



State of Minnesota
Department of Finance

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January 22, 2007

TO: Senator Dick Cohen
Senator Thomas Bakk
Representative Loren Solberg
Representative Ann Lenczewski

FROM: Tom J. Hanson, Commissioner *TJH*
Department of Finance

SUBJECT: Price of Government Recommendations

The Governor has asked me to communicate his recommendations for state and local revenue targets as specified in Minnesota Statutes 16A.102. Commonly, this information is referred to as the Governor's Price of Government recommendations.

This presents the Governor's finance plan for state and local governments for FY 2008-09 and the following biennium. The starting point for the Governor's revenue targets is the November 2006 forecast of state and local revenues. The forecast, prepared jointly by the Departments of Finance, Education and Revenue, projected state and local revenues based on current law, using current tax rates.

The Governor is recommending \$653 million in state tax reductions and local property tax relief over the next four years. The Governor's recommendations also include specific proposals to increase tax compliance and revenue collections as presented in his FY 2008-09 budget.

The attached materials present revenue targets by governmental unit and by tax type, displaying revenue totals by year and as a percent of forecast Minnesota personal income.

Cc: Senator Larry Pogemiller
Senator David Senjem
Representative Margaret Anderson-Kelliher
Representative Marty Seifert
Representative Lyndon Carlson

Price of Government Recommendations

For the 2008-09 biennium, the Governor recommends revenue targets of \$42.6 billion, or 9.8% of state personal income, for state government and \$27.3 billion, or 6.3% of state personal income, for local governments. For the 2010-11 biennium, the Governor recommends targets of \$46.6 billion, or 9.6% of state personal income, for state government and \$30.0 billion, or 6.2% of state personal income for local governments.

Governor's January 2007 Price of Government Recommendations Share of State and Local Revenues (\$ in millions)

	FY 2008	FY 2009	2008-09 Biennium	FY 2010	FY 2011	2010-11 Biennium
STATE GOVERNMENT						
State Tax Revenues as a percent of personal income	17,342 8.2%	18,178 8.2%	35,520 8.2%	19,159 8.2%	20,392 8.2%	39,551 8.2%
State Non-Tax Revenues as a percent of personal income	3,509 1.7%	3,536 1.6%	7,044 1.6%	3,520 1.5%	3,527 1.4%	7,048 1.5%
Subtotal -- State Revenues as a percent of personal income	20,850 9.8%	21,713 9.7%	42,564 9.8%	22,679 9.6%	23,919 9.6%	46,598 9.6%
LOCAL GOVERNMENT						
Local Tax Revenues as a percent of personal income	6,413 3.0%	6,731 3.0%	13,145 3.0%	7,085 3.0%	7,475 3.0%	14,560 3.0%
Local Non-Tax Revenues as a percent of personal income	6,919 3.3%	7,229 3.2%	14,148 3.3%	7,545 3.2%	7,881 3.2%	15,426 3.2%
Subtotal -- Local Revenues as a percent of personal income	13,332 6.3%	13,960 6.3%	27,292 6.3%	14,631 6.2%	15,355 6.2%	29,986 6.2%
TOTAL STATE AND LOCAL GOVERNMENT						
Total Revenues as a percent of personal income	34,182 16.1%	35,673 16.0%	69,856 16.1%	37,310 15.9%	39,275 15.8%	76,584 15.8%
Total Revenues - November 2006 Forecast	34,226	35,784	70,009	37,441	39,428	76,869
Change from Nov'06 Forecast	(43)	(110)	(154)	(131)	(153)	(284)
State Personal Income	212,030	222,762	434,791	235,075	248,592	483,667

January 2007 Governor's Recommendation
Price of Government
State & Local Revenues, CY 1999-2010
as a Percent of Personal Income
(\$ in Thousands)

