



Governor's Budget Makes Little Progress on Narrowing Disparities, Improving Budget Process

Governor Pawlenty released his FY 2008-09 budget proposal on January 22, and many Minnesotans are likely to feel left out. The Minnesota Budget Project, an initiative of the Minnesota Council of Nonprofits, has taken a look at the initiatives highlighted in the Governor's budget, and finds the Governor's budget is largely disappointing in terms of:

- Narrowing disparities between those who are well off and those who are struggling to make ends meet.
- Reforming the state's budget process.
- Improving state's tax system in terms of fairness and adequacy.

Narrowing Disparities

Addressing the disparities between those Minnesotans who are doing well and those who are struggling is not a strong priority in the Governor's budget. While some specific initiatives designed to help struggling families may emerge as the details of the Governor's budget are reviewed, few of these were highlighted in the Governor's press conference or executive summary.

A particularly disappointing example is the Governor's proposal to provide funding for counties to offset lost federal dollars for child welfare, mental health, and other services for vulnerable adults. This worthy proposal is funded not through the state's general fund, but by redirecting federal welfare-to-work dollars — dollars meant to help struggling families reach self-sufficiency.

Reforming the State's Budget Process

The Governor's budget takes a step forward in adding to the state's budget reserves and setting an overall goal to increase the budget reserves over time to 5% of annual spending. However, the state's Council of Economic Advisors has consistently recommended reserves of 5% of biennial spending.

The Governor's budget also does not include a proposal to include the impact of inflation on spending in the state's Economic Forecasts, as was done prior to 2002. Including the impact of inflation in the Forecast helps decision-makers and the public understand whether fiscal decisions are sustainable.

Improving the State's Tax System

The Minnesota Budget Project has looked at the Governor's tax proposals in terms of their impact on tax fairness and whether the overall level of revenues will be adequate to fund the state's priorities.

Only one of the Governor's tax initiatives — an increase in the Property Tax Refund for homeowners — is targeted based on the taxpayer's ability to pay. Further analysis will be needed to understand the impact of the Governor's overall tax package on tax fairness.

The state's November Forecast projects a \$2.2 billion surplus in the 2008-09 biennium. However, just over \$1 billion is one-time dollars and the remainder is roughly enough to cover the costs of inflation for the state's current level of services. To the extent the Governor's budget includes tax cuts, the resulting loss of revenues will make it difficult to move forward on other priorities.

The Minnesota Budget Project will provide additional analysis in the days ahead of the impact of the Governor's budget on struggling families, children and youth, and other vulnerable populations.