from other racial and ethnic groups (35.5% and 30.6% respectively). Asians (19.3%), Somali and Other Black Immigrants (14.5%), and Hmong (11.1%) had the lowest sanction rates during 2001. White and Hispanics had sanction rates that were about equal to the average for the caseload (26%). The finding that sanction rates vary between the racial and ethnic groups merits further study by DHS and county agencies. There may be many reasons why the rates vary for different groups. Higher rates of sanction for certain groups could reflect discrimination or other problems within the administration of the employment services component of MFIP. Higher rates could also reflect the existence of external discrimination, particularly within the employment setting. Conversely, lower sanction rates for certain groups could be the result of successful interactions between participants and employment services providers that could be studied and replicated for other groups.

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MFIP Families and Sanctions, continued

Sanctioned participants differed from non-sanctioned participants in key areas that point to greater difficulties in exiting MFIP.

Economic outcomes while on MFIP were lower for sanctioned participants than non-sanctioned participants, a finding consistent with national studies. Sanctioned participants worked, on average, the same number of months (five) as non-sanctioned participants while on MFIP. However, they earned, on average, almost 20% less per month (\$142) than non-sanctioned participants in the months that each worked. Because the number of months worked while on MFIP, on average, was almost identical for each group, it remains unclear whether the earnings difference is primarily the result of fewer hours worked, lower rates of pay, types of jobs worked, or a combination of these or other factors. In addition, a significantly lower percentage of sanctioned participants reported working in all 12 months during 2001 while on MFIP. DHS has previously determined that the ability to maintain continuous employment is a key indicator of success in exiting MFIP. Further analysis is needed to better understand the reasons for these differences. These lower economic outcomes indicate that sanctioned participants are likely to have employment barriers that must be identified and addressed. Finally, sanctioned participants used significantly more months of MFIP cash assistance than non-sanctioned participants (27 months versus 20 months). Studies have associated greater accumulation of TANF months with multiple barriers to finding and retaining employment.

Strategies for resolving and preventing sanctions show positive results.

County agencies, employment services providers, and nonprofit organizations are beginning to document that

participants who incur sanctions often have multiple barriers to employment. In response, they are beginning to pilot or implement sanction prevention and sanction resolution strategies to specifically reach and assist these participants. The common feature of sanction prevention and sanction resolution strategies is individualized focus on the participant's circumstances by someone whose stated mission is to help remove the sanction. The sanction intervention projects summarized in this report strongly emphasize early intervention and use of specialized staff with the ability to assess and address participant needs. These programs have demonstrated positive results in resolving or preventing sanctions and in assisting participants with making progress towards MFIP's work requirements. *The outcomes confirm that MFIP participants are willing to engage with MFIP work requirements when meaningful opportunities are presented and when supports are available to identify and address their underlying needs.*

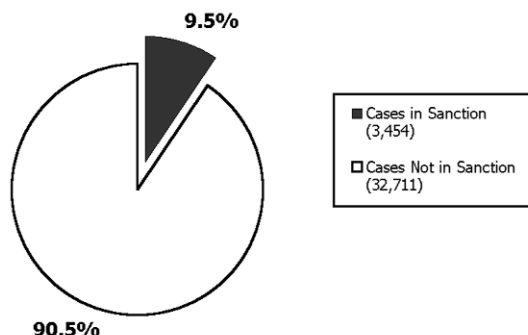
Conclusion and Recommendations:

This report shows that sanctioned participants differ significantly from non-sanctioned participants in key areas. Awareness that MFIP participants with sanction histories represent a significant segment of the caseload (26%) is essential to recognizing the importance of sanction prevention and resolution strategies. Growing evidence, nationally and locally, demonstrates that sanctioned participants have characteristics similar to other TANF/MFIP participants who have difficulties in exiting the program through employment. For these participants, sanctions alone, with their harsh financial penalties, may be unlikely to achieve increased program engagement and better economic outcomes. The data

