

CITIZENS LEAGUE
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TOWARD BETTER UNDERSTANDING OF POLICY CHOICES
IN THE BIENNIAL STATE BUDGET

This statement was prepared by the Tax and Finance Task Force of the Citizens League. We have a general assignment of monitoring and commenting upon the state budget process this year. We issued our first statement in early December 1980 - a status report on the magnitude of the budget problem and related issues. Since then, we have been reviewing the process by which the budget is considered and adopted. We have also reviewed existing positions of the Citizens League on the budget process which are in reports going back to 1972. The recommendations we make in this statement are fully consistent with those positions.

Many -- if not most -- of the public officials, interest groups and citizens following the state budget process this year still may be expecting that everything will be settled with a minimum of change from the past.

They have seen the headlines about a \$1 billion gap, but they also remember headlines from previous years. They can't recall any time when the Governor and the Legislature didn't face difficult budget decisions.

They figure that, one way or another, things will turn out all right, as in the past. It may be necessary to trim spending here and there, or delay starting a new project. It is possible a few people will be laid off. It even may be necessary to tinker with a few taxes to bring in some new money. State aids may not be as plentiful to local governments, but local governments can find other ways; they always have.

We think the above analysis is faulty in two respects.

First, the 1981 budget is going to be extremely difficult -- certainly the toughest in the last decade, and probably the toughest ever. It is possible a special session will be necessary to finish the work -- particularly if illusions persist that everything will just fall in place.

Second, everything didn't always turn out right in the past. Too often, it seems, the Governor and the Legislature have concentrated almost exclusively on balancing the budget for the immediate upcoming biennium. They have not always been sufficiently concerned about the consequences of their making tax/expenditure commitments for the biennium which follows, as well. Some of the problems facing the Governor and the Legislature in 1981 can be attributed to expenditure decisions made in previous legislative sessions.

Tough as this session will be, it also could be very creative, if the Legislature and the Governor recognize revenue constraints as opportunities for innovation, not burdens to bear.

It is important to remind ourselves of the major choices which need to be made in this session:

1. How the burden will be distributed among the state's three major tax sources -- income, property and sales -- during the next two years.
2. How the cumulative tax burden will be distributed, by income groups, and by different types of taxpayers (e.g. business and individuals).
3. How the authority to levy taxes is distributed between the state and sub-state units of government.
4. How much spending will be paid for out of current revenues, and how much will be shifted to future taxpayers through bonding.
5. How much spending will be financed in open appropriations, which have no built-in limits, as contrasted with appropriations with specific dollar limits.
6. How much spending for the 1983-85 biennium will be committed by the Governor and the Legislature in 1981 as they act on the 1981-83 biennial budget.

With the possible exception of a very few veteran elected and appointed officials and tax experts, all of us have a great deal to learn over the next few months: legislators; officials in state government and in county, school and city government; interest groups looking after their own programs and no one else's; the mass media, on whose shoulders much of the communications burden will lie; taxpayers, large and small, individual and corporate; and voters, state and local.

It is encouraging, therefore, to see that the Governor and legislative leaders already have indicated they intend to meet together, weekly, during the session to discuss budget issues.

Legislative leaders need to take special steps -- perhaps using the majority and minority caucuses of the House and Senate -- to provide as broad an education of their members as possible and to give maximum opportunity to debate the choices which are present.

Groups advocating that more money be spent have an obligation to suggest where the money will come from; groups advocating a reduction in taxes have an obligation to suggest where the spending cuts will be made.

This is not a session for last-minute proposals, surfacing in conference committees for the first time. Ideas need to be on the table early, and be widely debated, before they are adopted into law, not just afterwards.

It is a session in which local and state officials have an obligation to come to a greater mutual understanding of how the financing of each affects the other. For example, local officials are likely to re-state their frequent plea for greater freedom to levy property taxes. Simultaneously, they have an obligation to indicate whether they also want the state to continue its program of paying more than one-half the property tax bill (and much of any locally-enacted increase in property taxes) for hundreds of thousands of homeowners in the state.

