

FISCAL FACTS

**MINNESOTA STATE AND LOCAL
GOVERNMENT FINANCE TRENDS**





PLANNING

CRITICAL ISSUES

Room 300

658 Cedar St.

St. Paul, MN 55155

651-296-3985

www.mnplan.state.mn.us

MAY 2002

Minnesota Planning develops long-range plans for the state, stimulates public participation in Minnesota's future and coordinates public policy among state agencies, the Minnesota Legislature and other units of government.

The **Critical Issues Team** at Minnesota Planning examines emerging issues that could have a significant effect on Minnesota's governments, its people, economy and natural resources.

Fiscal Facts: Minnesota State and Local Government Finance Trends was prepared by Jay Fonkert and is available on the Minnesota Planning Internet site at www.mnplan.state.mn.us

Upon request, this document will be made available in an alternate format, such as Braille, large print or audio tape. For TTY, contact Minnesota Relay Service at 800-627-3529 and ask for Minnesota Planning. For additional printed copies, contact Minnesota Planning at 651-296-3985.

DEFINITIONS 1

INTRODUCTION 2

MINNESOTA'S STATE AND LOCAL GOVERNMENTS RAISE MORE
REVENUE THAN GOVERNMENTS IN MOST STATES 3

MINNESOTA'S STATE AND LOCAL GOVERNMENTS SPEND MORE ON PUBLIC
SERVICES AND FACILITIES THAN GOVERNMENTS IN MOST STATES 3

PER CAPITA MINNESOTA GOVERNMENT SPENDING INCREASED
18 PERCENT IN 10 YEARS 4

MINNESOTA TAX REVENUES OUTPACED OTHER STATES;
SPENDING GREW MORE SLOWLY 4

THE SPENDING GAP BETWEEN MINNESOTA AND OTHER STATES NARROWED SLIGHTLY 5

PROGRAM OPERATIONS CONSUME 78 PERCENT OF SPENDING 5

MINNESOTA SPENDS MORE ON CAPITAL OUTLAYS THAN OTHER STATES,
BUT MINNESOTA'S CAPITAL SPENDING GROWTH RATE HAS BEEN SLOWER
THAN THE NATION'S 6

MINNESOTA GOVERNMENT SPENDING GROWTH WAS
IN LINE WITH ECONOMIC GROWTH IN GENERAL 6

EDUCATION ACCOUNTS FOR ONE-THIRD OF ALL STATE
AND LOCAL SPENDING 7

PAYMENTS FOR MEDICAL CARE FOR LOW-INCOME PERSONS
DOMINATE PUBLIC WELFARE SPENDING 8

CORRECTIONS AND PUBLIC WELFARE HAVE BEEN THE FASTEST GROWING MAJOR SPENDING AREAS 9

MINNESOTA STATE AND LOCAL SPENDING IS ABOVE AVERAGE IN MOST MAJOR SERVICE AREAS 10

MINNESOTA HAS MORE PUBLIC EMPLOYEES THAN MOST STATES 11

MINNESOTA PUBLIC EMPLOYEE PAYROLLS ARE ABOVE AVERAGE 12

K-12 EDUCATION IS MINNESOTA'S BIGGEST PUBLIC EMPLOYER 13

PUBLIC EMPLOYMENT GREW 20 PERCENT IN 10 YEARS, LED BY K-12 EDUCATION 13

DEFINITIONS

Assistance and subsidies. Cash contributions to individuals, excluding payments in the form of goods or services. Includes direct cash payments to welfare recipients, veterans' bonuses and cash grants for tuition and aid to nonpublic schools.

Capital outlays. Expenditures for construction of buildings, grounds and other improvements, and purchase of equipment, land and existing structures. Expenditures for repairs are classified as current operating expenditures.

Current expenditures. All expenditures except capital outlays. Includes current operating expenses, assistance and subsidies and interest on debt.

Direct expenditures. Payments to employees, suppliers, contractors, beneficiaries and other final recipients of government payments – that is, all expenditures other than grants and reimbursement payments to other governments for performance of general or specific services. Such payments are counted as general revenues of the receiving government, and the final expenditures they support are considered direct expenditures of the receiving government.

Fees and charges. General revenue other than taxes. Includes fees and charges in exchange for services.

General expenditures. All government expenditures, excluding expenditures of public utilities, government owned and operated liquor stores, and employee retirement or other insurance trust funds.

Government administration (employment data). Includes financial administration such as tax collection and management of government funds, as well general administrative functions such as personnel.

Higher education expenditures. Includes expenditures of state-owned and operated postsecondary education institutions, including gross expenditures of auxiliary enterprises such as bookstores, dormitories, cafeterias and athletic programs, but excluding hospitals, agricultural extension services and experiment stations.