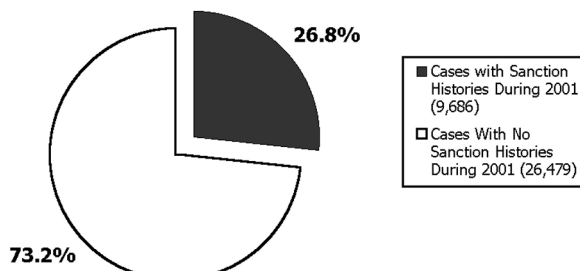
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Chart 1. Comparison of December 2001 Participants in Sanction to Participants with Sanction Histories

Percentage of the December 2001 Caseload in Sanction



Percentage of the December 2001 Caseload with Sanction Histories



Source: DHS Administrative data of MFIP adult eligible cases on the December 2001 caseload.

Research Reviews: Tax Cuts in Minnesota, Unemployment

Impact of Tax Cuts Described

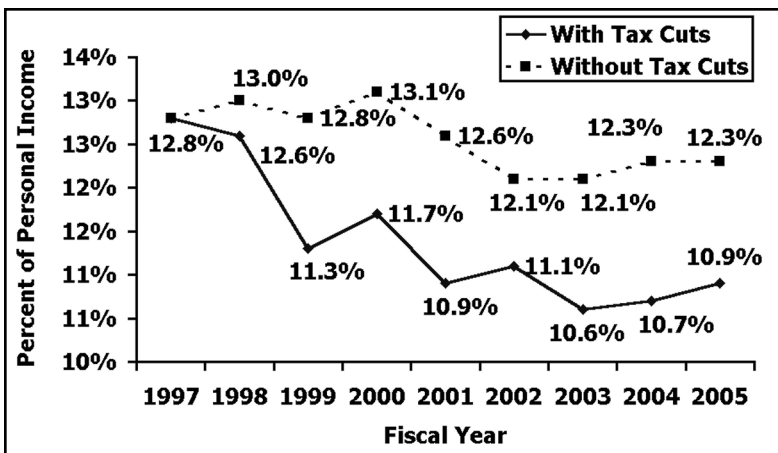
Tax Cuts and Rebates: The Fiscal Impact of Five Years of Tax Cuts provides helpful background information to Minnesota's budget debate by describing changes in the state's tax system from 1997 to 2001. This report was recently updated by the Minnesota House of Representatives Fiscal Analysis Department to reflect the November 2002 Forecast.

The report provides a cumulative total of the impact of tax cuts from 1997 to 2001. During this time, the state of Minnesota issued a total of \$3.7 billion in sales tax and property tax rebates. In addition, significant permanent reductions were made in the individual income tax, property tax, and the motor vehicle registration tax (commonly called "tabs"). The combined impact of permanent tax cuts is \$5.5 billion in FY 2004-05. In other words, Minnesota would have an additional \$5.5 billion in revenues in the 2004-05 biennium had these permanent tax cuts not been implemented. (Readers should not compare this \$5.5 billion in additional revenue to the \$4.2 billion deficit and conclude that there would be no deficit if tax cuts had not been made. What the state's fiscal situation would be in the absence of these cuts depends on how the resources that went to tax cuts would have been allocated instead.)

The House Fiscal Analysis report puts the size of these cuts into perspective. In actual dollar amounts, total taxes collected in FY 2005 will be 30% higher than in FY 1997. However, revenues in these two years are roughly equal when adjusted for population growth and inflation.

For individual Minnesotans, the total amount of tax dollars collected may not matter as much as the impact on their own tax burden. Graph 1 measures total state and local tax burden as a percentage of income and compares the tax burden with the tax cuts to what it would be had those cuts not taken place. It shows that while in FY 1997, Minnesotans paid an average of 12.8% of their incomes in total state and local taxes, that tax burden drops to 10.9% in FY 2005. In other words, Minnesotans are keeping in their pockets 2% of their incomes that used to go to support

Graph 1: Total State and Local Taxes as a Percent of Personal Income



state and local government.

