



Budget for a Better Minnesota

Governor Mark Dayton's FY 2014-15 Budget Recommendations

Our Priorities

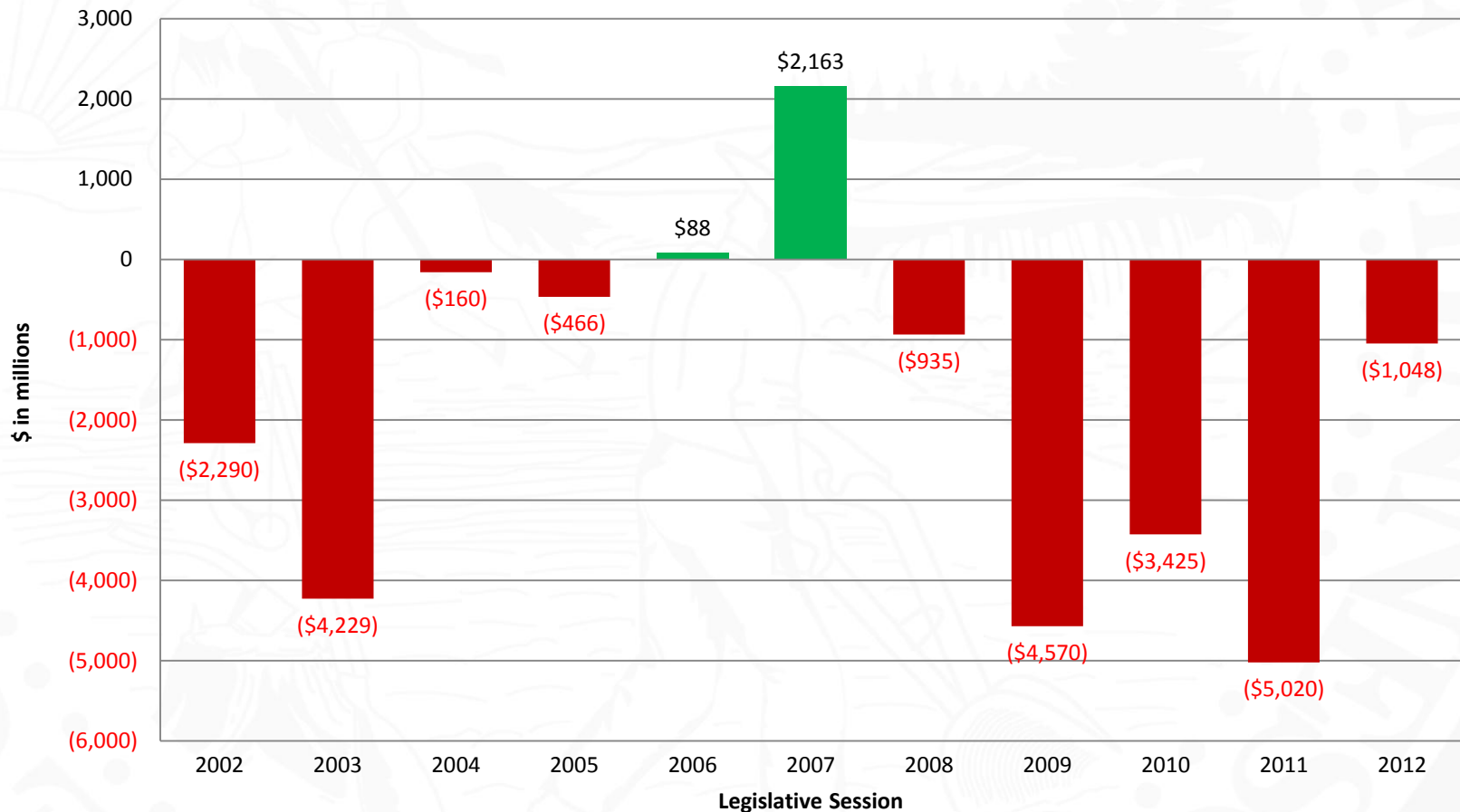
- **A growing economy that creates jobs and expands the middle class**
- **A tax system that is fair for all Minnesotans**
- **Public services that give Minnesotans the best value for their dollar**



How did we get here?