Instructional employees. Classroom teachers, principals, supervisors of instruction, librarians, teacher and library aides, and guidance and psychological personnel. All other education employees are classified as non-instructional.

K-12 education expenditures. Payments for instruction, support services and other activities of local public schools for kindergarten through high school.

Own-source general revenue. All revenue raised directly by state and local governments, but excluding revenues of utilities, liquor stores and insurance trust funds.

Per capita expenditures (or revenues). The amount of expenditures (or revenues) divided by population.

Private nonfarm employees. All employees other than farm proprietors, employees of farms and employees of federal, state and local governments.

Public welfare expenditures. Support of and assistance to people contingent upon need. Public welfare expenditures include federally supported cash payments to needy people under the federal Old Age Assistance, Temporary Assistance to Needy Families, Aid to the Blind and Aid to the Disabled programs, as well as reimbursement payments to private vendors such as hospitals, physicians and nursing homes for medical services provided to low-income people. Public welfare expenditures also include expenditures for welfare administration, support of welfare agencies and other public welfare services. In Minnesota, public welfare includes the Minnesota Family Investment Program, Medical Assistance and General Assistance Medical Assistance, as well as other welfare services.

Social services expenditures. Includes other nonwelfare services such as publicly owned hospitals, health services, veterans' services and social insurance administration (primarily unemployment compensation and employment offices).

Taxes. Compulsory contributions exacted by government for public purposes, except assessments for retirement and social insurance, which are classified as insurance trust revenue. Major taxes include income, sales and property taxes.



INTRODUCTION

Minnesotans buy almost \$30 billion in services and public facilities through their state and local governments each year.

The Department of Finance estimates that Minnesota state and local governments will collect more than \$26 billion in taxes and fees in 2002. A portion of this amount will cover the cost of running government – including operating the legislature, administering a personnel system, and collecting and managing the state's money. Most, however, pays for a wide variety of services to people and businesses – ranging from public health inspections to highways to insurance regulation to education and fire protection.

This report presents basic information about Minnesota government revenues and spending, including comparisons with other states. Most reports on Minnesota's fiscal problems deal only with state government's general fund. This report is broader in scope, covering both state and local governments, including school districts.

Only general expenditures and, among these, direct expenditures are included. Nongeneral expenditures, which are not discussed in this report, include expenditures of public utilities, government owned and operated liquor stores, and employee retirement or other insurance trust funds. Direct expenditures include only payments to employees, suppliers, contractors, beneficiaries and other final recipients of government payments. State aid payments to schools and local governments are not counted as direct expenditures of state government, but the local expenditures they support are counted as direct expenditures of local governments.

Expenditures of such government-owned enterprises as school cafeterias, college dormitories and public hospitals are counted as direct expenditures, without offsets from sales or fees received.

Except when noted otherwise, expenditure amounts include both capital outlays and current expenditures.

All expenditure and revenue data is from the 1998-99 edition of *Government Finances*, published by the U.S. Census Bureau (<http://www.census.gov/govs/www/estimate.html>), unless indicated otherwise. Although more recent data is available for Minnesota governments, this is the only source that allows direct comparisons with other states. Data is for government fiscal years ending between July 1, 1998, and June 30, 1999. For Minnesota, this includes calendar year 1998 for most local governments and fiscal year 1999 for state government.

Comparisons of Minnesota to other states use the median value for the 50 states – the value that falls halfway between the states ranking 25th and 26th. Reports such as this often compare Minnesota to the national per capita value, which, for example, is computed by dividing the expenditures of all governments in the 50 states by the U.S. population. This value can be pulled upward or downward by populous states with high or low values. The median value, on the other hand, is more representative of a typical state.

Revenue and expenditure amounts for years prior to 1998-99 are expressed in 1999 dollars. All growth rates are adjusted for inflation.



Minnesota’s state and local governments raise more revenue than governments in most states.

State and local government revenues, 1998-99

PER CAPITA	Minnesota	MN rank	Percent of median state	Median state	U.S. per capita
Own-source general revenue	\$5,098	7th	125%	\$4,076	\$4,268
Tax revenue	\$3,599	5th	130%	\$2,754	\$2,992
Fees and charges	\$ 793	26th	100%	\$ 794	\$ 773
PERCENT OF PERSONAL INCOME					
Own-source general revenue	17.5%	9th	110%	15.9%	15.8%
Tax revenue	12.3%	4th	114%	10.9%	11.0%
Fees and charges	2.7%	34th	88%	3.1%	2.9%

Source: U.S. Census Bureau, *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>). U.S. per capita is total for all state and local governments divided by U.S. population.

