MINNESOTA BUDGET PROJECT

An initiative of the Minnesota Council of Nonprofits

Supermajority Requirement Would Limit Financial Flexibility, Risking Minnesota's Credit Rating

Minnesota's Credit Rating Already on Unstable Footing

Minnesota's Legislature is considering a constitutional amendment that would require a supermajority vote in both the House and Senate to raise taxes. Adding a supermajority requirement would increase concerns among credit rating agencies about the state's financial flexibility and creditworthiness, potentially leading to higher costs for Minnesota to maintain our infrastructure, such as building and repairing our roads, bridges, schools and libraries; or preserving our historic and environmental spaces.

Minnesota has worked to build strong credit and minimize state borrowing costs, but in recent years, the major credit rating agencies — Moody's, Standard & Poor's and Fitch — have become increasingly concerned about the state's lack of long-term budget solutions. As a result, last July, Fitch lowered Minnesota's credit rating from AAA, the highest possible rating, down to AA+.[1] In September, Standard & Poor's followed suit, also downgrading Minnesota's credit rating a notch.[2] Moody's issued a warning last year that it, too, is concerned about Minnesota's long-term financial health, although it has not yet downgraded the state from its current AA1 rating.[3]

Credit Rating Agencies Favor Flexibility

Adding a supermajority requirement to our constitution would put Minnesota's credit rating on even shakier ground. The credit rating agencies evaluate a state's creditworthiness in part based on policymakers' flexibility to respond quickly to changing budget conditions.

For example, Standard & Poor's gives a state a high score for its revenue structure if it has "autonomy to raise taxes and other revenues," "no constitutional constraint or extraordinary legislative threshold for approval," and "a proven track record of implementing tax increases as one of the alternatives to address budget imbalances." In contrast, states get a lower score if there are "significant constraints to adjusting taxes or revenues," including supermajority requirements.[4]

Supermajority Requirements Have Contributed to Downgrades in Other States

Some states with supermajority requirements have already suffered a hit to their credit standings. Nevada's credit rating was downgraded by Moody's in 2011, and Arizona was downgraded by Standard & Poor's in 2009 and by Moody's in 2010. In both states, the rating agencies cited limited financial flexibility and reliance on one-time measures as contributing factors to the downgrades. Moody's raised the concern that Nevada's "supermajority requirement to raise taxes presents a hurdle to achieving balance on an ongoing basis."[5] In Arizona, Moody's said the downgrade reflected "limits on the state's financial flexibility" resulting from "a requirement for a 2/3 majority vote of the state legislature or vote of the people to increase revenues."[6]

Minnesota Should Protect Its Credit Rating and Commitment to Fiscal Responsibility

Rating agencies have already been raising concerns about Minnesota's fiscal management. The state could face further downgrades if it chooses to implement supermajority requirements or other constitutional provisions that limit policymakers' flexibility to respond quickly to changing budget conditions.

In addition, passing a supermajority requirement or other extraordinary restrictions on legislators' ability to make budget decisions would likely lead to more of the kinds of budget actions that have been cited in our recent downgrades: one-time budget gimmicks and gridlock at the Capitol.

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[1]Fitch Ratings, *Fitch downgrades Minnesota GOs to 'AA+'; Outlook stable*, July 7, 2011.
[2]Standard & Poor's, *Minnesota; General Obligation*, September 23, 2011.
[3]Reuters, *Moody's revises Minnesota rating outlook to negative*, August 1, 2011.
[4]Standard & Poor's, *U.S. Public Finance: U.S. State Ratings Methodology*, January 3, 2011.
[5]Moody's Investors Service, *Moody's downgrades State of Nevada's general obligation bonds to Aa2 from Aa1*, March 24, 2011.
[6]Moody's Investors Service, *Moody's downgrades Arizona's issuer rating to Aa3 from Aa2*, July 15, 2010.