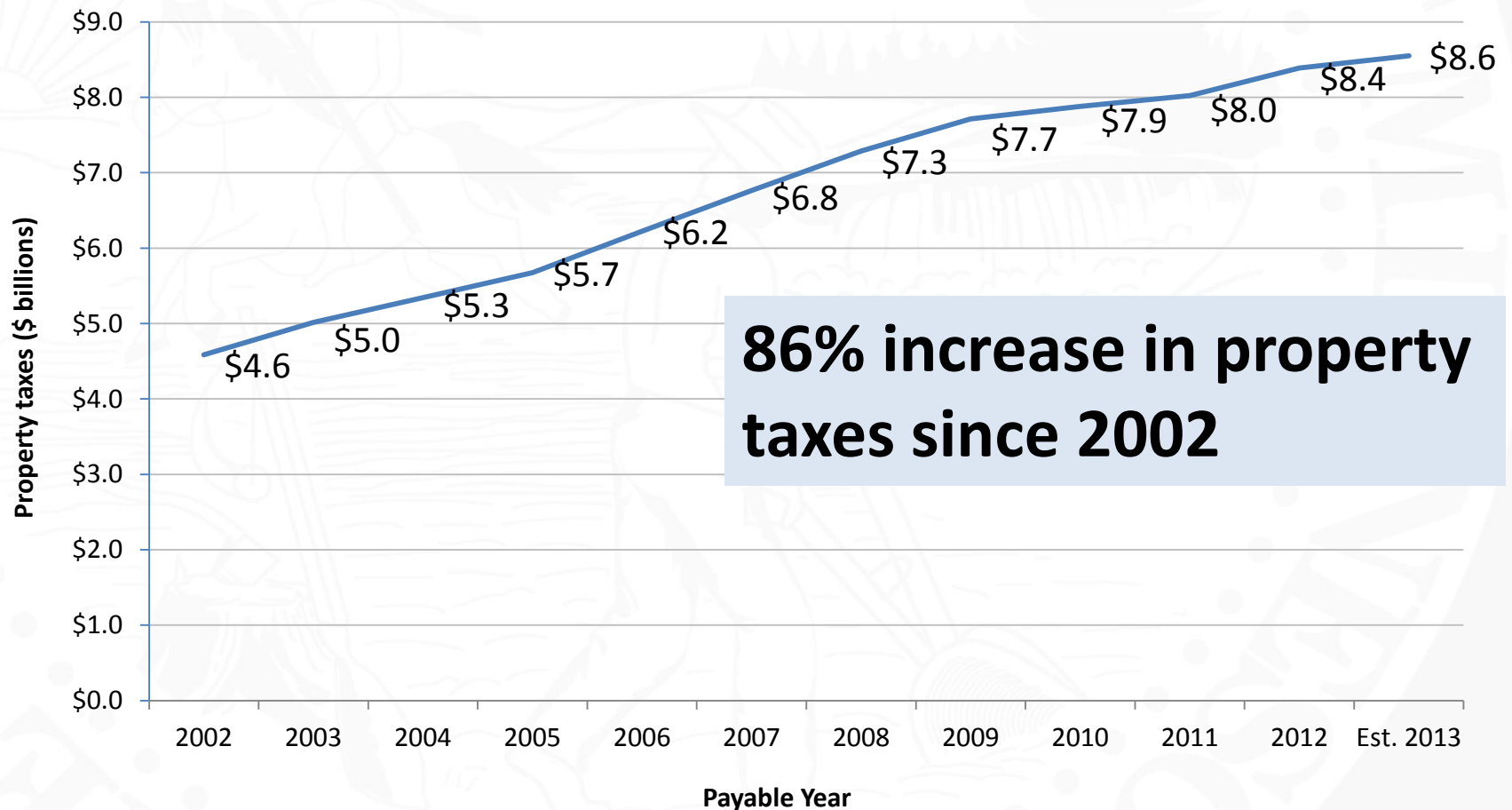
One-Time “Fixes” Lead to Chronic Deficits

Projected General Fund Budget Deficits by Legislative Session



Historic Property Tax Increases

Minnesota State and Local Property Taxes





Where do we go from here?