Minnesota governments ranked seventh in per capita taxes and fees and ninth in the amount of revenue raised as a percentage of personal income. When compared to personal income, Minnesota’s fiscal ranks are a bit lower. State and locally raised revenues amounted to 17.5 percent of personal income in 1998-99, ninth among the states.

Minnesota governments ranked high in taxes collected, but were average in the amount of fees and charges collected.

Minnesota’s state and local governments spend more on public services and facilities than governments in most states.

State and local government expenditures, 1998-99

PER CAPITA	Minnesota	MN rank	Percent of median state	Median state	U.S. per capita
Direct general expenditure	\$5,896	6th	121%	\$4,881	\$5,129
Current expenditures	\$5,070	6th	121%	\$4,189	\$4,480
Capital outlays	\$ 826	6th	129%	\$ 641	\$ 648
PERCENT OF PERSONAL INCOME					
Direct general expenditures	20.2%	22nd	104%	19.4%	18.9%

Source: U.S. Census Bureau, *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>). U.S. per capita is total for all state and local governments divided by U.S. population.

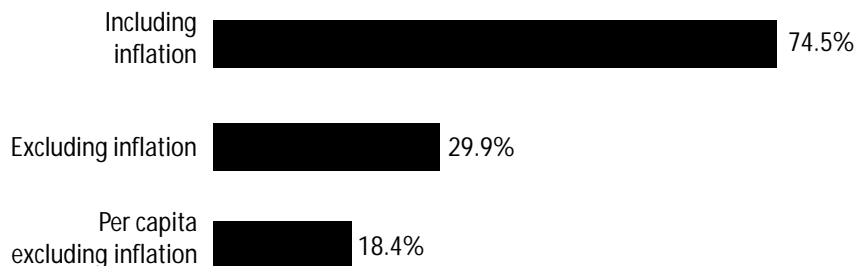
Minnesota’s governments were sixth in per capita direct general expenditures. Per capita expenditures are higher than own-source revenues in part because federal grants pick up part of the tab. State and local direct general expenditures reached 20.2 percent of personal income, ranking 22nd among the states.

Minnesota’s high expenditure ranking holds for both current operating expenses and capital outlays.



Per capita Minnesota government spending increased 18 percent in 10 years.

State and local direct general expenditure growth, 1988-89 to 1998-99

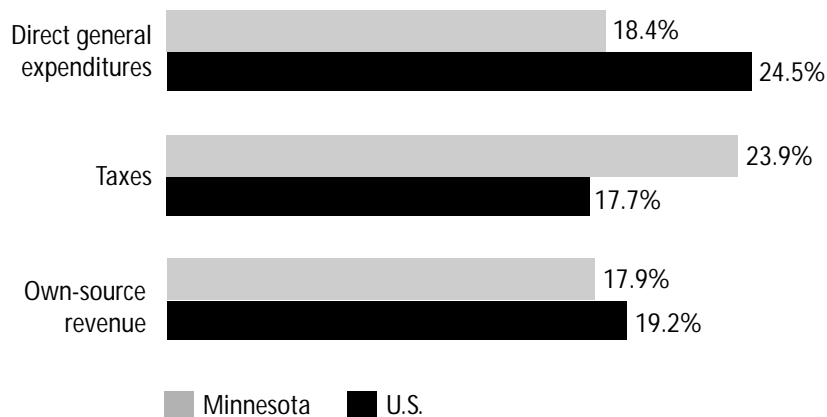


Source: U.S. Census Bureau, *Government Finances: 1988-89*, February 1991, and *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>).

In the 10-year period ending with the state's 1999 fiscal year, combined Minnesota state and local government direct general expenditures increased 75 percent. Inflation and population growth accounted for much of the increase. After adjusting for inflation, the growth in expenditures was 30 percent. On a per capita basis, inflation-adjusted spending grew 18 percent. This 18 percent increase represents real growth in government spending. Some of it may be due to rising costs of labor or materials (beyond inflation), the result of government providing more services or benefits to more people, or to improvements in the quality of services.

Minnesota tax revenues outpaced other states; spending grew more slowly.

State and local government revenues and expenditures
Percent change, 1988-89 to 1998-99



Note: U.S. data is aggregate per capita expenditures – total spending of all state and local governments divided by U.S. population.

