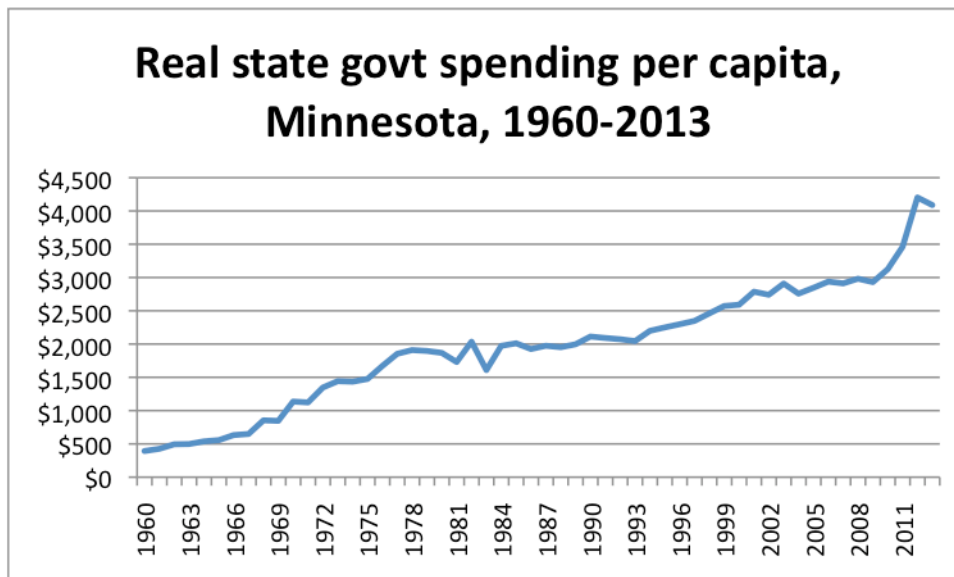


*The first bill I will bring to the House in January will call for zero-based budgeting. To understand it, you have to learn how a budget is set currently and how it tends towards higher levels of spending. Then let us see how zero-based budgeting helps to halt that tendency.*

Our budgeting system in Minnesota state government calls for a projection of revenues based on the best estimates of the state of the economy and how it grows the various tax bases on which the state collects revenue (such as state income, sales, or growth in property values.) This number is compared to what spending is under current law. From this we determine whether there is a surplus of revenue over spending or a deficit.

Consider the graph below. On it I have measured the inflation-adjusted amount of state government spending from our general fund, divided by the number of residents in Minnesota.



If Minnesota government spending increased no more than what would correct for inflation and for the greater number of people living in the state, this line would be horizontal. Instead, it rises. And its rate of growth has been increasing. For example, during the 1984-1994 period – mostly the governorship of Rudy Perpich and the DFL – real per capita spending on state government rose 11.4%. Had this rate of increase of inflation-adjusted per capita spending been maintained between 1994 and 2010, the budget would have been for \$31.4 billion in the 2010-11 biennium, which was less than \$150 million short of the funds we had in that year.

The government collected additional money in the 1994-2010 period through first an Internet bubble and a real estate bubble, two long expansions that may have given us the thought that we could live on greater levels of income. By 2004 we had enlarged the budget by \$3.4 billion in the 2004-05 biennium, and \$4.4 billion in 2005-06.

What makes that happen, in short, is a tax system that is too cyclical. It gives off too much money when times are great and too little money when times are bad. But when the budget grows in good times, spending is ratcheted up. In bad times the system goes into crisis as those things we bought when times were good can not be afforded any more. It is as if we had a temporary job moonlighting as a rock performer or basketball player – you can make great money while you're a star, and if you want you can buy many fancy homes and cars, but when stardom fades you cannot afford these any more.

In your home and mine, we budget our recurring spending based on what we expect we can earn on a permanent basis. But we do not do that with government. It treats a windfall as if it happens every day.

To return us to fiscal common sense, we need to budget based on what we really need, and within the revenue that should be expected in years that are neither recessionary nor expansionary. We can do this through a couple of steps. And spending restraint should be the first step.

Zero-based budgeting passed the Minnesota House in 2010. It did not, unfortunately, make it into law. I will bring such a bill before the Legislature in January. It will be modeled on SB 1 in the Georgia Legislature, which passed both houses in 2010. It will propose the following:

1. Every four years, all departments must produce a zero-based budget. Since Minnesota budgets biennially, we will put half of the state's funded departments into the program in the 2012-13 biennium and the other half in 2014-15.
2. A zero-based budget must define what a department's functions and purposes are; it must provide measures of effectiveness, cost efficiency and equity by comparison to other states.
3. The department will provide three budgets: one that contemplates a decrease in funding; one that maintains current levels of funding; and one that would provide for an increase in funding.
4. The department would establish priorities over its funding requests in all three budgets presented.

It seems reasonable to most people that we justify the first dollar spent rather than just the additional dollars requested, which is how budgeting is done presently. But it does increase the amount of work the executive branch of government has to do. This is one reason I prefer to stagger the entry of departments into zero-based budgeting. Beyond that I say it is not too much work to justify how government uses your money.

Zero-based budgeting will help to balance our budget. It will reduce over four years the near \$5 billion that is spending above that 1984-1994 growth rate. And it will make government accountable to the people. It is time for zero-based budgeting in Minnesota.