MINNESOTA CHAMBER OF COMMERCE

GROWING MINNESOTA

# 2018 POLICIES

# Effective & Efficient State Spending

Minnesota's state spending, tax and regulatory systems should be structured to provide high quality public services at a competitive price. This will best position Minnesota for a strong, vibrant and growing economy. Minnesota has many strengths: our quality of life, skilled and reliable workforce, valuable infrastructure and innovative and sophisticated health care delivery systems. But we also have tax and regulatory burdens that are among the highest in the nation, and these costs prevent Minnesota from fully benefiting from the foundational competitive advantages we have relative to other states. Our high tax burdens are directly related to high state government spending. Minnesota's aging population and demographic shifts are placing increasing pressures on state costs; at the same time there are fewer workers to fund the increased demand. Given these trends, it is more important than ever that state and local governments change the way they budget and deliver services to provide high quality public services at a competitive price. Spending and tax reforms can be done together to "rightsize" our state's fiscal and tax systems and accelerate the development and growth of our state's economy.

## OUR KEY PRIORITIES FOR THE 2018 SESSION INCLUDE:

- Any new supplemental spending should focus on key priorities to help grow Minnesota's economy, be outcome driven and be fiscally sustainable.
- Use budget surplus and revenue gains from federal tax reform to enact meaningful business tax relief that will improve the business climate and best position Minnesota for economic growth. (See Tax Competitiveness policy)
- Enact full dedication of transportation-related general fund revenues to transportation (See Transportation Policy)
- Improve the affordability and sustainability of state and local government pension obligations and ensure other public employee benefits more closely mirror those offered in the private sector.

## OUR GOALS

We support pro-growth tax and spending systems that will cultivate innovation, attract investment, and foster job growth and retention. The Minnesota Chamber advocates for redesign of state and local spending systems focused on priorities and outcomes. Our state's demographics and an increasingly competitive world economy will dictate this as states that are able to provide strong infrastructure and services in the most cost-effective manner will be the most attractive for investment and will be best positioned for strong economic growth.

## ENACT FISCALLY SUSTAINABLE BUDGETS FOCUSED ON OUTCOMES

The state needs to change the way it budgets to prioritize spending and reduce the likelihood that it overcommits resources. Policymakers should tackle spending reform on four fronts: 1) Change the budget process to prioritize state programs; 2) Redesign services to maximize value, i.e. results per dollar spent; 3) Evaluate programs to ensure measurable outcomes and achieve desired results; 4) Ensure sound fiscal management with strong budget reserves and consideration of long-run economic conditions. Policymakers should adopt spending priorities that have clear and measurable outcomes. This form of budgeting requires evaluating programs based on outcomes (results per dollar) and then funding programs that have the best outcomes toward meeting citizens' priorities and eliminating programs with the lowest value.

## REDESIGN STATE AND LOCAL SERVICES

Minnesota's current high tax burdens, combined with future demographic changes and a competitive global economy, will necessitate the redesign of state and local services so they are more efficient, effective and targeted. Redesign is necessary to ensure the public sector provides high quality infrastructure but at a more competitive price. One strategy is to make services more need-based which will help maximize the state's increasingly limited resources in a much more targeted, impactful way. The only exceptions should be for spending required by our state's Constitution (e.g. education), and infrastructure linked to development and growth of the state's economy. Some examples of redesign include allowing local governments' flexibility relative to state mandates; use of modern continuous improvement programs such as LEAN to drive efficiency gains; and streamlining processes.

## ENACT AFFORDABLE, SUSTAINABLE PUBLIC-SECTOR BENEFITS AND PENSIONS

Public pensions and other benefits are placing an increasing pressure on other government programs and impact future fiscal stability. To ensure affordability and sustainability, state and local pensions and benefits should be more in alignment with the private sector.

**Pensions:** More work needs to be done to ensure the solvency of retirement plans as Minnesota's plans are still underfunded with unfunded liabilities of $16 billion and funding ratio of 76.5%. This greatly undermines the state's fiscal stability and puts future taxpayers at great risk. Some reforms to improve the fiscal sustainability are: Prohibit payment increases until plans are fully funded; evaluate assumptions on rate of returns to make sure they are fiscally sound; better align public-sector benefits with those in the private sector. Most private-sector plans have moved to a defined contribution plan and 17 states offer some hybrid pension plans. Minnesota state and local governments should start the transition to hybrid pension plans that combine a basic defined-benefit plan with a defined-contribution plan and move new state employees to 100% defined contribution plans that are much more in alignment with private-sector benefits.

**Benefits:** State and local health benefits plan designs should be more comparable to those in the private sector, with workers contributing more to the cost of health care. Compensation systems of step and lanes should be revamped to a more results-driven compensation system. Restrictions on competitively sourcing services should be removed as they eliminate flexibility and can increase costs to taxpayers.

## SET CRITERIA FOR DEDICATED FUNDS

The Minnesota Chamber generally opposes the use of dedicated funds because they typically do not receive the same scrutiny as the general fund. The following criteria should be used if establishing a new dedicated fund: A clear relationship should exist between source of revenue and the intended expenditure; there should be no automatic indexing; funds should be used for long-term projects such as public infrastructure; expenditures should require biennial legislative action; a sunset date should be enacted.