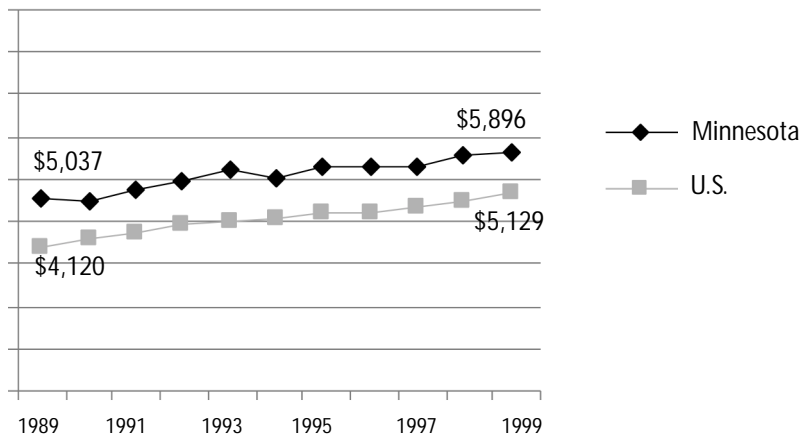
Source: U.S. Census Bureau, *Government Finances: 1988-89*, February 1991, and *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>).

Minnesota's inflation-adjusted per capita revenue growth was below the 19 percent rate for local governments in the 50 states. However, Minnesota's tax revenue growth outpaced the nation. Minnesota's 18 percent direct general spending growth was below the national rate of 25 percent.



The spending gap between Minnesota and other states narrowed slightly.

Per capita direct general expenditures, adjusted for inflation



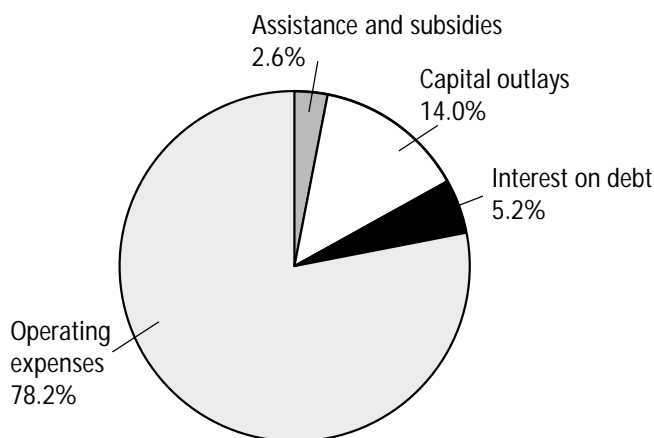
Note: U.S. data is aggregate per capita expenditures – total spending of all state and local governments divided by U.S. population.

Source: U.S. Census Bureau, *Government Finances*, annual editions: 1988-89 through 1998-99 (<http://www.census.gov/govs/www/estimate.html>).

Minnesota government spending grew a bit more slowly than state and local spending nationally, causing the gap between Minnesota and other states to narrow. In 1998-99, Minnesota's per capita direct general expenditures were 15 percent above the national rate, compared to 22 percent above in 1988-89.

Program operations consume 78 percent of spending.

Minnesota state and local government direct general expenditures by type, 1998-99



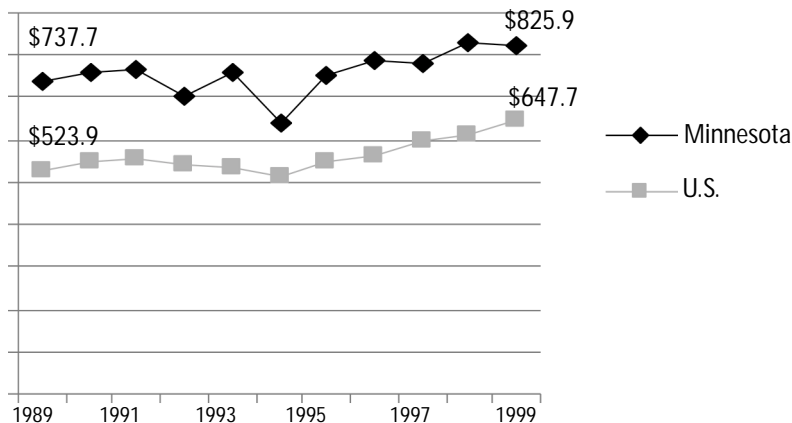
Source: U.S. Census Bureau, *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>).

Current operating expenses – largely purchases of goods and services and labor associated with government programs – accounted for 78 percent of state and local government spending in 1998-99. Assistance and subsidies, including cash payments such as welfare payments, veterans' benefits and tuition grants, added 3 percent. Capital outlays and interest on debt took 19 percent.



Minnesota spends more on capital outlays than other states, but Minnesota’s capital spending growth rate has been slower than the nation.

Minnesota state and local government capital outlays, adjusted for inflation, 1988-89 to 1998-99



Note: U.S. data is aggregate per capita expenditures – total spending of all state and local governments divided by U.S. population.

Source: U.S. Census Bureau, *Government Finances*, annual editions: 1988-89 through 1998-99 (<http://www.census.gov/govs/www/estimate.html>).