	CY 1999 FY 2000	CY 2000 FY 2001	CY 2001 FY 2002	CY 2002 FY 2003	CY 2003 FY 2004	CY 2004 FY 2005	CY 2005 FY 2006	CY 2006 FY 2007	CY 2007 FY 2008	CY 2008 FY 2009	CY 2009 FY 2010	CY 2010 FY 2011
State Revenues												
<i>Tax Revenues:</i>												
Individual Income Tax	5,556,366	5,915,494	5,443,342	5,371,829	5,709,584	6,341,164	6,862,953	7,192,700	7,477,325	7,983,975	8,555,170	9,431,910
General Sales Tax	3,120,309	3,037,362	3,805,851	3,956,283	4,119,075	4,258,183	4,484,813	4,557,343	4,633,442	4,858,562	5,044,628	5,245,007
Corporate Income Tax	800,129	728,970	529,458	588,656	628,048	925,874	1,061,627	1,107,900	1,016,000	1,006,595	1,098,450	1,100,495
Gasoline & Special Fuels Taxes	612,894	612,070	623,898	643,392	653,626	656,580	650,363	654,220	658,195	662,272	666,374	670,502
Motor Vehicle License Tax	606,844	454,554	473,232	491,714	492,339	496,299	491,406	477,060	482,141	486,962	491,832	496,750
Motor Vehicle Sales Tax	540,961	546,157	614,147	605,561	593,855	557,678	538,718	512,500	505,600	523,400	548,600	582,100
Statewide Property Tax	0	0	305,573	585,416	599,622	610,874	631,279	663,372	691,413	710,945	728,208	745,177
Health Care Taxes	151,034	167,315	173,923	201,080	266,804	410,014	440,980	471,232	503,574	537,909	576,517	619,054
All Other Taxes	979,500	963,368	1,027,662	1,263,867	1,330,247	1,274,399	1,528,458	1,373,068	1,374,124	1,407,251	1,448,840	1,500,969
Subtotal - State Taxes	12,368,037	12,425,290	12,997,086	13,707,798	14,393,200	15,531,065	16,690,597	17,009,395	17,341,814	18,177,871	19,158,619	20,391,964
<i>Non-Tax Revenues:</i>												
Fees & Charges	524,857	525,751	614,121	758,166	861,625	892,486	1,268,418	1,189,210	1,226,751	1,245,287	1,252,705	1,256,653
Investment Earnings	278,512	342,461	250,735	176,646	86,107	97,660	173,875	199,913	180,705	164,108	166,187	161,726
Post-Secondary Tuition	509,774	550,302	650,701	740,164	876,000	952,750	1,061,327	1,142,500	1,168,628	1,200,479	1,205,554	1,210,306
Tobacco Settlements	104,926	130,254	156,646	152,566	168,467	175,488	180,790	178,355	180,027	180,113	180,204	180,299
All Other Resources	620,461	1,201,570	648,002	559,987	484,192	480,689	521,984	854,649	752,393	745,520	715,836	718,217
Subtotal - State Non Tax Revenues	2,038,530	2,750,338	2,320,275	2,387,529	2,476,391	2,599,108	3,206,394	3,564,627	3,508,504	3,535,507	3,520,486	3,527,201
Subtotal - State Own Source Revenues	14,406,567	15,175,628	15,317,361	16,095,327	16,869,591	18,130,173	19,896,991	20,574,022	20,850,318	21,713,378	22,679,105	23,919,165
Federal Grants	4,144,935	4,505,453	5,054,788	5,728,608	5,934,455	6,037,741	6,056,552	6,720,423	6,649,655	6,998,221	6,805,717	7,355,940
TOTAL STATE REVENUES	18,551,502	19,681,081	20,372,149	21,823,935	22,804,046	24,167,914	25,953,543	27,294,445	27,499,973	28,711,599	29,484,822	31,275,105
Local Non-School Revenues												
<i>Tax Revenues:</i>												
Property Tax	2,781,292	2,907,880	3,134,397	3,035,806	3,286,132	3,487,467	3,712,295	4,001,917	4,298,100	4,423,503	4,628,996	4,845,135
Sales Tax	101,717	109,814	110,537	108,939	109,805	124,986	132,799	137,059	169,577	176,277	183,301	190,201
Other Taxes	128,689	136,010	130,443	124,164	139,909	138,270	155,946	159,215	164,104	168,926	173,834	179,039
Subtotal - Local Taxes	3,011,698	3,153,704	3,375,377	3,268,909	3,535,846	3,750,723	4,001,040	4,298,191	4,631,781	4,768,706	4,986,131	5,214,375
<i>Non-Tax Revenues:</i>												
Special Assessments	269,433	271,870	268,097	291,122	326,123	337,068	361,364	387,451	407,054	426,372	446,023	466,845
Licenses and Permits	134,092	146,620	153,870	161,960	175,918	193,546	208,690	225,029	236,658	248,121	259,795	272,187
Charges for Services	704,342	744,613	814,858	872,775	1,055,651	1,192,728	1,245,855	1,302,244	1,354,803	1,406,683	1,459,657	1,516,098
Investment Earnings	200,421	468,041	363,928	274,022	152,660	162,378	167,088	171,130	174,140	177,043	179,953	183,023
Selected Enterprise Revenues	2,132,810	2,264,000	2,420,201	2,648,518	2,695,742	2,838,441	2,993,477	3,157,054	3,313,165	3,466,087	3,621,047	3,785,114
Miscellaneous Revenues	465,472	476,004	486,557	468,200	464,994	492,958	502,832	513,182	538,098	562,545	587,333	613,549
Subtotal - Local Non Tax Revenues	3,906,570	4,371,148	4,507,511	4,716,597	4,871,088	5,217,119	5,479,306	5,756,090	6,023,918	6,286,851	6,553,808	6,836,816
Subtotal - Local Own Source Revenues	6,918,268	7,524,852	7,882,888	7,985,506	8,406,934	8,967,842	9,480,346	10,054,281	10,655,699	11,055,557	11,539,939	12,051,191
<i>Intergovernmental Revenue:</i>												
State Aid	2,258,959	2,383,423	2,511,171	2,918,176	2,632,590	2,475,904	2,608,458	2,644,666	2,716,792	2,735,737	2,748,328	2,762,405
Local Aid	96,302	97,932	120,046	109,320	178,908	216,384	205,990	205,990	205,990	205,990	205,990	205,990
Federal Aid	483,643	558,693	573,518	615,225	675,464	667,368	667,368	667,368	667,368	667,368	667,368	667,368
Subtotal - Intergovernmental Revenue	2,838,904	3,040,048	3,204,735	3,642,721	3,486,962	3,359,656	3,481,816	3,518,024	3,590,150	3,609,095	3,621,686	3,635,763
TOTAL LOCAL NON-SCHOOL REVENUES	9,757,172	10,564,900	11,087,623	11,628,227	11,893,896	12,327,498	12,962,162	13,572,305	14,245,849	14,664,652	15,161,625	15,686,954