Some taxes were cut significantly and others left relatively unchanged. In FY 2005, total state and local taxes are 12.1% lower than they otherwise would have been. Motor vehicle licenses taxes have been reduced the most - they are 26.8% lower, while property taxes are 24.2% lower and individual income taxes 11.7% lower. The sales tax, on the other hand, is 0.5% higher due to tax changes, and all other taxes are 1.3% higher.

The fact that not all taxes were reduced equally means that the mix of total state and local revenue sources has also changed. Property taxes (both state and local) are now a smaller piece of total taxes than they would otherwise be, while sales taxes are a larger portion.

Tax cuts also changed how much total tax revenue comes from state taxes and how much from local.

As shown in Table 1, state taxes make up a larger share of total taxes than they did in FY 1997, while the share coming from school taxes is half what it was. The share of local taxes is slightly larger.

Table 1: Share of Taxes by Type of Government

	FY 1997	FY 2005
State	69.6%	74.8%
Local	16.9%	18.4%
School	13.5%	6.8%

The tax cuts made from 1997 to 2001 clearly made significant changes to total tax burden, but also the relative shares coming from each tax and the mix of state and local taxes. Because of the significance of these changes, the report notes that in drawing conclusions about taxes today and those in the past, comparisons must be made using the entire state and local tax system, rather than any one level of taxation in isolation.

Tax Cuts and Rebates is available online at www.house.leg.state.mn.us/fiscal/files/02taxcuts.pdf.

Minnesota's Tax Gap Measured

A report with a name like *Minnesota Sales and Use Tax Gap Project: Final Report* might sound like the perfect cure for insomnia, but the findings of this report, prepared by American Economics Group (AEG) for the Minnesota Department of Revenue, may influence future decisions about Minnesota's tax system.

AEG estimates Minnesota's tax gap for sales and use taxes was about \$451 million in 2000, and will

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Forecast Summary, continued

These changes mean that the state will have a smaller Budget Reserve. The Forecast projects a \$24 million balance in the state's Budget Reserve at the end of the 2002-03 biennium, down from \$318 million in end-of-session estimates. For 2004-05, an additional \$79 million will be added to the Budget Reserve. The Budget Reserve is not automatically applied towards the deficit, but it is available to policymakers for that purpose.

The effects of the 2001 recession are still being felt, and Minnesota was hit harder than the nation as a whole. In October 2002, employment in Minnesota was down 2.0% from its peak in February 2001, while nationally employment was down 1.2%.

However, the Forecast is based on an economic model that expects strong growth through 2007, although growth in 2003 is less than predicted in the previous forecast (see Table 2). The growth rates in the Forecast are not as high as seen in the late 1990s, but are above those of the late 1980s and mid-1990s. In other words, the projected deficits already assume substantial economic growth. The economy would have to grow even faster than predicted in order for the Forecast scenario to improve.

Forecast May Be Too Optimistic

There are several areas of risk that may cause actual economic growth to be less than projected by the Forecast. The state's national economic consultants, Global Insight, assign a 55% probability that the scenario used to prepare the Forecast is correct, and a 30% probability for a more pessimistic scenario including a "double dip" recession. The chance for a slightly more optimistic scenario is set at 15%.

One significant unknown element is the U.S.'s relations with Iraq. Global Insight has followed the practice of most forecasters and has not incorporated hostilities in Iraq in their forecast scenario. However, the state's Council of Economic Advisors and the Minnesota Department of Finance note that an outbreak of hostilities would "almost certainly" mean lower economic growth and an additional shortfall in revenues.

Given the significant level of risk in the Forecast, the Council of Economic Advisors warns against assuming that future forecasts will show better results, and advise that creating a plan to rebuild the state's Budget Reserve should be part of the budget solution.

How is State Spending Growing?

The Forecast uses two different methods of comparison to

describe the projected 2004-05 budget. The first method compares November 2002 Forecast projections to estimates prepared at the end of the 2002 Legislative Session. The November Forecast shows a 3.1% increase in spending and a 5.7% drop in revenues in 2004-05 compared to end-of-session estimates. These changes reflect new information about the economy and its impact on enrollment, caseloads, and other formula or program changes currently in law.

