

## **Mark Dayton's Revised Budget 9/21/10**

In the next two years, Minnesota faces a \$5.8 billion budget deficit. That figure represents \$1 out of every \$6 the state spends. We could lay off every state employee and close all public colleges and universities for two years and it still wouldn't eliminate the deficit. It's a problem of historic size and scope.

There are no easy answers. But there are better answers, and worse answers.

Mark Dayton's budget solution will protect the middle class, while creating new jobs and investing in excellence in education. He will balance the state budget by making cuts where necessary, closing tax loopholes, and asking the richest Minnesotans to pay a little more. No one feels rich in this economy, but we can't ask the middle class to pay more taxes, and so while it's not easy we need to ask those doing the best to do a little more.

We simply cannot ask middle-class working families to pay more taxes in these tough times. Many families are already at their breaking point. Higher property taxes caused by cuts to local governments, or higher sales taxes on items like clothing or car repairs will hit the middle class and small businesses hard.

Mark has a record of being a tough watchdog of the taxpayer's dollar, and that's what he'll do as Governor. As State Auditor, the Star Tribune said Mark "won praise as an aggressive watchdog over taxpayers' dollars," and worked to ferret out misuse of public funds. He will do this again as Governor by cutting waste and abuse.

### **I. Tax Fairness**

1. Add a 4<sup>th</sup> Income Tax Bracket of 10.95% on taxable income above \$130,000/year for individuals and above \$150,000/year for married couples, filing jointly. Raises an additional \$1.899 billion for the biennium, according to the Department of Revenue.
2. Add a third Property Tax bracket of 2% on the value of homes over \$1 million. Raises an additional \$95.4 million for the biennium, according to the Department of Revenue.
3. Eliminate the "Snowbird" tax loophole that allows people to live outside Minnesota for six months and one day of the year, and pay no personal income taxes in this state. Raises estimated revenues of \$500 million for the biennium (not available from the Department of Revenue).
4. Increase Enforcement to Crack Down on Tax Evaders raises (net) \$339.9 million in additional biennial revenues.

(Note: The MN Legislative Auditor states that "Taxpayers are underreporting their tax liabilities by an estimated \$1 billion annually." The MN Department of Revenue's Compliance Division spent \$20.2 million in the 2008/9 biennium to collect an additional

\$133.7 million in tax payments, for a Return on Expenditure of 6.6. Absurdly, their budget for the current biennium was slashed to \$10.4 million!

Goal would be to increase compliance staff to recover \$400 million [20% of the uncollected money owed in the next biennium]; more in subsequent biennia. \$400 million - \$60.6 million cost of collection ( $\$400 \text{ million} / 6.6 = \$339.9 \text{ million}$ )

## **Revenues from Restoring "Tax Fairness": \$2.834 billion**

### **II. Additional Sources of Revenue**

1. Adopt a Corporate Throwback Rule. 25 states of the 45 with corporate income taxes have a throwback rule for corporations that sell their products in more than one state. Such a rule would produce revenues of \$39.7 million for the next biennium, according to the MN Department of Revenue's 2010 Tax Expenditure Report.
2. Elimination of MN Subtractions for Foreign Operating Companies & Royalties. Estimated additional revenues for the next biennium would be \$276.1 million.
3. Tax on Predatory Credit Card Companies. In 2009, the Minnesota House passed a bill that would have taxed credit card companies on profits they received when charging interest rates in excess of 15%. The measure would generate \$212.7 million in the FY12-13 biennium, according to House and Senate Fiscal Analysts.
4. Possible addition of one state-owned and operated casino at or near the Mall of America or at the MSP airport. In 2003, the authors of similar legislation estimated revenues to the state at \$300 million for the biennium.

(Staff Fiscal Note: Kansas is cashing in on a one-time payment of \$80 million for the casino operators to gain exclusive rights to operate the day-to-day operations of the casino. It's an upfront payment, so it's one-time money, but it would be part of the FY12-13 biennium. That can be used, at a minimum, to boost the estimate by \$50 - \$80 million as a conservative estimate.

The Minnesota Department of Revenue estimated in 2003 that each slot machine in a state-owned casino would generate about \$232 in net revenues per day. If you adjust for inflation, moving from 2010 dollars, that ramps up to \$274 per slot machine per day in net revenues. Mystic Lake has 4,000 slot machines, and if the state-run casino were a similar size, that's a total revenue stream of \$400 million. Taxes on state casinos are expected to be 25% to 35% of the total revenue stream. So using their calculation, that would compute out to be \$200 to \$280 million in state tax revenues. If you tack on \$50 - \$80 million on top of that, you're looking at a range of \$250 million at the lower end and \$360 million at the upper end.)