Capital outlays were 14 percent of all Minnesota state and local government direct general expenditures between 1988-89 and 1998-99, compared to 12 percent for all state and local governments nationally. Over the 11 years, Minnesota’s capital outlays averaged \$758 per capita, compared to \$563 nationally. Using three-year averages, Minnesota’s state and local government per capita capital outlays increased 7.7 percent between 1990 and 1998, compared to 14.3 percent for state and local governments in the 50 states.

Minnesota government spending growth was in line with economic growth in general.

Percent change in selected fiscal and economic indicators, 1988-89 to 1998-99

Personal income*	+32.7%
State and local own-source revenue*	+29.4%
State and local government employment	+15.8%
Private nonfarm employment	+27.8%
Earnings from state and local government*	+19.2%
Private nonfarm earnings*	+39.7%

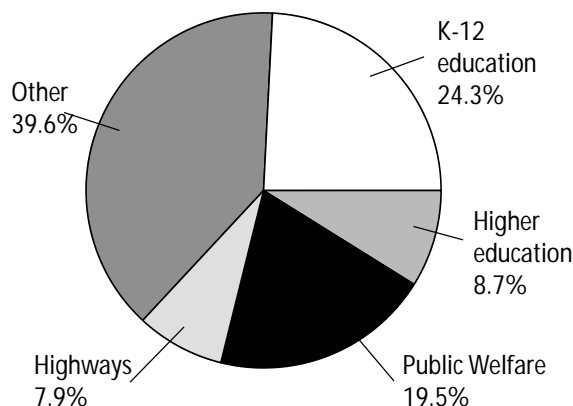
* adjusted for inflation.

Sources: own-source revenues: U.S. Census Bureau, *Government Finances: 1988-89*, February 1991, and *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>); employment, personal income and earnings: U.S. Bureau of Economic Analysis, Regional Accounts Data (<http://www.bea.doc.gov/bea/regional/spi/>).

Revenues raised by state and local governments increased 29 percent, compared to 33 percent growth in personal income. As a result, the percentage of personal income claimed by government fell from 19.2 to 17.5 percent over the 10-year period. Similarly, private sector employment growth outpaced public sector growth. Total earnings of state and local government employees grew 19 percent, compared to a 40 percent increase in private sector earnings.

Education accounts for one-third of all state and local spending.

State and local government direct general expenditures, 1998-99



Source: U.S. Census Bureau, *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>).

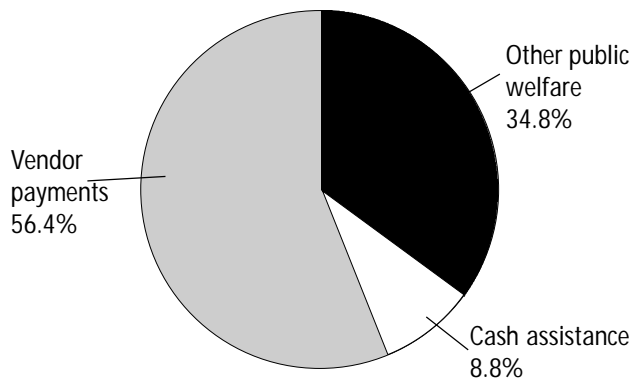
Most state and local government spending pays for services to people. Education – including K-12 and higher education – accounted for one-third of combined state and local government spending in 1998-99. Local K-12 education alone was 24 percent of total spending. Higher education added another 9 percent. Both the K-12 and higher education totals include gross expenditures for auxiliary service such as cafeterias, athletics and dormitories, which generate revenues that at least partially offset expenses. Higher education expenditures do not include hospitals, the agricultural extension service or state tuition grants paid directly to students.

Other major spending areas included public welfare, transportation and public safety. Highways claimed 8 percent of total spending. Public safety – including police, fire protection and corrections – accounted for 6 percent of spending. Police protection was 3 percent and corrections 2 percent. Government administration, including financial management, public buildings and the judicial system, received only 6 percent of total spending. Interest on debt took another 5 percent.



Payments to medical providers for medical care for low-income persons dominate welfare spending.