The second method compares the 2004-05 projected budget to the current budget for 2002-03. Measured this way, the Forecast shows a 14.3% increase in spending in 2004-05 and a 6.6% increase in revenues. Growth in spending slows considerably in the next biennium, once policy changes contributing to distortions in 2004-05 are fully implemented. FY 2006-07 spending is projected to be only 4.1% more than 2004-05, or just over 2% growth each year of the biennium (not including inflation).

Decisions made in the 2001 and 2002 Legislative Sessions make it difficult to compare total spending in the 2004-05 biennium to the 2002-03 biennium. The two most significant "accounting issues" come in the area of Education Finance, the largest part of the state's general fund budget. They are:

- ❖ **Property tax and education finance reform.** In the 2001 Legislative Session, the state took over a significant portion of general education funding, which had previously been funded by local property taxes. \$1 billion of the increase in spending from 2002-03 to 2004-05 comes from the impact of this change.
- ❖ **Education aid payment shifts.** The 2002 Legislature chose to shift a portion of education aid payments from one fiscal year to the next as part of its budget solution. This means that education spending for the 2004-05 biennium is being compared to a 2002-03 figure in which FY 2003 spending is \$454 million lower than it otherwise would be.

Although they contribute to an apparent increase in Education Finance from 2002-03 to 2004-05, these two items do not represent new funding for schools, but instead are a shift in funding responsibility and a timing change. Removing the impact of these two items changes the growth in Education Finance from an apparent 19.8% to 6.3%. Overall expenditure growth drops from 14.3% to 9%, or about 4.5% growth in each year of the 2004-05 biennium.

State aids to units of government besides school districts

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Table 2: Real GDP Growth

	Feb '02 Forecast	Nov '02 Forecast
2002	1.0%	2.3%
2003	4.0%	2.6%
2004	3.9%	4.1%
2005	3.2%	3.8%

Forecast Summary, continued

also are affected by property tax reform. Intergovernmental aids are projected to increase 12.0% over 2002-03 levels. However, 80% of the growth is related to the 2001 property tax reform. In 2006-07, once property tax reform is fully implemented, intergovernmental aids are projected to be 3.3% above 2004-05 levels.

In areas where there is real growth in spending, it is important to determine what factors are leading to growth. Much attention has been focused on Health Care, which is expected to grow by 23% in 2004-05 and 16% in 2006-07. The Forecast notes several factors that contribute to projected growth in Health Care spending, including:

- ❖ Medical cost inflation
- ❖ Increased and higher cost caseloads
- ❖ Increased use of services among participants
- ❖ Availability of high cost medical technology

Increases are both a result of more persons meeting eligibility requirements and medical costs growing faster than inflation. Overall, Health Care spending is projected

to grow 10% annually between FY 2002 and FY 2007, with 4% projected annual growth in enrollments and 6% growth in cost per enrollee. Increases in Health Care costs are not limited to publicly funded programs. In 2002, private health insurance premiums increased an average of 12.7%.⁵

The majority of spending areas show little growth from 2002-03 to 2004-05. For example, Higher Education is projected to grow 3.7% over 2002-03 levels. About half of the growth reflects the ongoing impact of budget increases to the University of Minnesota and Minnesota State Colleges and Universities (MnSCU) between FY 2002 and FY 2003, the other half is due to growing enrollment. Some areas of spending will even be smaller than in the previous biennium, such as Economic and Workforce Development, which is projected to fall 10.3% below 2002-03 levels due to one-time spending not being continued in 2004-05.

Policymakers Must Act to Balance the Budget

The Forecast is an economic tool and does not reflect any policy proposals by the Governor or Legislature. Instead, the Forecast sets out the economic and budgetary context for decisions to be made in the 2003 Legislative Session.

Minnesota's constitution requires a balanced budget, so policymakers must adjust the state's budget for the current 2002-03 budget cycle. They also need to act quickly, since the 2003 fiscal year ends on June 30.