Governor's January 2007 Price of Government Recommendations
Combined State and Local Revenues
(\$ in millions)

	FY 2008	FY 2009	2008-09 Biennium	FY 2010	FY 2011	2010-11 Biennium
Income Tax	7,477	7,984	15,461	8,555	9,432	17,987
percent of personal income	3.5%	3.6%	3.6%	3.6%	3.8%	3.7%
Sales Tax	4,803	5,035	9,838	5,228	5,435	10,663
percent of personal income	2.3%	2.3%	2.3%	2.2%	2.2%	2.2%
Statewide & Local Property Tax	6,763	7,088	13,851	7,447	7,841	15,288
percent of personal income	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Other Taxes	4,712	4,802	9,515	5,014	5,159	10,172
percent of personal income	2.2%	2.2%	2.2%	2.1%	2.1%	2.1%
Total Tax Revenues	23,755	24,909	48,664	26,244	27,867	54,110
percent of personal income	11.2%	11.2%	11.2%	11.2%	11.2%	11.2%
Non-Tax Revenues	10,427	10,764	21,192	11,066	11,408	22,474
percent of personal income	4.9%	4.8%	4.9%	4.7%	4.6%	4.6%
Total Revenues	34,182	35,673	69,856	37,310	39,275	76,584
percent of personal income	16.1%	16.0%	16.1%	15.9%	15.8%	15.8%
State Personal Income	212,030	222,762	434,791	235,075	248,592	483,667

**January 2007 Governor's Recommendation
Price of Government
State & Local Revenues, CY 1999-2010
as a Percent of Personal Income
(\$ in Thousands)**