RECOMMENDATION

Avoid surprises to the public, the Legislature, and the Executive branch about the consequences of proposed budgetary actions.

Our objective is for heightened awareness of information which already exists but which needs to be assembled, explained and integrated better.

All major proposals for change should be examined for: (a) their impact on taxation/spending in the bienniums beginning July 1, 1983 and beyond, not just the biennium beginning July 1, 1981; and (b) their impact on local government taxation/spending, not just state government.

There undoubtedly are many ways to accomplish this objective. We recommend these steps:

1. Some time before final budgetary commitments are made -- which means not later than about a month before the session adjourns -- an interlude, or "time out," perhaps not more than two days in length, should be scheduled.

Planning should begin as soon as possible. It probably would take the form of a seminar that would be open to the public, the Legislature, and the Executive branch.

This would not be a time for debate or bargaining. It would be scheduled explicitly to give legislators, administrative officials, and the public a better idea of the consequences -- for state and local government, and for a longer term than just the immediate upcoming biennium -- of alternative tax/spending proposals that are being considered. It might be patterned after the Minnesota Horizons programs for legislators a few years ago.

During the interlude special efforts would be made to draw attention to the less obvious, but highly significant, implications of pending legislation. For example, had such an interlude been scheduled in 1979, attention might have been given to the school aid and homestead credit obligations for the 1981-83 biennium that were made while the Legislature supposedly was acting only on the 1979-81 budget.

2. The comparisons of House and Senate positions which are prepared for conference committees on the major tax and appropriations bills should be broadened in content and in circulation.

Heretofore, the comparison reports, which are prepared by legislative staff, have been limited to summarizing the points of difference and agreement between the House bills and the Senate bills. The content of these comparisons should be broadened to include: (a) how the House and Senate bills compare with the recommendations in the Governor's budget, (b) the implications of the pending actions for spending/taxation at the local government level, if any, and (c) what sorts of commitments for spending/taxation are implied or expressed for the following bienniums.

Heretofore, the comparison reports have been intended primarily for the use of members of the affected conference committees. Administrative officials,

lobbyists, media representatives, and other interested persons who normally attend meetings of those conference committees also can obtain access to the comparisons. The Appropriations, Finance and Tax Committees of the Legislature should make these reports available more broadly in the state. Perhaps arrangements could be made through the public information offices of the Legislature to make it known that the reports are available on request, not just to conferees and others who happen to attend their meetings.

3. New efforts should be made to present budgetary information in ways that enable legislators and the general public to grasp inter-relationships and implications quickly. In the past, graphs and pie charts have been used by the Governor and legislators and their staffs to illustrate the breakdown of projected revenues and expenditures for the state budget for the biennium. These approaches need to be expanded so that past spending trends, the implications for local government, and commitments in following bienniums can be illustrated, too. This will require imagination so that the essential messages can be grasped without making the presentation unnecessarily complicated.
4. To help carry out these recommendations, it would be helpful if there were state information available comparable to that of the Congressional Budget Office, which prepares for Congress five-year estimates of costs of bills approved by committees, estimates of the inflationary effect of major legislative proposals, and keeps track of Congressional action on revenue and tax bills. This information then is circulated widely within and outside Congress.

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As we mentioned earlier, our recommendations are fully consistent with existing positions in Citizens League reports, principally, "State Fiscal 'Crises' Are Not Inevitable!", June 26, 1972, and "A More Rational Discussion of Taxes and the Economy," October 31, 1979.

The earlier report recommended: (a) a state Governmental Policy Institute to project the longer-term consequences of current actions, (b) that the Appropriations and Finance Committees hold hearings on the Governor's budget as a whole, and (c) that state agencies prepare projections of expenditures four to six years in advance. A form of the third recommendation has been adopted. In previous sessions the Appropriations Committee did hold some hearings on the budget as a whole.

The latter report recommended a new agenda for considering changes in the tax system which starts with a report on the state's economy, followed by public hearings, compilation of proposals, and then submission of recommendations to the Legislature. That report also recommended that conference committees be prohibited from adding amendments to the omnibus tax bill which have not been formally discussed in the Tax Committees of each house during the current session.