



## Price of Government Report

*Legislative Commission on Planning and Fiscal Policy*

*February 22, 2013*

### Price of Government Background

- The Price of Government (POG) is a measurement used to describe the relative cost of state and local government
- It is defined as total state and local revenues divided by total Minnesota personal income. It reflects how much of each dollar earned goes to support state and local government.
- POG provides state-local finance transparency:
  - Compares revenues raised as a percent of Minnesota personal income
  - Breaks out revenue mix by type: income, sales, property and other taxes, as well as fees and other non-tax revenues
  - Share of revenues collected at state and local government levels
- Prepared with state forecasts (MS 16A.103)

### Price of Government Components

- **Own Source Revenues** – those collected directly by the state or local units
  - **Taxes** (state, local property taxes, local option taxes)
  - **Non-Tax Revenues**
    - Licenses and permits
    - Charges for services
    - Investment Earnings
    - Special assessments
    - Tuition (post-secondary)
  - **Intergovernmental Revenues**
    - State Aids, Local Aids, Federal Grants
- **POG Excludes** – Enterprise revenues (i.e.. local utilities, liquor stores), pension revenues

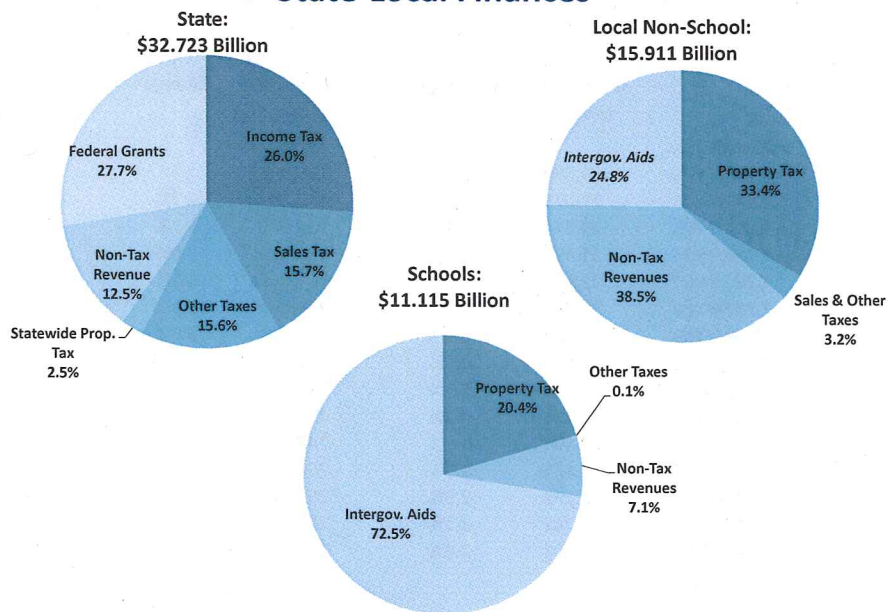
### Minnesota Personal Income

- Broadest real-time measure of Minnesota's economic activity
- Dollar value of all personal receipts
  - Wage and salary disbursements
  - Proprietor's income
  - Interest and dividends, rent income
  - Transfer payments (unemployment compensation, social security)
- Estimated by Bureau of Economic Analysis, US Department of Commerce
- Projected by MMB economists using state and national econometric models

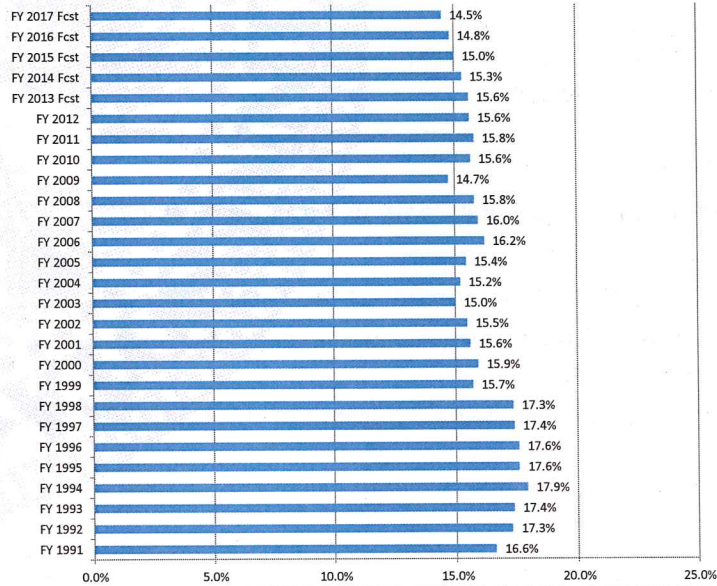
## The Price of Government Highlights State-Local Finances

- In FY 2013, about *15.6 cents of every dollar* will go for state and local services
- Total “own source” revenues for FY 2013 will reach *\$38.7 billion*
- Minnesota personal income will exceed *\$248 billion*
- Who collects the revenue:
  - State collects 61 percent of the total (\$23.7 billion)
  - Cities, counties, towns, special districts collect 31 percent (\$11.9 billion)
  - School districts raise 8 percent of the total (\$3.1 billion)