	CY 1999 FY 2000	CY 2000 FY 2001	CY 2001 FY 2002	CY 2002 FY 2003	CY 2003 FY 2004	CY 2004 FY 2005	CY 2005 FY 2006	CY 2006 FY 2007	CY 2007 FY 2008	CY 2008 FY 2009	CY 2009 FY 2010	CY 2010 FY 2011
School District Revenues												
<i>Tax Revenues:</i>												
Property Tax	1,838,874	1,793,014	1,922,340	983,539	1,180,578	1,277,288	1,364,355	1,596,451	1,773,078	1,953,462	2,089,857	2,250,571
Taconite Production Tax	12,110	11,553	11,393	0	8,031	7,983	7,842	8,500	8,490	8,991	9,229	9,691
Subtotal - School District Tax Revenues	1,850,984	1,804,567	1,933,733	983,539	1,188,609	1,285,271	1,372,197	1,604,951	1,781,568	1,962,453	2,099,086	2,260,262
<i>Non-Tax Revenues:</i>												
Fee Revenue	312,956	334,452	353,745	374,424	400,204	417,551	441,817	466,117	491,754	518,800	547,334	577,438
Other Miscellaneous Revenue	233,148	250,343	223,514	219,842	212,778	273,027	352,148	383,841	403,033	423,185	444,344	466,561
Subtotal - School District Non Tax Revenues	546,104	584,795	577,259	594,266	612,982	690,578	793,965	849,958	894,787	941,985	991,678	1,043,999
Subtotal - School Dist Own Source Revenues	2,397,088	2,389,362	2,510,992	1,577,805	1,801,591	1,975,849	2,166,162	2,454,909	2,676,355	2,904,438	3,090,764	3,304,261
<i>Intergovernmental Revenue:</i>												
State Aid	3,955,138	4,268,222	4,334,571	6,088,481	6,053,242	6,002,391	6,238,223	6,429,165	6,701,322	6,878,045	6,762,328	6,765,157
State Paid Tax Credits	48,879	39,129	27,597	8,959	10,411	9,593	8,706	8,577	9,323	9,354	11,446	11,484
Education Homestead Credit	304,629	395,013	404,102	806	239	0	0	0	0	0	0	0
Education Agricultural Credit	0	45,979	55,116	0	0	0	0	0	0	0	0	0
Market Value Homestead Credit	0	0	0	68,860	68,406	64,239	60,880	63,306	55,749	53,038	50,321	47,686
Homestead Agric Land MV Credit	0	0	0	3,854	5,879	5,209	5,300	5,597	5,777	5,777	5,777	5,777
Local Aid	33,814	34,283	31,701	28,294	28,342	29,008	30,515	29,942	29,942	29,942	29,942	29,942
Federal Aid	343,022	370,881	436,464	497,532	541,432	568,689	578,488	590,058	601,859	613,896	626,174	638,698
Subtotal - Intergovernmental Revenue	4,685,482	5,153,507	5,289,551	6,696,786	6,707,951	6,679,129	6,922,112	7,126,645	7,403,972	7,590,052	7,485,988	7,498,744
TOTAL SCHOOL DISTRICT REVENUES	7,082,570	7,542,869	7,800,543	8,274,591	8,509,542	8,654,978	9,088,274	9,581,554	10,080,327	10,494,490	10,576,752	10,803,005

Total State, Local & School District Revenues

<i>Tax Revenues</i>	17,230,719	17,383,561	18,306,196	17,960,246	19,117,655	20,567,059	22,063,834	22,912,537	23,755,163	24,909,030	26,243,836	27,866,601
<i>Non-Tax Revenues</i>	6,491,204	7,706,281	7,405,045	7,698,392	7,960,461	8,506,805	9,479,665	10,170,675	10,427,209	10,764,343	11,065,972	11,408,016
<i>Intergovernmental Revenue</i>	11,669,321	12,699,008	13,549,074	16,068,115	16,129,368	16,076,526	16,460,480	17,365,092	17,643,777	18,197,368	17,913,391	18,490,447
TOTAL ALL REVENUES	35,391,244	37,788,850	39,260,315	41,726,753	43,207,484	45,150,390	48,003,979	50,448,304	51,826,149	53,870,741	55,223,199	57,765,064
Less: Intergovernmental Revenues	(11,669,321)	(12,699,008)	(13,549,074)	(16,068,115)	(16,129,368)	(16,076,526)	(16,460,480)	(17,365,092)	(17,643,777)	(18,197,368)	(17,913,391)	(18,490,447)

Total Own Source Revenues	23,721,923	25,089,842	25,711,241	25,658,638	27,078,116	29,073,864	31,543,499	33,083,212	34,182,372	35,673,373	37,309,808	39,274,617
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Minnesota Personal Income	146,721,500	157,963,750	162,577,750	166,967,750	173,755,500	184,571,500	191,567,750	201,079,425	212,029,650	222,761,625	235,074,675	248,592,375
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Revenue as Percent of Personal Income	16.2%	15.9%	15.8%	15.4%	15.6%	15.8%	16.5%	16.5%	16.1%	16.0%	15.9%	15.8%
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