



Testimony — House Tax Committee
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Nan Madden
Director, Minnesota Budget Project
(651) 642-1904 x230

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.

The Minnesota Council of Nonprofits strongly supports incentives for charitable giving, and we are very pleased with the provision in this bill to increase the deduction for charitable contributions by non-itemizers. We would like to thank Representative Abrams in particular for his leadership on this issue.

However, we have significant concerns with the size of the bill, and question why today in 2006 we are setting in place so much of the budget for the 2008-09 biennium.

It is true that Minnesota has left the worst of our state's fiscal crisis behind. But we believe the state's financial situation has stabilized at an inadequate level of revenue to meet the state's needs. As a result, policymakers have struggled this session to make progress on important priorities for the state, whether they be clean water, supports for working families, or education reforms.

And the ongoing tight fiscal condition has led to more attempts to work outside of the legislative budgeting process, particularly by turning to constitutional amendments to provide funding to priorities that we have been unable to fund through the legislative process.

But I know there are hopes that next year will be better. The 2007 Legislature will have before it the task of passing the 2008-09 biennial budget. But if this bill passes, what will that 2007 Legislature find?

- They will find that a 2008-09 surplus that the February forecast set at \$1.1 billion has been reduced by \$766 million by this bill and by another \$145 million in the House deficiency spending bill. That leaves the 2007 Legislature with \$269 million they can use for any initiatives or to respond to any new needs that have arisen, assuming no other bills pass that have an impact on the 2008-09 biennium.
- The 2007 Legislature would not be able to maintain current services — just keeping up with inflation would cost \$943 million for the biennium.
- And we better cross our fingers that the Supreme Court doesn't rule against the state in the health impact fee case — that would mean the 2007 Legislature would not even have the \$269 million surplus they thought they had to work with, and in fact could face a deficit.

I recognize that state revenues have been coming in ahead of forecast projections recently, and that has led to some optimism that future forecasts may show a better fiscal condition for the state. But keep in mind — most of the provisions in this bill with a significant cost don't take effect until 2008. If we are lucky and the next forecasts show a better financial situation, there is plenty of time for the 2007 Legislature to enact those provisions into law. But we should not make those decisions now with fingers crossed.

This bill also has a provision that would increase local government aid only if the constitutional amendment to dedicate the Motor Vehicle Sales Tax fails. We believe that budget decisions should be made after an informed public debate that includes an understanding of all of the implications and trade-offs. Under this bill, voters would be asked whether to dedicate the Motor Vehicle Sales Tax without knowing how their choice would impact another part of the budget. We do not believe this is a good way for the state to make its budget decisions.

In conclusion, we ask the committee to reconsider those portions of the bill that would have a significant impact on the 2008-09 budget. Let's not tie the hands of the 2007 Legislature.

Thank you, and I do have a handout for the committee.