

# Duluth News Tribune

## **Fantasy budget bad for taxpayers**

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*Duluth News Tribune - 05/04/2007*

For several months, Minnesotans have been hearing about a \$2 billion state budget surplus. Some mathematically challenged legislators have even claimed that there is a \$3 billion surplus. In fact, these large surplus projections are fabrications borne of state mandated accounting gimmicks.

The state arrives at a \$2 billion surplus by taking inflation into account when they project state revenues but ignoring inflation in state expenditures. That's a lot like the family breadwinner counting on a raise while at the same time pretending that the cost of everything that the family buys — from bread to gasoline — won't increase.

If we forecast responsibly by taking into account inflation in the price of government purchases (as Minnesota used to do prior to 2002), state spending over the next two years will exceed the amount of revenue generated over the same period by about \$200 million.

The practical implications of ignoring inflation on the spending side of the state ledger are serious. After adjusting for inflation in the price of government purchases, the amount of state spending for each man, woman and child in Minnesota has declined by 6 percent over the last four years. Based on projections from the Minnesota Department of Finance, state spending per person will decline by another four percent over the next two years after adjusting for inflation.

The decline in real state spending explains a lot of what is going on in Minnesota. Since 2002, property taxes statewide have increased much faster than the rate of inflation. The growth in property taxes is the result of cuts in state aid to local governments.

For example, after adjusting for inflation, the average amount of state aid provided to each student enrolled in a Minnesota public school has declined by 11 percent since 2003. This comes to nearly \$1,000 per kid in lost state aid. This being the case, it's no wonder that school property taxes have shot up at the same time that the dollars to fund our public schools have declined.

Over the same period, inflation-adjusted state aid to Minnesota counties, cities and towns has declined by 20 percent, while the state population has grown by 4 percent. The combination of reduced state aid and growing populations has caused local governments, and my fellow county officials, to cut funding for public safety, road improvements, parks and libraries at the same time that they are increasing property taxes.

The presence of a phony surplus — the result of willfully ignoring the effects of inflation — creates the illusion that we have enough money to fund public services. However, while the state can choose to ignore inflation, inflation will not ignore the state budget. Ultimately, the state does not have the money to maintain a constant level of services. Anti-tax politicians use the presence of the phony surplus to argue that a tax increase is unnecessary; these same politicians make up for the lack of revenue by reducing the amount of money that the state shares with local governments. The net result: increased property taxes and reduced funding for schools and local services.

The solution to this problem is honest budgeting. State leaders should have to either (1) increase taxes or (2) acknowledge which government services they plan to cut in response to the revenue shortfall, and why. The shell game whereby state leaders hide behind a fake surplus while sticking it to local property taxpayers must end.

The Minnesota Senate has approved legislation that will restore reality to the state's budget forecast by requiring the state to take into account the effects of inflation on state expenditures — a move supported by officials in the Minnesota Department of Finance and the state's Council of Economic Advisors.

The governor and the House should follow the Senate's lead on this immediately.

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