Budget for a Better Minnesota

Honest – A balanced budget with no one-time fixes, borrowing or gimmicks

Invest – In early learning, education and job creation

Fair – Everyone pays their fair share

Reform – A fair, modern tax system and public services that give Minnesotans the best value for their dollar

Sustainable – Settles our debt with schools and positions Minnesota for long-term economic prosperity



What are we buying?

Budget for a Better Minnesota

Children ready for school

Every student graduates

Affordable college

A competitive workforce

**A growing economy that
creates jobs**



Better Government for a Better Minnesota

\$5.1 Billion in Cost Savings and Reductions Over 4 Years

Cost Savings and Reductions – FY 2012-13

- \$2 billion of budget cuts in the 2011 session
- \$1 billion of additional budget savings in subsequent forecasts (all that and more used to pay back schools)
- \$1 billion in cost inflation absorbed by state agencies

Cost Savings and Reductions – FY 2014-15

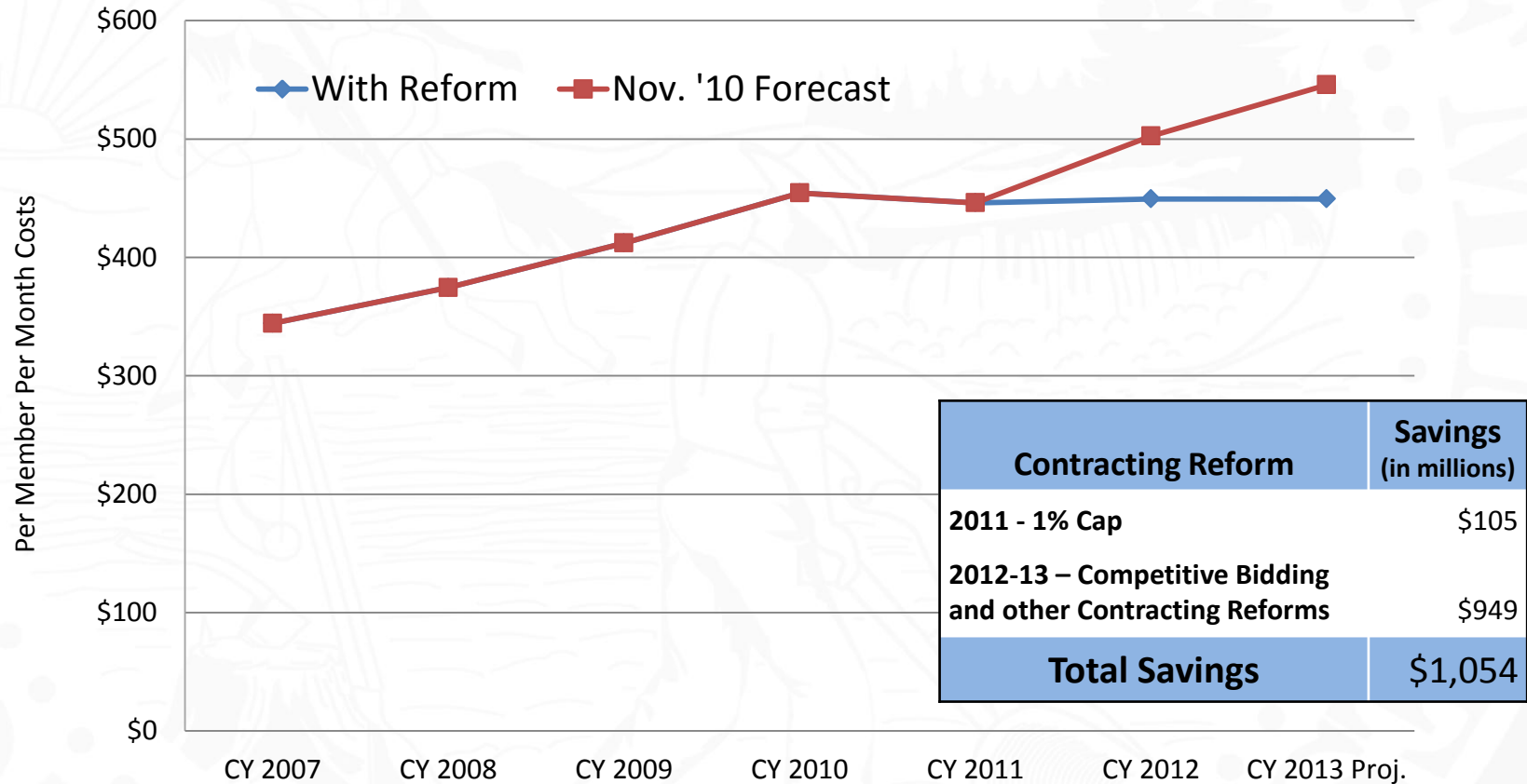
- \$225 million of reductions and reallocations in the proposed budget
- \$890 million in cost inflation absorbed by state agencies