State and local government expenditures for public welfare, 1998-99



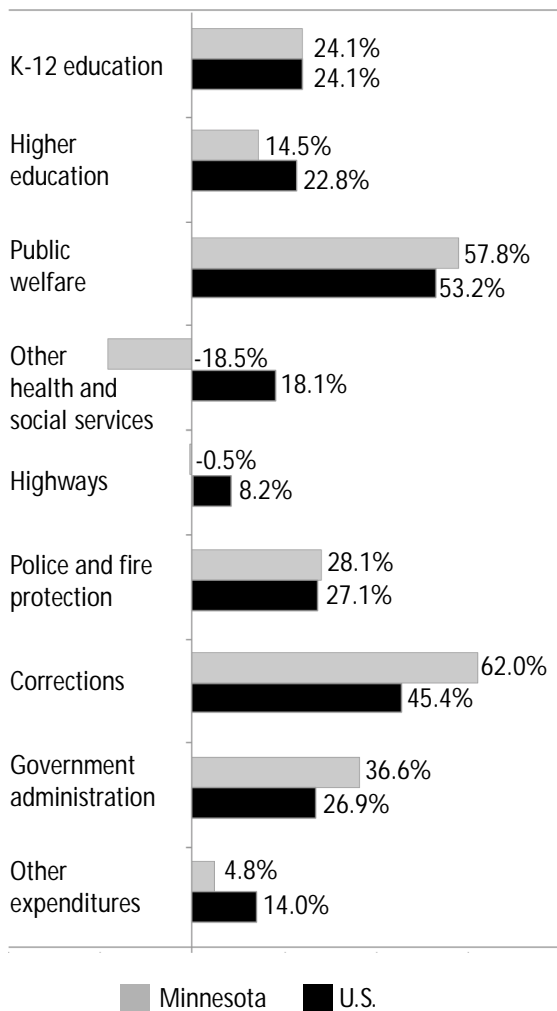
Source: U.S. Census Bureau, *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>).

Public welfare, which includes both cash payments to individuals and purchase of medical services, was 20 percent of all spending. The biggest share of welfare spending was vendor payments to service providers – mostly medical assistance and general assistance medical care payments on behalf of low-income individuals. These payments accounted for 56 percent of all public welfare expenditures. Cash payments to individuals, including Temporary Assistance for Needy Families, were less than 9 percent of total welfare spending.



Corrections and public welfare have been the fastest growing major spending areas.

State and local government direct general expenditure growth, 1988-89 to 1998-99



Source: U.S. Census Bureau, Government Finances, annual editions: 1988-89 through 1998-99 (<http://www.census.gov/govs/www/estimate.html>).

Among the larger spending areas, the fastest growing were corrections at 62 percent and public welfare at 58 percent. Police protection and government administration also outpaced overall spending.

A closer look at public welfare is instructive. Detailed data is available beginning with 1992-93. In the six-year period ending in 1999, total inflation-adjusted public welfare spending grew 27 percent. However, cash payments to individuals fell 39 percent. Vendor payments grew only 24 percent. The big growth in spending came from a residual category called "other welfare," which increased 90 percent. "Other welfare" includes payments to other governments and social service agencies for public welfare services. Federal grants offset a large portion of expenditures for cash assistance to individuals and payments to vendors for medical services.

Eligibility for cash payments and government-paid medical care is based on income. The strong economy of the mid- and late-1990s kept welfare and medical assistance rolls low, saving substantial amounts of money for state and local governments. The economic downturn of 2001 and 2002 has made more people eligible for services and will, at least in the short term, put more pressure on welfare budgets.

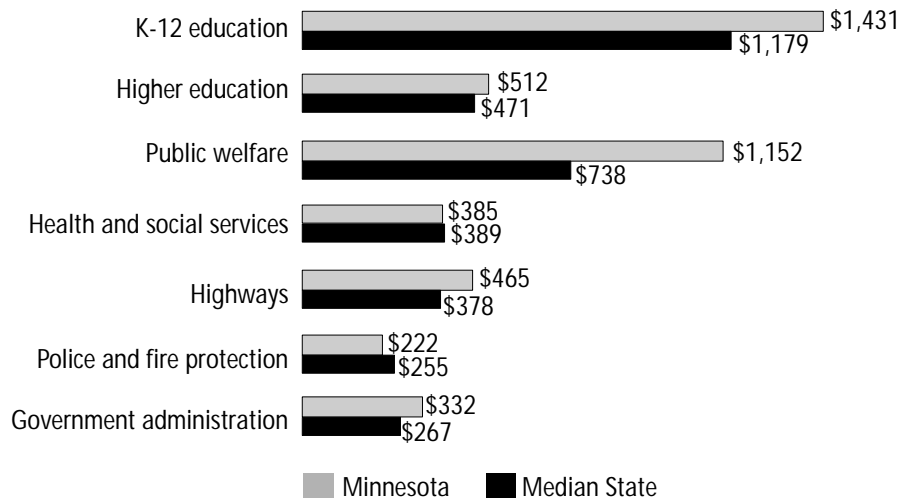
Total state and local K-12 inflation-adjusted spending per capita increased 24 percent between 1988-89 and 1998-99, compared to 19 percent growth in overall state and local spending. Higher education spending grew 14 percent. The meaning of the higher education growth rate is unclear because it includes expenditures of noninstructional units such as dormitories, athletics departments and bookstores, which also generate revenues. Increases in state spending for tuition grants is not included.