## **Revenues from "Additional Sources": \$828.5 million**

### **III. Cut Spending**

1. Re-negotiate leases for overpriced state office buildings. Market values have plummeted, so the state should renegotiate its rented office space, per a recent KSTP investigative report. A 10% reduction in lease costs would save \$12 million of the \$120 million in office space leases.
2. End Expensive Leasing of Office Space for Storage. Similarly, state agencies spend thousands of dollars a year, using expensive office space for storage purposes. One state agency pays \$21,000 a year for offices that are solely used as storage. To compound matters, more affordable storage options exists throughout the area. In St. Paul, the State pays \$9 per square foot for storage space. In Rochester, Minnesota taxpayers foot for \$21 dollars a square foot. Estimated savings: \$2 million for the biennium.
3. Reduce Private Contracting. State agencies spent over \$850 million on outsourced professional and technical services during the 2008-09 biennium. Cutting this outsourcing in half would thus save \$425 million.
4. MAPE estimates that its proposal to limit agency supervisory/managerial personnel to no more than 15% of state agencies' general workforce would save \$110 million in the biennium. Removing Gov. Pawlenty's political larding of the highest-paid agency positions will save additional monies.
5. Eliminate the MN Trade Office. Since I am not running for President, I will not need a Trade Office to support my international trade junkets, aimed at improving my presidential "gravitas." Appropriate hosting of international trade delegations will be handled through the Governor's Office, which is where state businesses can also derive the maximum benefit of state government support of their trade initiatives. Biennial savings: \$3 million.
6. Require the MN Department of Commerce's Market Assurance Program, which regulates the insurance, real estate, and securities industries to be entirely funded by those industries. (Currently, \$11.9 million of the 2010-11 biennial budget of \$26.7 million comes from the General Fund.) Savings: \$11.9 million.
7. Reduce and Reform Excessive K-12 Education Testing. Currently the MN Department of Education administers 61 standardized tests on Minnesota's schoolchildren. I will charge my Commissioner of Education and the 2011 MN Legislature with reviewing and eliminating excessive and non-productive student testing. Est. Savings: \$ 8 million. Est. Savings of Student and Teacher anguish: "Priceless"!
8. Reform Charter School Lease Aid Program to eliminate Star Tribune documented abuses. Est. Savings \$20 million (out of biennial cost of \$85 million).

9. Adopt and Implement Education Minnesota Health Insurance Pool Bill. This legislation, which would pool MN School Districts' health insurance purchasing to reduce their insurance costs, (and provide their employees with better coverage) was vetoed twice by Gov. Pawlenty. The legislative author estimates such a plan would save \$88 million for the FY12-13 biennium.

10. Coordinate Purchasing to Lower Costs. Minnesota's procurement process needs to be streamlined and re-tooled in order to maximize savings. Currently, the bid process is not transparent, and often the state does not award the contract to the lowest bidder. Other states are using tools like coordinated purchasing pools with all levels of government to save substantial amounts of money. Minnesota could readily save an estimated \$100 million in the biennium with collaborative purchasing pools and competitive bid reform.

11. Establish a Voluntary Framework for Regional School Transportation. Many school districts maintain not only their own school bus fleet but also their own fueling depot, maintenance depot, and repair personnel. For some districts that flexibility is important and should be maintained. Others could save money by developing shared school transportation plans with nearby districts.

Moreover, a 2008 Legislative Auditor report found that many school districts who provide their transportation through contracted services do not follow "best practices." Those overpriced contracts should be re-negotiated. According to the Minnesota Department of Education, districts spent \$960 million for school transportation in the last two years. Streamlining school transportation could produce a 5% savings, cutting spending by \$48 million for the biennium.

12. Administrative Efficiencies at MnSCU

Currently, 302 MnSCU employees - mostly administrators - receive higher salaries than the Governor. The highest paid employees in MnSCU should receive a modest 5% pay cut - the same amount cut from the systems overall - during this fiscal crisis. That would reduce state spending by \$10 million for the biennium.

13. Reduce Health Care Bureaucracy and Eliminate Excessive Paperwork

On average, health care providers deal with twelve different insurance providers per day. Minnesota should mandate a uniform administrative process to reduce costs for providers and paperwork for patients. The American Medical Association, American Hospitals Association, Service Employees International Union, Advanced Medical Technology Association, America's Health Insurance Plans, and Pharmaceutical Research and Manufacturers of America all agree: this is a common sense solution that will be good for care while saving taxpayer funds.

This administrative simplification could save the state \$81.6 million for the FY12-13 biennium.

Estimated savings for the biennium: \$81.6 million.

#### 14. Reduce Bureaucracy and Prevent Unnecessary Hospitalization with Electronic Health Management

Minnesota took a major step forward in 2008 by implementing the foundation for using technology to drive down costs while reducing the number of adverse drug events caused by uncoordinated medication prescriptions. Blue Cross/Blue Shield and others are already saving money by using innovative online technologies to link up top-notch doctors with patients in sparsely populated areas. Moving in this direction will help the state keep down costs while providing better, more flexible care to all Minnesotans.

Governor Pawlenty estimated savings of \$5 million per year (\$10 million for the biennium) simply by using E-prescribing for state employees. By reducing Adverse Drug Events by just 15% in the first two years while also providing more electronic options for health care service delivery would produce estimated savings of \$57.3 million over two years.

#### 15. Using Technology and Continuity of Care to Reduce Costs and Improve Care

Many elderly & disabled Minnesotans could receive better care, in non-institutional settings, at reduced costs. In particular, Minnesota should leverage technology including home-based monitoring systems to ensure that Seniors have the flexibility to live at home while knowing that they will be cared for immediately in the case of a health emergency. Additionally, data clearly shows that the quality of health care improves and costs are reduced when patients work with the same Case Manager over a long period of time. Reducing turnover among case managers should be a key priority.

Projected state funding for Medical Assistance for both Elderly & Disabled Care and for Long-Term Care Waivers totals \$5.59 billion for the biennium. Deloitte has estimated that home-based care management programs alone can create a savings of 20% over the long-term. 3% savings in those two areas would reduce state spending by \$167.7 million while providing better and more flexible care.

16. Elimination of JOBZ Subtractions & Credits. Would save \$68.9 million in tax expenditures in the next biennium. (Tax Expenditure Budget 2010).

**TOTAL SPENDING CUTS: \$1.213 Billion**

**TOTAL REVENUE INCREASES & SPENDING CUTS: \$4.876 Billion**

**FORECAST DEFICIT:**

**\$5.766 Billion**

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