



Testimony
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The Minnesota Budget Project is an initiative of the Minnesota Council of Nonprofits. We provide research and analysis on budget and tax issues, with particular emphasis on their impact on low- and moderate-income people.

In January, we released a set of principles to guide fiscal decision-making in response to the deficit. These are:

1. The state's budget-balancing decisions should not make the recession worse for those Minnesotans least able to weather the downturn, including low-income families, laid-off workers, and other vulnerable populations.
2. The state should use a combination of the three primary budget-balancing tools available: raising revenue, using reserves, and cutting spending.
3. Budget balancing should be informed by past budget decisions, including how surpluses were divided between tax cuts and new spending, who benefited from recent tax cuts, and how certain programs were underfunded even in times of surplus.

Between the two plans before us, the Senate Phase 2 proposal is more in tune with the fiscal principles we have suggested. However, we believe that you can improve on the plans as they currently exist and reach a budget solution that does not disproportionately affect vulnerable Minnesotans.

The task in Phase 2 is to bring the budget back into balance without making the recession worse for those Minnesotans least able to weather the downturn. In Phase 1, the use of reserves and other one-time revenues in the current biennium lessens the blow from the expenditure cuts, but the impact of those cuts will be serious, and it is not yet clear what impact the large reductions in state government will have for the provision of services. Given that the cuts for 2004-05 are larger but even less well-defined, we cannot say at this point whether the goals of not harming low-income and other vulnerable populations will be achieved in the next biennium. There should be no additional spending cuts in Phase 2.

Unfortunately, the House Phase 2 plan makes deep cuts in safety net programs for the most vulnerable Minnesotans, including the disabled, welfare recipients, and children without health insurance. It clearly violates the principle that state budget-balancing decisions should not increase the burden on vulnerable Minnesotans.

We have called on decision-makers throughout the session to make use of all three budget-balancing tools available. The Phase 1 plan passed by the Legislature made use of reserves and expenditure cuts. The Senate Plan takes a positive step by also using revenues to address the deficit and by providing resources to start rebuilding the reserves.

However, not making the recession worse for vulnerable Minnesotans also means paying attention to tax fairness. Historically, we have seen that most states increase their regressive taxes during hard times and then cut their progressive taxes in times of surplus, which makes their tax systems more regressive over time. A large portion of the revenue raised under the Senate plan comes from cigarette and tobacco taxes, which will hit low-income taxpayers the

hardest. We recognize the positive health impacts of an increase in cigarette taxes. However, we think the Senate's tax proposal could be improved, with closer attention being paid to tax fairness. Possible improvements include combining the cigarette tax increase with an expansion of one of the state's existing refundable tax credits for low-income taxpayers, such as the Working Family Credit, or by combining a smaller increase in the cigarette tax with an progressive option, such as an income tax surcharge, that could raise needed revenue without disproportionately burdening low-income taxpayers.

A third principle we have endorsed is that budget-balancing decisions should be informed by past budget decisions. Looking at what we've done in the past further strengthens the idea that revenue increases must be part of the deficit solution. In the past five legislative sessions, 53% of the surpluses went to tax cuts and tax rebates, and 15% were devoted to the reserves and tobacco endowments. Only 27% went towards improving or expanding state services. At the same time that we were cutting taxes, Minnesota benefited from strong growth in personal income. The percentage of income that Minnesotans pay for government, as measured by the Price of Government, is lower now than in most of the 1990s.

There is no question that difficult choices are ahead. However, by looking at the full range of options available, and considering the impact on vulnerable Minnesotans, this legislature has a clear opportunity to put the state on the right track while not increasing the recession's burden on those who are hurting most.