Minnesota's spending trends were similar to the other 49 states. Minnesota's K-12 education spending growth also matched the national growth rate of 24 percent. Minnesota government spending for public welfare rose 58 percent, compared to 53 percent for all U.S. state and local governments.



Minnesota state and local spending is above average in most major service areas.

Per capita state and local direct general expenditures, selected functions, 1998-99



Source: U.S. Census Bureau, *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>).

Per capita state and local government expenditures, selected functions, 1998-99

	Minnesota	MN rank	Percent of median	Median state	U.S. per capita
K-12 education	\$1,431	8th	121%	\$1,179	\$1,246
Higher education	\$ 512	20th	109%	\$ 471	\$ 450
Public welfare	\$1,152	2nd	156%	\$ 738	\$ 789
Other health and social services	\$ 385	29th	97%	\$ 389	\$ 454
Highways	\$ 465	13th	123%	\$ 378	\$ 341
Police and fire protection	\$ 222	30th	99%	\$ 255	\$ 274
Government administration	\$ 332	11th	147%	\$ 267	\$ 281

Source: U.S. Census Bureau, *Government Finances: 1998-99*, September 2001 (<http://www.census.gov/govs/www/estimate.html>).

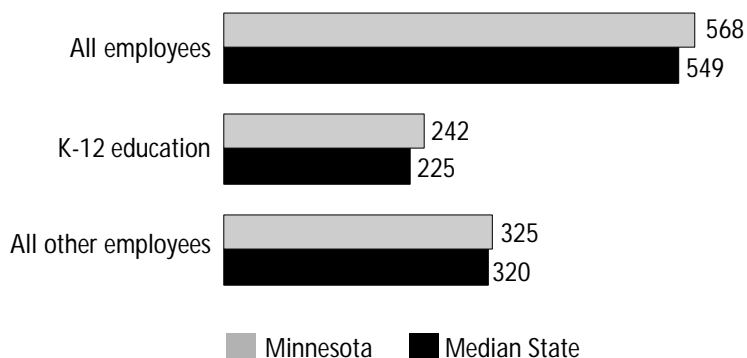
U.S. per capita includes total for all state and local governments divided by U.S. population.

Minnesota state and local governments ranked seventh among the 50 states in total spending in 1998-99 at \$5,896 per capita, about 21 percent above the median state. Among major spending areas, Minnesota ranks especially high in per capita expenditures for public welfare, which includes payments to health care providers for medical services to low-income people. Minnesota also ranks high in spending for K-12 education, highways and government administration, but is slightly below the norm in spending for police and fire protection and health and social services.



Minnesota has more public employees than most states.

State and local government employees per 10,000 population, March 2000



State and local government employees per 10,000 population, March 2000

	Minnesota	MN rank	Percent of median	Median state	U.S.
All state and local employees	568	19th	104%	549	535
K-12 education employees	242	9th	107%	225	213
All other employees	325	23rd	102%	320	321

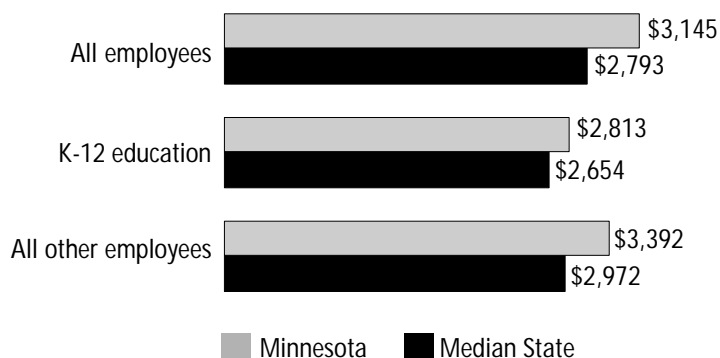
Source: State and Local Government Employment and Payroll Data, revised June 2001 (<http://www.census.gov/govs/www/apesstl.html>). U.S. data is total for all state and local governments divided by U.S. population.

Minnesota ranked 19th in the number of state and local government employees per 10,000 population in 2000, about 4 percent above the median state. The state ranked ninth in K-12 education employees, including both instructional and noninstructional employees. If K-12 education is excluded, Minnesota's rank in employment per 10,000 population falls to 23rd, just 2 percent above the median state.



Minnesota public employee payrolls are above average.

State and local government monthly payroll per full-time-equivalent employee, March 2000



State and local government monthly payroll per full-time-equivalent employee, March 2000.

