

## **Minnesota's Experts Call on Policymakers to Fix the State's Financial Forecasts**

### **Time to undo political meddling in the state budget forecast**

Get your magnifying glass ready. You'll need it to read the fine print, and the real numbers, in Minnesota's latest financial forecast when it is released today.

The Minnesota Department of Finance prepares major forecasts of state revenues and expenditures in November and February each year. As usual, this February's forecast will adjust the state's revenues to account for the impact of inflation. But curiously, due to an obscure provision passed in 2002, the Department of Finance is not permitted to consider the impact of inflation on many areas of state spending.

The result will be yet another financial forecast that does not provide an accurate understanding of our state's finances. In the real world, inflation affects both revenues and expenditures.

### **We need an accurate forecast to inform the budget-making process**

Putting inflation back in the forecast lets policymakers and the public know approximately how much the state would need to keep funding current levels of services into the future. The forecast gives us a picture of our state's fiscal health; it does not determine our budget. Policymakers still have the authority to scrutinize individual areas of expense and act to expand, maintain, reduce, or eliminate. Making the forecast more accurate by including the impact of inflation on current spending will not guarantee any budget item an inflationary increase; it would simply show how much current commitments are expected to cost in the coming years.

### **Accurate information improves the quality of the public debate**

If you check the fine print of the forecast, you'll see that Minnesota's much heralded budget surplus for the next biennium does not exist. Putting inflation back in the forecast improves the public conversation dramatically by making sure the headlines in the media give an honest picture of the state's finances. Identifying the real cost of maintaining the current levels of services would help manage the public's expectations for implementing new initiatives, expanding current programs, or cutting taxes.

### **Our state's fiscal health—and quality of life—are at stake**

The forecast is our most critical tool in understanding the fiscal health of our state and setting the context for budget decisions. Policymakers have a responsibility to face the tough question – can our current level of revenues sustain the commitments and investments we are making in our state into the future? No business would forecast its performance by assuming that revenue will rise in future years and expenses will stay flat, because businesses know that the things they pay for (labor, parts, services, rent, etc) are likely to rise. A business can set a goal for zero expense growth, or develop a plan for how to get there, but it would not simply pretend that it can wave a magic wand and repeal inflation. Restoring inflation in the forecast allows policymakers to plan for our state's future financial stability.

It's too late to fix today's forecast, but the House and Governor should follow the Senate's lead and change the law so that our financial forecasts include the impact of inflation on both revenues and expenses. Good decision-making requires good information. So, until the forecast is fixed, policymakers and the public should act on the assumption that the real story is in the fine print of the forecast...where the Department of Finance has been forced to leave the inflation figures since 2002.

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*The endorsement of the above statement represents the views of these individuals and does not necessarily reflect the position of the institutions they work for.*

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