On January 14, Governor Pawlenty released his plan to address the 2002-03 budget deficit. It includes \$297 million in one-time savings made through financing certain construction projects with bonding rather than cash, spending down various fund balances, and delaying payments. An additional \$171 million in savings is made through permanent budget reductions. These include a \$50 million reduction in Higher Education, \$44 million in cuts to state agency operating budgets, and \$77 million in cuts to specific state agency grants and programs.

While the Legislature is working to make adjustments to the Governor's proposal and pass a budget-balancing plan, if the Legislature is unable to come to a budget-balancing agreement in a relatively short period of time, the Governor has authority to *unallot*,⁶ or reduce spending, to bring the 2002-03 budget into balance. The Governor can only unallot money out of funds with a deficit, so he has fewer choices available to him in the unallotment process than in the Legislative process. For this reason, if the Governor must unallot, he will have to implement a different set of choices than those he outlined in the budget-balancing plan he proposed to the Legislature.

The larger task for policymakers will be to pass the 2004-05 budget. The Governor will release his proposed budget

January Economic Update Shows Little Change From Forecast

In addition to the November and February Forecasts, the Department of Finance releases quarterly *Economic Updates*. These short documents report on the state's receipts of revenues and new information from national economic consultants Global Insight. The Economic Update is not an updated Forecast, but rather indicates whether revenues appear to be on track with the Forecast and hints at what changes to the economic model may be made in the next Forecast.

The January 2003 Economic Update reports that revenue collections in November and December of 2002 were \$55 million, or 2.4%, above what was projected in the November Forecast. The Update warns against reading too much into this increase - the difference could simply represent the timing of tax collections, rather than a real improvement in the economy.

Global Insight has made a few changes to their economic model since the preparation of the November Forecast. It now incorporates the impact of a short war with Iraq and a federal stimulus package. Global Insight predicts 2.8% GDP growth in FY 03, 4.4% in FY 04, and 3.9% in FY 05, compared to the November Forecast figures of 2.5% growth in FY 03, 3.5% in FY 04, and 4.1% in FY 05.

The February Forecast will give a better indication of the state's economic performance. At that time, data about sales tax collections from holiday shopping and end-of-the-year bonuses and performance pay will be available.

Forecast Summary, continued

proposal on February 18, which will need to address the \$4.2 billion 2004-05 deficit. Policymakers will also be provided with updated budget figures when the new Economic Forecast is released at the end of February. The Legislature will then work throughout the spring to pass the appropriations bills that will enact the 2004-05 budget. With a deficit of such size, tough choices are ahead. However, by using responsible fiscal decision-making, looking at the full range of options available, and considering the impact of their decisions of vulnerable Minnesotans, policy-makers can make budget-balancing decisions that put the state on the right track while not placing disproportionate burden on those who are hurting most from the economic downturn.

*Except where noted, all data in this article are from the Minnesota Department of Finance's **November 2002 Economic Forecast**, www.finance.state.mn.us/ffeu.*

Endnotes

1. Minnesota uses a two-year budget cycle called a biennium that covers two fiscal years. A fiscal year is from July 1 to June 30. For example, the 2003 fiscal year, abbreviated FY 2003 or FY 03, runs from July 1, 2002, to June 30, 2003.
2. See Minnesota House of Representatives Research Department, *Planning Estimate Inflation in State Budget Forecasts*, www.house.leg.state.mn.us/fiscal/files/ibinflate.pdf.
3. End-of-session estimates are prepared by Minnesota Department of Finance and legislative fiscal staff based on the February 2002 Forecast but updated for decisions made by the 2002 Legislature.
4. It is important to distinguish between **Health Care** and **Health and Human Services** as they are defined by the Forecast. Health Care is "state payments for direct health care services, such as hospital and physician visits, nursing home services, home care, and other medical and long-term care services" and includes the Medical Assistance program for the frail elderly, disabled, and low-income families, and General Assistance Medical Care. Health and Human Services includes cash welfare and food stamps (MFIP), child care assistance, prescription drug benefits, assisted living supports, child welfare grants to counties, adoption grants, operating funds for state residential treatment centers, operating funds for Veterans Nursing Homes, and public health grants to cities and counties.
5. Center on Budget and Policy Priorities, *Why Are States' Medicaid Expenditures Rising?*, www.cbpp.org/1-13-03health.htm.
6. See Minnesota House of Representatives Research Department, *Unallotment*, www.house.leg.state.mn.us/hrd/pubs/unallot.pdf.

