Testimony of
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on the
Minnesota "Spending Accountability Amendment"
December 7, 2009

I. Introduction

Mr. Chairman and Members of the Committee, my name is Joshua Culling. I am State Government Affairs Manager for the National Taxpayers Union (NTU), the nation's oldest taxpayer advocacy organization. We have 362,000 members across the country, including nearly 7,300 in Minnesota. I thank you for the opportunity today to offer NTU's support for Gov. Pawlenty's "Spending Accountability Amendment."

The current economic downturn provides us an important opportunity to reassess state government's approach to budgeting. The present method employed in Minnesota and many other states is volatile and uncertain: spending with little discretion when economic conditions are robust, while imposing large tax increases and sudden budget cuts when the economy falters. Minnesota can and should follow the lead of more than two dozen other states and impose a reasonable cap on state expenditures. The Spending Accountability Amendment will hold general fund expenditures to the amount of revenue actually collected during the previous budget biennium, bringing the same fiscal sanity to government that is already common sense to millions of Minnesota households.

It's time to let voters, our 7,300 members among them, decide whether they want the same restraint in St. Paul as they practice in their everyday lives.

II. Background

For the past half-century, state government's answer to any problem was simple and succinct: Spend more money. From 1960 to 2003, expenditures increased an average of more than 20 percent per budget period. If a citizen pledged to spend a tenth more of his salary every year, he would be bankrupt before long.

Such a calamity has yet to descend upon Minnesota's government, but not for lack of trying. The state has racked up a $7 billion deficit in the current budget[1] and is already facing a $1.2 billion shortfall in the next biennium that could swell as large as $5.4 billion[2].

Currently, there is no institutional concept of fiscal responsibility in government. A protected rainy day fund is a necessity to guard against sudden revenue losses, but it does not go far enough. While a fair number of legislators over the years have warned of the consequences of overspending, codified boundaries on the future growth of government are a necessity. A good way to begin establishing such boundaries is to rely on a known-steady base: the amount the government took in over the past two years, as opposed to highly changeable projections or wish lists from various interests.

Opponents argue that expenditure limitations "tie the hands" of policymakers and that important services will be cut. This ignores the fact that potential necessary adjustments are at the discretion of lawmakers and subject to their prioritized spending. Some programs such as education may receive more, others less, within a framework that limits the overall amount of outlays. Governing means making difficult choices on how to collect and spend revenue; Gov. Pawlenty's Spending Accountability Amendment merely encourages policymakers to proceed with a budget that is wisely built upon a known quantity.

In addition, by definition the Amendment itself can't lead to future "cuts" in programs, since the only baseline it specifies is the past cycle's receipts. A current-cycle decline in revenues would, of course, necessitate decisions about borrowing, tax increases, or expenditure reductions, but none of these would be precipitated by the Amendment's strictures.

Indeed, in years to come the Amendment could actually *prevent* expenditure reductions by allowing for the accumulation of strong reserves from revenues that may subsequently exceed budgeted amounts. Capital expenditures would also be excluded from the cap, as would spending deemed necessary to address a national security or peacetime emergency.

III. Colorado's TABOR

Colorado has the nation's strongest tax and expenditure limitation, a constitutional amendment called the Taxpayer's Bill of Rights (TABOR), which passed by a vote of the people in 1992. TABOR restricts the annual growth of government spending to the rates of inflation plus population growth, allows the public to vote on any tax increases, and refunds surplus revenue to taxpayers. While different from the current

[1] http://www.startribune.com/politics/state/39598057.html?elr=KArksD:aDyaEP:kD:aU2EkP7K_t:aDyaEP:kD:aUiD3aPc:_Yyc:aUU

[2] http://www.timberjay.com/detail/6236.html

proposal in Minnesota, TABOR offers an example of how a constitutional limit on state spending can foster a climate of economic growth.

To be sure, state government spending continues to grow annually in Colorado under TABOR, but at a responsible and predictable rate. The result has been phenomenal private sector growth and prosperity. Personal income tripled between 1990 and 2008, and population grew by 49 percent[3]. Much of that population growth can be attributed to the growth of the private sector – the true source of job creation – which constitutes 77 percent of the state's economy, the fifth-best ratio in the country[4].

Perhaps most importantly, Colorado has seen its tax rates fall dramatically since the implementation of TABOR. The state sales tax is the nation's second-lowest levy at 2.9 percent[5], compared with Minnesota's 6.875 percent rate[6]. Personal and corporate income taxes in Colorado have fallen to a flat 4.63 percent[7], compared to a top personal rate in Minnesota of 7.85 percent and a punitive flat 9.8 percent corporate rate[8]. Colorado's rankings on several business tax climate studies outpace those of Minnesota.

By moderating the growth of government and allowing the private sector to hold on to more of its income, Colorado has encouraged investment, job creation, and economic growth.

As I mentioned previously, however, the Minnesota Spending Accountability Amendment is a much less restrictive proposal than TABOR. In fact, the plan before you today more closely resembles the features of tax and expenditure limitations found in numerous places across America. Half a dozen states utilize certified or projected revenues in limiting expenditures, while another half-dozen employ economic measurements such as personal income growth from past years to regulate current-year outlays. Still others use tools such as inflation or population increases. All told, lawmakers in more than two dozen states find tax and expenditure limitations to be both workable and tolerable in developing their own budgets.

IV. Conclusion

Had this amendment been enacted in 1960, the state could have saved $900 million per budget. The recession still would have been a painful one, but much more manageable than the multi-billion dollar deficits, tax hike threats, and significant funding cuts to state agencies. Had Minnesota lived within its means, it would not have been faced with such difficult decisions when the money ran out.

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[3] http://mainepolicy.org/media/208/Setting_the_Record_Straight_on_Colorado%5Cs_Taxpayer_Bill_of_Rights/
[4] *Ibid.*
[5] http://taxfoundation.org/research/topic/16.html
[6] http://taxfoundation.org/research/topic/37.html
[7] http://taxfoundation.org/research/topic/16.html
[8] http://taxfoundation.org/research/topic/37.html

Another difficulty the state must face is the pending absence of one-time federal stimulus money. President Obama's bailout of the states presents as many problems as it does benefits, because spending programs currently reliant on federal dollars will represent further deficits. If a prudent spending cap had been in place to throttle past overspending, this cash infusion from Washington, D.C. would not have been necessary.

As Minnesota families tighten their belts, it would be unfair for government to suggest that it should not do the same. At the very least, voters should be given the opportunity for an up-or-down vote on this legislation. On behalf of NTU's 7,300 members in Minnesota, I urge you to pass this bill and take a stand for the heavily burdened taxpayers of your state.

I would be pleased to answer any questions you or your colleagues may have.