	Minnesota	MN rank	Percent of median	Median state	U.S.
All state and local employees	\$3,145	15th	113%	\$2,793	\$3,096
K-12 education employees	\$2,813	18th	106%	\$2,654	\$2,924
All other employees	\$3,392	11th	114%	\$2,972	\$3,210

Source: State and Local Government Employment and Payroll Data, revised June 2001 (<http://www.census.gov/govs/www/apesstl.html>). U.S. data includes state and local governments in all 50 states.

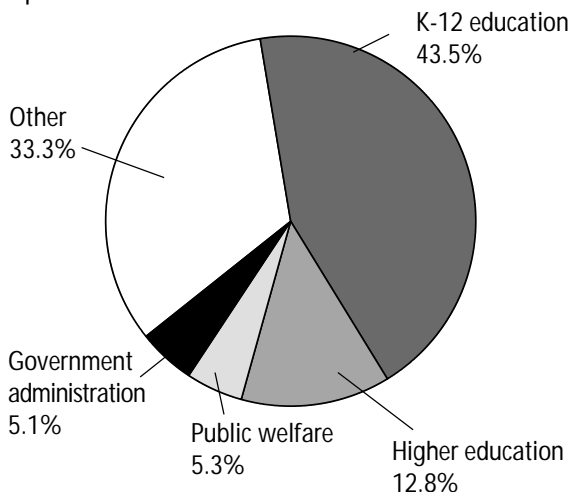
Minnesota is above average in government wages, as measured by monthly payroll per full-time equivalent employee. Minnesota ranked 15th in 2000, about 13 percent above the median state. Minnesota is closer to the median state in K-12 education payroll, ranking 18th. However, compared to the total U.S. K-12 payroll per employee, Minnesota falls below the norm. The tendency of more populous states to have higher salaries causes the total U.S. payroll per employee to be higher than that of the U.S. median state.

K-12 monthly payroll per employee in Minnesota was only \$2,813, compared to \$3,392 for all other state and local government employees.



K-12 education is Minnesota's biggest public employer.

Percent of public employment (excluding utilities), April 2000



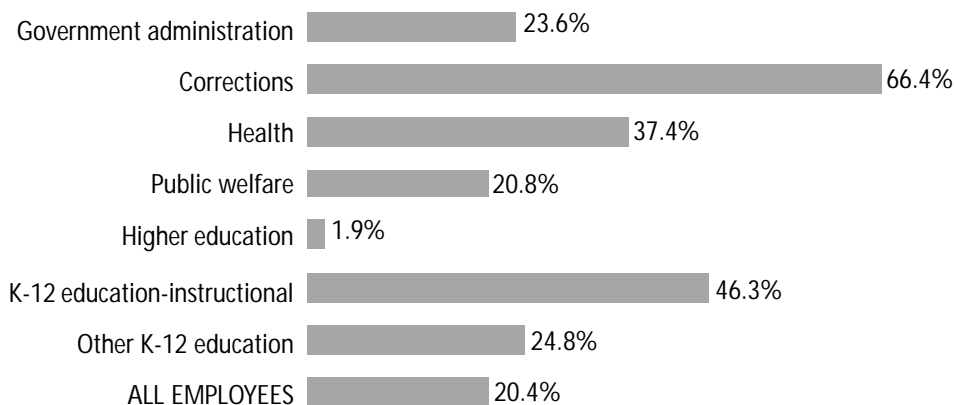
K-12 education jobs (including both instructional and support positions) accounted for 44 percent of all Minnesota government employment, and 38 percent of government payrolls, in 2000.

More than 73 percent of K-12 education employees serve in instructional positions. By contrast, 62 percent of higher education employees are noninstructional.

Source: State and Local Government Employment and Payroll Data, revised June 2001 (<http://www.census.gov/govs/www/apesstl.html>).

Public employment grew 20 percent in 10 years, led by K-12 education.

Percent change in full-time equivalent employment, selected functions, 1988-89 to 1998-99



Source: U.S. Census Bureau, *Public Employment: 1989*, and State and Local Government Employment and Payroll Data, revised June 2001 (<http://www.census.gov/govs/www/apesstl.html>).

Total Minnesota state and local government employment grew 20 percent between 1989 and 1999. Corrections employment increased 66 percent, but still amounted to only 3 percent of all public sector employment in 2000. K-12 education employment grew 40 percent, with instructional employment outpacing noninstructional employment. By comparison, higher education employment increased only 2 percent. The other leading growth area among major functions was health, which includes public health programs, health and food inspections and environmental health programs, but not hospitals. Employment in publicly owned hospitals, including those operated by higher education institutions, declined 21 percent.

MINNESOTA PLANNING CRITICAL ISSUES RESEARCH



Room 300
658 Cedar St.
St. Paul, MN 55155
651-296-3985
www.mnplan.state.mn.us