Leaner Government

- Save on contracting and simplify permitting, licensing and tax filing
- Incentives to control costs

Bending the Cost Curve—One Example

Reforming Our Health Care Contracting Saved Over \$1 Billion





How are we paying for this?

A Fair and Balanced Tax System

- **Reduce property taxes**
- **Top 2% pay their fair share**
- **Update and stabilize sales taxes**
- **Level the playing field for business**

Property Tax Relief 2014

- Property tax rebate up to \$500 to all homeowners
- Two-year freeze on rate inflation for the statewide business property tax and permanent relief
- Increase local government aid \$80 million a year (19%)
- Increase county program aid \$40 million a year (24%)
- Effect: Reduce state and local property taxes by 9.7%

Top 2% Pay Their Fair Share 2013

New 2% rate increase only for taxable income above:

- \$250,000 married filing joint
- \$200,000 head of household
- \$150,000 single

Largest Reduction in Sales Tax Rate Ever 2014

- 20% sales tax reduction for everyone, dropping the state rate to 5.5%
- Our sales tax rate drops from 7th- to 27th-highest among states
- A modern tax code for the 21st century – new lower sales tax rate applies to:
 - Minnesota e-fairness sales, digital products
 - Selected goods and consumer services, including clothing (items over \$100)
 - Business services such as legal, accounting, specialized design and business support services
- Stabilize and balance revenues for the long term

Largest Reduction of Corporate Tax Rate in 26 Years 2013

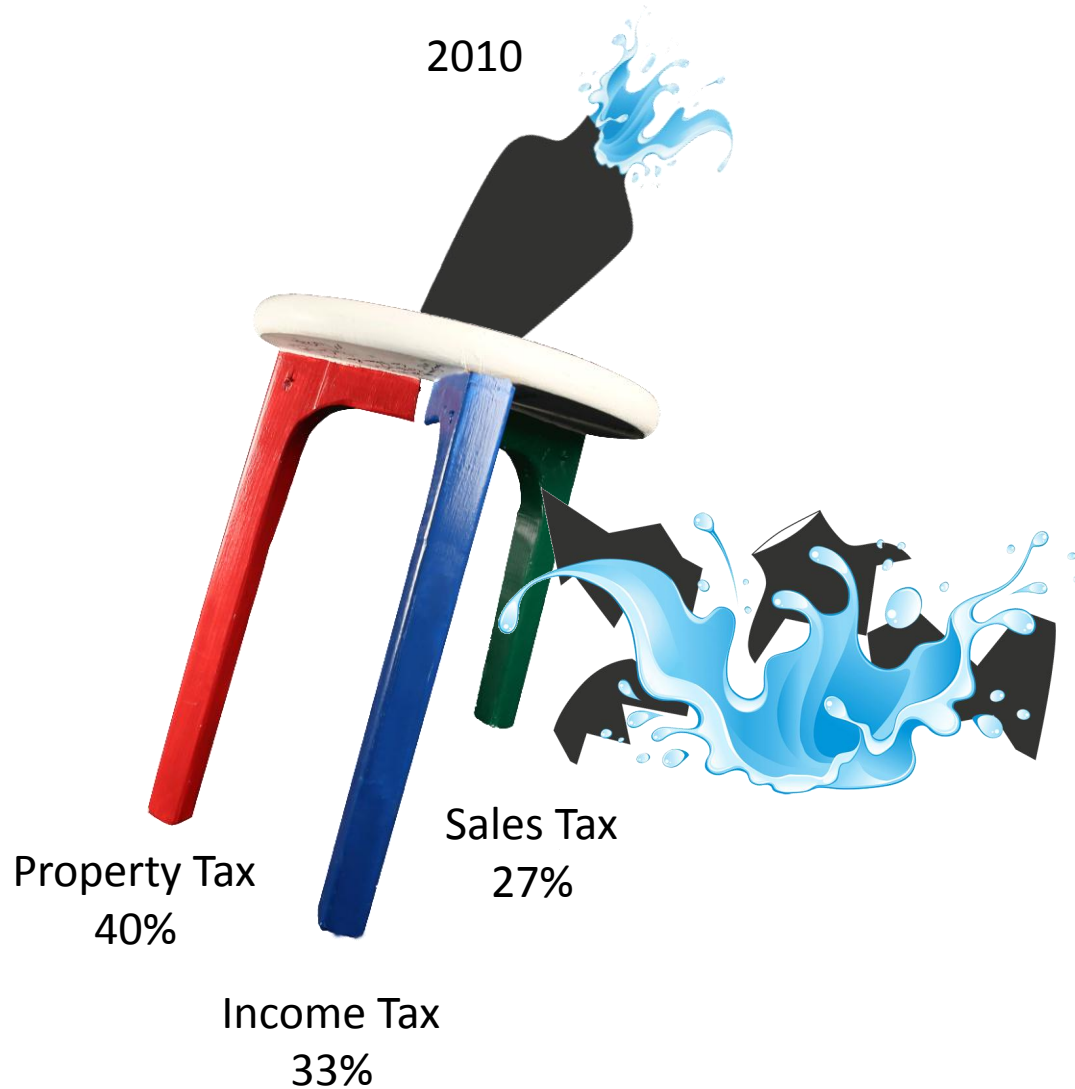
- Reduces corporate tax rate by 14% (from 9.8% to 8.4%)
- Eliminates tax breaks such as FOCs and foreign royalty subtraction for some businesses to lower the rate for **all** businesses
- Our corporate tax rate drops from 4th- to 12th-highest among states

