



Senate Finance Committee
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The Minnesota Budget Project is an initiative of the Minnesota Council of Nonprofits. We provide independent research, analysis and advocacy on budget and tax issues, with particular attention to the impact that fiscal decisions have on low- and moderate-income Minnesotans.

While that is our mission, we also understand that it's not just important *what* decisions are made here at the legislature, but also *how* those decisions are made.

We believe many of the bills being presented as part of this reform package are important steps in the right direction. These proposals are about insuring good financial information is available for policymakers...and for the public.

Over the last couple of years we have been advocating for a Better Budget Process here in Minnesota, which includes:

1. Responsible fiscal management.
2. Clear lines of accountability.
3. Flexibility to respond to short-term challenges and plan for a long-term vision.
4. Good financial information.
5. Stability in the decision-making process.

We strongly believe that a good decision-making process depends on a well-informed debate which requires good information and ample public participation.

SF 3128

We strongly support SF 3128, which would restore inflation in calculating expenditures in the state's forecast. These forecasts are an essential tool for understanding the state's fiscal health – they should be complete and give an accurate picture of how sustainable our current budget choices are.

Unfortunately, the debate over whether or not to restore inflation often gets muddled by the suggestion that forecasting inflation is the same thing as budgeting for inflation. We think it is very important to distinguish between *providing information* about the cost of maintaining the state's current service levels and *making budget choices* about whether to fund an inflationary increase.

Inflationary pressures are real. Leaving them out of the state's forecast does not magically make those costs go away. On the other hand, including inflation in the forecast helps us all to understand the long-term costs of sustaining the decisions we are making today – even if we don't always like the answers. But that's responsible decision-making.

Since the legislature passed the law in 2002 prohibiting including the influence of inflation, the Department of Finance has usually found a way to include the information in the forecast anyway. Although it still cannot be included in the “official” numbers. But some might still suggest that this comes close enough to solving the problem.

However, one of our principles is that there should be *stability* in the decision-making process. And that means if including inflation in the forecast is the right thing to do, then it should be in law. Encoding best budget practices in law guarantees Minnesota citizens that these procedures will be followed at all times. We shouldn't have to rely on the good sense of whoever happens to be in office.

In addition, although the media has done an increasingly good job of picking up on the cost of inflation for the immediate biennium, they have been less diligent in talking about inflationary pressures in the tails. And that is where we need to be focusing more attention to force us to ask ourselves, “Is the current state of affairs sustainable?” Changing the law back so that inflation is once again included in the “big numbers” that are reported will hopefully help highlight this issue.

Putting inflation back in the forecast is long overdue...and it is unfortunate that this issue – which we believe is just about ensuring we all start with good information – has become such a point of conflict.

SF 3307

There are other bills on the agenda today (SF 3307, SF 3363 and SF 2886) that we support for the same reason...they have the goal of providing legislators with better information for making budget decisions. In particular, there are provisions in SF 3307 that we believe would be important steps forward.

For example, we support the provision in SF 3307 that would require the budget format to show actual expenditures and receipts for the three most recent fiscal years, rather than just one year. For members of the public, this information can be very challenging to obtain at the program level, but it is very helpful to have more historical data for analyzing trends.

We would emphasize, therefore, the importance of making this kind of information available to the public...not just to legislators. While you are the ones who ultimately have to make the budget decisions, you should be doing so with plenty of input from the public. And just as the quality of your decisions depends a great deal on the type of information you have access to....the quality of public input will also depend on access to good information.

We also support the provision in SF 3307 to set the budget reserve equal to 5% of biennial general fund spending...instead of capping it at \$653 million. We support both the mechanism and the level.

Automatically refilling the budget reserves by using any surpluses available at the end of a biennium creates stability in the process of rebuilding the reserves after an economic downturn. Putting money into a reserve account isn't very sexy...so using an automatic mechanism offers the best assurance that this responsible step will be taken. This also helps maintain our reputation and our ratings with bond agencies.

This mechanism also encourages responsible fiscal management by setting one-time revenues aside in a special place so that policymakers aren't tempted to use it for funding on going commitments.

And it may help manage the expectations of both legislators and the public. You may remember the November 2006 forecast when we learned we had a roughly \$2 billion surplus. After years of deficits and tough spending cuts...hopes ran very high for how these funds would be used. The reality was, however, that about half of that surplus was only one-time revenue left over from the end of the previous biennium. So, this change to automatically direct one-time revenue to the budget reserve would give everyone a more realistic picture of the resources actually available to fund ongoing commitments. Once again, it's about shaping what shows up in the headlines.

We also support aiming for a budget reserve level of 5% of biennial general fund spending. This is a lot of money – in the neighborhood of \$1.8 billion, but it is the level that has been recommended by Minnesota's Council of Economic Advisors. And we are learning right now how important it is to build up a healthy level of reserves.

Those reserves allow us to buy some time to implement longer-term budget balancing strategies when deficits hit.

Also, with each round of budget deficits, it seems like we continue to clear out the fund balances available for filling the hole. Back in 2003, we had a \$1 billion Tobacco Endowment that helped solved the deficit. Today, the most tempting sources are TANF and the Health Care Access Fund. So, it is important that we build up the funds available in a real budget reserve...especially as the resources in those other funds may not be around next time.

So, we hope the Senate will move these proposals will move forward. They represent some very important steps in improving Minnesota's budgeting process – making it more responsible and ensuring everyone – both policymakers and the public – have access to the best information on which to base tough decisions.