## FY 2013 Total Revenues Provide a Picture of State-Local Finances



### MN Price of Government (History and Projected) State and Local Revenues as % of MN Personal Income



### The "Price" is Sensitive to Projected Revenue and Personal Income Forecasts

|                         | State/Local<br>Own Source<br>Revenues | %<br>Change | Minnesota<br>Personal<br>Income | %<br>Change |
|-------------------------|---------------------------------------|-------------|---------------------------------|-------------|
| <i>(\$ in billions)</i> |                                       |             |                                 |             |
| CY02/FY03               | 25.659                                |             | 166.968                         |             |
| CY03/FY04               | 27.078                                | 5.5%        | 178.147                         | 6.7%        |
| CY04/FY05               | 29.074                                | 7.4%        | 188.330                         | 5.7%        |
| CY05/FY06               | 31.424                                | 8.1%        | 193.989                         | 3.0%        |
| CY06/FY07               | 32.838                                | 4.5%        | 205.856                         | 6.1%        |
| CY07/FY08               | 34.241                                | 4.3%        | 216.841                         | 5.3%        |
| CY08/FY09               | 33.584                                | -1.9%       | 228.070                         | 5.2%        |
| CY09/FY10               | 33.893                                | 0.9%        | 216.267                         | -5.2%       |
| CY10/FY11               | 35.678                                | 5.3%        | 225.853                         | 4.4%        |
| CY11/FY12               | 37.183                                | 4.2%        | 238.166                         | 5.5%        |
| CY12/FY13               | 38.694                                | 4.1%        | 248.323                         | 4.3%        |
| CY13/FY14               | 39.125                                | 1.1%        | 256.443                         | 3.3%        |
| CY14/FY15               | 40.270                                | 2.9%        | 268.063                         | 4.5%        |
| CY15/FY16               | 41.742                                | 3.7%        | 281.468                         | 5.0%        |
| CY16/FY17               | 42.901                                | 2.8%        | 295.213                         | 4.9%        |

**Revenue as Percent of Personal Income is Projected to Decline to 15.0 Percent by FY 2015.**

| (\$ in millions)                          | FY13 Fcst      | FY15 Fcst      |
|---|----------------|----------------|
| <b>Income Tax</b>                         | <b>8,521</b>   | <b>8,929</b>   |
| <i>Percent of Pers. Income</i>            | <i>3.4%</i>    | <i>3.3%</i>    |
| <b>Sales Tax</b>                          | <b>5,461</b>   | <b>5,823</b>   |
| <i>Percent of Pers. Income</i>            | <i>2.2%</i>    | <i>2.2%</i>    |
| <b>Statewide &amp; Local Property Tax</b> | <b>8,401</b>   | <b>8,591</b>   |
| <i>Percent of Pers. Income</i>            | <i>3.4%</i>    | <i>3.2%</i>    |
| <b>Other Taxes</b>                        | <b>5,294</b>   | <b>5,584</b>   |
| <i>Percent of Pers. Income</i>            | <i>2.1%</i>    | <i>2.1%</i>    |
| <b>Total Tax Revenues</b>                 | <b>27,676</b>  | <b>28,927</b>  |
| <i>Percent of Pers. Income</i>            | <i>11.1%</i>   | <i>10.8%</i>   |
| <b>Non-Tax Revenues</b>                   | <b>10,928</b>  | <b>11,344</b>  |
| <i>Percent of Pers. Income</i>            | <i>4.4%</i>    | <i>4.2%</i>    |
| <b>Total "Own Source Revenues"</b>        | <b>38,694</b>  | <b>40,270</b>  |
| <i>Percent of Pers. Income</i>            | <i>15.6%</i>   | <i>15.0%</i>   |
| <b>Mn Personal Income</b>                 | <b>248,323</b> | <b>268,063</b> |

**Under the Governor's Budget, Revenues will Increase to 15.7 Percent of Personal Income in FY 2015.**

| (\$ in millions)                          | FY15 Fcst      | FY15 Gov       |
|---|----------------|----------------|
| <b>Income Tax</b>                         | <b>8,929</b>   | <b>8,740</b>   |
| <i>Percent of Pers. Income</i>            | <i>3.3%</i>    | <i>3.3%</i>    |
| <b>Sales Tax</b>                          | <b>5,823</b>   | <b>7,632</b>   |
| <i>Percent of Pers. Income</i>            | <i>2.2%</i>    | <i>2.8%</i>    |
| <b>Statewide &amp; Local Property Tax</b> | <b>8,591</b>   | <b>8,646</b>   |
| <i>Percent of Pers. Income</i>            | <i>3.2%</i>    | <i>3.2%</i>    |
| <b>Other Taxes</b>                        | <b>5,584</b>   | <b>5,632</b>   |
| <i>Percent of Pers. Income</i>            | <i>2.1%</i>    | <i>2.1%</i>    |
| <b>Total Tax Revenues</b>                 | <b>28,927</b>  | <b>30,649</b>  |
| <i>Percent of Pers. Income</i>            | <i>10.8%</i>   | <i>11.4%</i>   |
| <b>Non-Tax Revenues</b>                   | <b>11,344</b>  | <b>11,420</b>  |
| <i>Percent of Pers. Income</i>            | <i>4.2%</i>    | <i>4.3%</i>    |
| <b>Total "Own Source Revenues"</b>        | <b>40,270</b>  | <b>42,070</b>  |
| <i>Percent of Pers. Income</i>            | <i>15.0%</i>   | <i>15.7%</i>   |
| <b>Mn Personal Income</b>                 | <b>268,063</b> | <b>268,063</b> |

