



Mark Haveman

Fiscal impact of pandemic on state and local governments largely unknown, making long-range planning difficult

A Minnesota-in-the-post-pandemic-world interview

June 19, 2020

Click [HERE](#) to see and hear the complete Zoom recording of Center for Fiscal Excellence Executive Director Mark Haveman's June 19, 2020, interview with the Civic Caucus. You might need the following password: 8n#nJ4fL

Present

Tom Abeles, John Adams, Helen Baer, John Cairns, Janis Clay (chair), Charles Gilje, Paul Gilje, Mark Haveman, Paul Ostrow, Dana Schroeder (associate director), Clarence Shallbetter, T Williams. (All by Zoom.)

Biography

Mark Haveman is executive director of the Minnesota Center for Fiscal Excellence—an independent, nonpartisan research and education organization supporting sound tax policy and accountable government. He joined the organization in 2002 and took over the organization's leadership role in 2008.

Haveman is the author of numerous research and education publications on state and local tax policy and government finance. He was a member of Minnesota Governor Tim Pawlenty's 21st Century Tax Reform Commission and served four years on the board of trustees of the Governmental Research Association. He served as a visiting fellow at the

Lincoln Institute of Land Policy in Cambridge, Mass., and has served on policy and project advisory boards for the U.S. Environmental Protection Agency, the National Institute for Standards and Technology, several federal and state agencies, academic institutions and private foundations. He received his B.A. from Calvin College and his MBA from the University of Michigan.

Haveman has met with the Civic Caucus four times: 2010, 2012, 2013 and 2018.

Summaries of those meetings can be found at civiccaucus.org.

Summary

In his June 19, 2020, Zoom interview with the Civic Caucus, Center for Fiscal Excellence Executive Director Mark Haveman says we don't know the economic result of the pandemic. As a result, it becomes very difficult to plan or to provide any long-range understanding of what the fiscal impact of the pandemic will be for state and local governments.

Haveman's major points supporting that view are as follows:

- **The May 2020 Minnesota Management and Budget (MMB) interim state budget forecast.** In its May forecast (6:05 in Zoom recording), the MMB showed a \$4 billion flip from the February forecast of a \$1.5 billion surplus down to a \$2.5 billion deficit. Biennial state income tax collections are projected to be down by \$1.7 billion from the February forecast and state sales taxes down by \$1.35 billion. There are no updated projections for the out-biennium due to the uncertain evolution of the virus and the resulting economic impact.
- **All this has profound future implications for states.** At the federal level, spending and tax reform will be needed, which will put more stress on state and local governments, since the federal government may be passing more responsibilities back to the states. Another round of federal tax reform is likely at some point, possibly intruding on state sales-tax bases. The federal government has not yet given any aid for the general operating budgets of state and local governments and it is questionable whether any such support will materialize.
- **What's happening right now in Minnesota (12:06 in Zoom recording).**
 1. **The situation in Minneapolis in recent weeks and the ramifications of that had a profound impact on the Legislature's special session.** Budget and bonding matters were subordinated to the policy and fiscal fallout of the events of the last few weeks since George Floyd's death. The House had several packages: a \$160 million Civil Unrest Relief Fund, a \$125 million reimbursement fund for areas damaged during the aftermath of Floyd's death and creating a new metro reinvestment fund to provide grants and other

assistance to address racial and equity issues. None of those bills had companions in the Senate.

2. Local aid issues were being debated during the special session. All four House and Senate caucuses agreed to an \$841 million package, but an amendment to the bill adding \$150 million in spending from the Governor's supplemental budget upset Republicans. The Governor has the ability to make decisions unilaterally on the money's use, under his emergency powers.

3. Lost in COVID-19 and Minneapolis developments, the state's \$2.5 billion deficit is getting no air time. The longer we wait, the more difficult this issue will be to tackle. The bonding bill is also in limbo as a result of all the events that have transpired recently.

- **Local sales taxes.** There is considerable interest among local governments in being given greater local sales-tax authority. Over two dozen such bills were introduced, yet none made it into the omnibus tax bills. Legislators remain very cautious about granting that capability to cities.
- **Restructuring the state's human capital system.** (24:43 in Zoom recording.) The key area in state government that needs restructuring is the state's human capital system-hiring and keeping talent in state government. The highly centralized, inflexible system based on internal compliance-and government's instinct to treat every person in a similar position in precisely the same way-creates layers of regulations that advance neither mission nor merit, while preventing compensation resources from being put to their highest and best use. The result is a human capital system that forces agency missions to fit personnel processes, instead of the other way around.
- **Transparency.** Legislative process transparency is a problem, but process improvements by themselves won't prevent policies that run counter to the pursuit of efficient, effective use of taxpayer dollars and results-oriented government. We'll never realize our "good government" potential if we spend our transparency energies solely on process, but ignore substance.

One big problem: We have created so much programmatic complexity in state government that it's impossible for the average citizen to evaluate whether we are getting the results we should be getting for the money being invested.

The best transparency investment we could make is to substantially increase the staffing and budget of the Office of the Legislative Auditor (OLA). It is the one entity able to take the deep dive needed in program evaluations, yet remain insulated from the politics surrounding these programs. The OLA is now smaller than it was many years ago, when the general state budget was a fraction of the size it is now. There is a tendency today to describe all government spending as "investment"; this is a situation where that concept truly has merit.

- **The budgeting process.** The transformation of the political culture has had a big influence on the budgeting process. Hyper-partisanship has made compromise so much more difficult-compounded by a distrust in expertise and confirmation bias in how we seek out and interpret facts and information.
- **Challenges facing nonprofits.** There are big challenges facing the Center for Fiscal Excellence and other nonprofits. Some challenges are unique to the Center given its historical membership base-most notably, more interest in national and international concerns and less in state and local issues. In addition, barriers to information access have come crashing down in the internet age, impacting what has historically been a major area of focus for the Center's work.

Other challenges are more general in nature-the heightened competition for resources and support among Minnesota's many general and specialized policy nonprofits and, to some extent, a dilution in corporate citizenship in an era of globalization-especially true with respect to state policy. Businesses and foundations do not support policy thinking as much as they used to.

- **Other tax and fiscal policy matters.**
 1. We need to act sooner rather than later to deal with the projected budget deficit, especially since the state's old general compromise approach in dealing with budget deficits-one-third budget cuts, one-third tax increases and one-third reform/shifts-does not have the currency it once had. And tax expenditures demand a closer look.
 2. We continue to walk a tightrope with our pension system.
 3. Our property-tax system needs to be simplified. The 2012 [Final Report: Property Tax Working Group](#) should serve as a blueprint for what to do. Not a single recommendation from the report has been implemented.
- ***The Death of Expertise* by Tom Nichols (2017).** This book is a must read for anyone wanting a better understanding of how we got to where we are today in our politics and policy.

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