A Fair Package

FY 2014-15

Individual Income Tax	\$ 1.129 billion
Sales Tax	\$ 2.083
Corporate Income Tax	\$ 0.004
Property Tax Relief	\$ (1.464)
Cigarette & Tobacco Taxes	\$ 0.370
<u>Other</u>	<u>\$ 0.017</u>
Total	\$ 2.139 billion

A Balanced Three-Legged Stool



A Fair Tax System for All Minnesotans

FY 2014-15



Married, 2 kids
Washington County

- Household income: \$306,000
- MN taxable income: \$250,000
- **Increase in income tax: \$0**
- Home value: \$534,500
- **Property tax rebate: \$500**
- **Additional sales tax: \$0**



Married
Beltrami County

- Household income: \$56,954
- **Increase in income tax: \$0**
- Home value: \$133,000
- **Property tax rebate: \$500**
- **Additional sales tax: \$0**



Minnesota corporation
\$1 million taxable income

- Current tax: \$98,000
- New tax: \$84,000
- **Tax savings: \$14,000 (14%)**



How does it add up?

Governor Dayton's FY 2014-15 Budget

Addresses \$1.1 Billion Deficit

General Fund (\$ in millions)	November Forecast	Governor's Proposals	Governor's Budget
Beginning Balance	\$1,011	-0-	\$1,011
Revenues	35,793	2,127	37,920
Expenditures	36,861	1,031	37,892
Reserves	<u>1,033</u>	<u>-0-</u>	<u>1,033</u>
Budget Balance	\$(1,090)	\$1,096	\$6

Governor Dayton's FY 2014-15 Budget

Repays Our Schools and Restores Structural Balance

(\$ in millions)	FY 2014	FY 2015	FY 2016	FY 2017
Long-Term Structural Gap:				
November Forecast	\$(815)	\$(258)	\$29	\$234
Governor's Budget:				
Revenues	18,218	19,702	20,644	21,431
Spending	18,504	19,388	20,169	20,491
<i>School Shift Repayment</i>			481	771
Governor's Budget Plan	\$(286)	\$314	\$(6)	\$169



**The first word,
but not the
final word on
the budget.**



www.mn.gov/governor/budget