

State Budget Trends Study Commission

Preliminary Report

February 1, 2008

Budget Trends Study Commission Work Plan

The Budget Trends Study Commission has a broad task – to identify key issues that have and will cause budget instability. We will examine key fiscal and demographic trends and consider whether our current state policies are able to keep up with the changes. Where we see disconnects, we will discuss a range of possible responses that may help the state respond to the changes ahead. We see this as an opportunity to single out some preventable sources of budget instability and to prepare recommendations that will allow future governors and legislators to focus on critical policy issues rather than correcting the latest shortfall or spending the unforeseen surplus.

Problem Definition

The state has a brief window of opportunity as it reaches its 150th birthday. For a cold place at the end of the road, it has done very well in recent decades. Minnesota's population has grown and prudent investments have been made, fueling economic growth that has exceeded most of the United States and the world. However, past performance does not ensure future results. An aging population and changing workforce may have significant impacts on the state's tax base, spending needs, and overall future progress. Do current tax and spending policies have the flexibility to respond to these coming changes? If not, how can we adjust these policies to create a system that can transition with our changing society? How should Minnesota revise its revenue and expenditure systems to reduce budget instability and increase budget predictability for state and local governments?

Resources

The commission has not received any funding to date and will rely upon executive and legislative staff to support discussions, as their time and budgets allow. While funding for dedicated staff would be useful, the group will proceed from the assumption that it will work within available agency data resources and staff time to augment the commission members' own time and talents.

Final Report

The final report should be a resource for executive and legislative decision-makers. As a result, preliminary findings will be completed in a time-frame that will allow issues to be addressed in the 2010-2011 biennial budget cycle.

The final report will identify a number of key issues that cause budget instability and identify potential solutions. The commission will articulate these issues and provide a blueprint for confronting these issues in the future. The commission will not advocate for a package of legislation, but its recommendations should be a resource for public officials to guide them in their deliberations.

Key Issues To Be Considered

1. Volatility of state revenue streams and expenditure outlays
2. Opportunities to improve long-term budget planning
3. Impact of demographic changes on state revenues

4. Impact of demographic changes on state spending
5. The fiscal relationship between the state and other government entities
6. Long-term viability of state revenue and spending structure

Timeline

| Date | Tasks to Complete |
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| January 23, 2008 Meeting | <ul style="list-style-type: none"> • Review draft work plan • Define scope of work • Agree on commission goals & criteria • Members introduce past reports and general conclusions |
| February 1, 2008 | <ul style="list-style-type: none"> • Preliminary report delivered to legislature |
| February 27, 2008 Meeting | <ul style="list-style-type: none"> • Detailed review of revenue trends including demographic factors • Discussion of each of the key revenues and alternatives • Presentation of specific findings of past budget commissions |
| March 25, 2008 Meeting | <ul style="list-style-type: none"> • Discussion of budget and spending trends • Detailed review of demographic impacts on expenditures and discussion of alternatives (specific area tbd by group) • Continued discussion, key spending items, revenues, and alternatives |
| April 22, 2008 Meeting | <ul style="list-style-type: none"> • Detailed review of demographic impacts on expenditures and discussion of alternatives (specific areas tbd by group) |
| May 27, 2008 Meeting | <ul style="list-style-type: none"> • Measures of state revenue volatility • Detailed review of state payments to education and local governments and discussion of alternatives |
| June 24, 2008 Meeting | <ul style="list-style-type: none"> • Presentation of budget planning process and alternatives • Detailed review of budget reserves, contingent tax increases or spending reductions, and use of other stabilization concepts. |

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| July 22, 2008 Meeting | <ul style="list-style-type: none"> • Review micro-simulation and impact of demographics on revenues and expenditures |
| August 26, 2008 Meeting | <ul style="list-style-type: none"> • Discuss policy options |
| September 23, 2008 Meeting | <ul style="list-style-type: none"> • Further discussion of policy options • All data complete |
| October 28, 2008 Meeting | <ul style="list-style-type: none"> • Further discussion of policy options |
| November 25, 2008 Meeting | <ul style="list-style-type: none"> • Preliminary findings completed |
| December 16, 2008 Meeting | <ul style="list-style-type: none"> • Develop communications plan |
| January 15, 2009 | <ul style="list-style-type: none"> • Final written report due |

Budget Trends Study Commission Goals and Criteria

The commission's goal is to recommend changes to the current Minnesota revenue and expenditure systems in order to respond to changing state demographics and reduce budget volatility.

The following criteria will be considered as Minnesota's revenue and spending systems are assessed:

- **Stability – Minimizing annual fluctuations in revenues and expenditures and improving predictability for taxpayers;**
- **Sustainability – Keeping the tax and spending systems aligned with changing demographic and economic conditions;**
- **Simplicity – The revenue and expenditure systems should be easy to understand and administer;**
- **Accountability – The revenue and expenditure systems should be transparent to remain accountable;**
- **Efficiency – Any opportunities for improvement in the efficiency of the tax and expenditure systems will be recommended;**
- **Effectiveness – Similar to efficiency, the commission will look for opportunities to make the state expenditures better meet the needs of the state's citizens;**
- **Equity – Treating people of equal means similarly or taxing based on ability to pay;**
- **Competitiveness – Promoting economic vitality and advantages relative to other states;**

- **Neutrality – Government policy should not distort market decisions.**

The tensions among these criteria naturally require that they be balanced against one another. The commission expects to leave questions about the size of government, the allocation of expenditures, and the distribution of the tax burden to the legislature and the governor.