Research Reviews, continued

grow to \$693 million in 2007. The tax gap is the difference between actual tax collections and those expected from a system of full compliance with state tax laws. The tax gap includes revenue lost because of underreporting by current taxpayers, non-filing, and the inability of the state to collect sales and use tax owed on e-commerce and catalog transactions.

The amount of uncollected revenue is expected to grow for three reasons: growth in e-commerce, growth in the state's economy as it recovers from the recession, and a small increase in noncompliance. Revenues lost from e-commerce are expected to become a larger part of the problem, making up only 15% of the total tax gap in 2000 but representing 39% of lost revenue in 2007. The report differs from previous efforts in that it suggests that revenues lost to e-commerce are less than previous estimates, although the lost revenue is still significant.

Minnesota Sales and Use Tax Gap Project: Final Report is available at www.taxes.state.mn.us/salestax/taxgap_full_1102%20.pdf

Research Review Update: Unemployment

The November 2002 issue of *Minnesota Budget Bites* reported on the expiration of the Temporary Emergency Unemployment Compensation (TEUC) program on December 28, 2002, leaving approximately 3 million unemployed workers in the U.S. without assistance. This program provided up to 13 weeks of federally-funded extended benefits to workers who had exhausted their state-provided unemployment insurance (UI) benefits.

In their **Fast Facts: Bush Signs UI Extension**, the JOBS NOW Coalition reports that federal legislation passed earlier this month helps some, but not all, unemployed workers. The legislation continues the TEUC program, and would help approximately 13,000 unemployed workers in Minnesota who were cut off from extended benefits on December 28th.

However, an additional 35,000 Minnesota workers exhausted both regular and extended benefits in 2002, and those workers who remain unable to find work will get no assistance under the extension.

JOBS NOW argues that funding should not be a barrier to providing benefits for those still out of work. More than \$24 billion is held in a federal Unemployment Insurance trust and could be used to pay for extensions.

Fact Facts: Bush Signs UI Extension is available at www.jobsnowcoalition.org/fastfacts.html.

MFIP Sanctions, continued

suggest that more focused services can help these families succeed. Being sanctioned should be an indicator that the participant may be encountering barriers to employment that have not been identified and addressed previously. If underlying barriers are not resolved, it is likely that many sanctioned participants will later be categorized as “long-term MFIP users” or “hard to employ.”

1. All county agencies should have in place sanction prevention and resolution strategies designed to ensure both engagement with employment services and more individualized focus on the participant’s circumstances.
2. The Legislature should require all county agencies to develop sanction prevention and resolution strategies prior to implementing a 100% sanction policy.
3. DHS should expand its analysis of sanctioned and non-sanctioned participants. In particular, DHS should examine in greater detail the employment outcomes of these two groups, including barriers to employment.
4. DHS should collect administrative data by county that provides an explanation of how each sanction was resolved.

5. Sanction rates should be analyzed at the county level for each racial and ethnic group. If disparities in sanction rates appear, affirmative steps to reduce and eliminate the disparities must be taken.
6. DHS and county agencies should identify practices in use by county staff and employment services providers, including the use of a participant’s language and culturally appropriate employment and training services, which may contribute to positive, or negative, sanction trends for each racial and ethnic group.
7. DHS and county agencies should provide further training to staff and employment services providers on the use of exemptions and good cause for noncompliance with MFIP work requirements.

MFIP Families and Sanctions: A Call for Services is at www.mnlegalservices.org/lsap/

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

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