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Trends in Minnesota Government Spending

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The **Property Tax Study Project** is a collaboration of eight Minnesota local governments. The purpose of the Project is to identify common interests and to educate participating jurisdictions and others — including state policymakers, other local governments, and the public at large — regarding issues pertaining to government finance and property taxation. The local governments participating in the Project include the cities of Duluth, Minneapolis, and St. Paul, the counties of Hennepin, Ramsey, and St. Louis, and the school districts of Minneapolis and St. Paul.

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Executive Summary

Concerns over growth in government have taken a prominent place in Minnesota's political discourse in recent years. Some fear that the rate of growth in Minnesota government is unsustainable, while others are concerned that Minnesota will not be competitive in the global economy unless the state continues to commit to critical public investments.

To better understand trends in government growth in Minnesota and to get a sense of what these trends mean, this report looks at two questions:

- How much has government in Minnesota grown?
- Has a higher level of public investment in Minnesota resulted in a higher quality of life and a stronger economy?

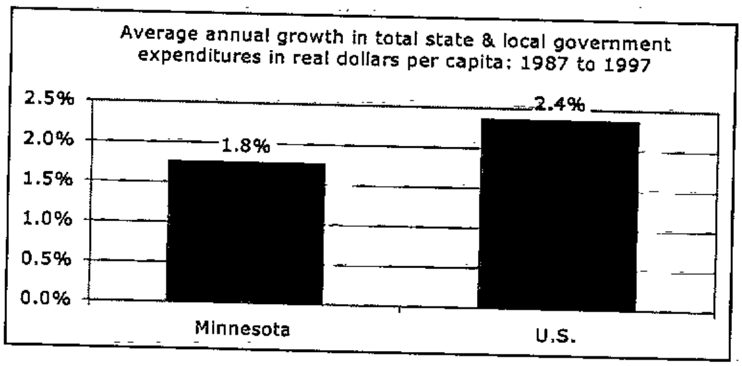
The report concludes with a consideration of how the answers to these questions can help guide future state and local government budget decisions.

Growth in Minnesota Government

In budget debates during the 2002 legislative session, Governor Ventura argued that government in Minnesota had doubled over the past decade. At first glance, this seems like a troubling statistic. However, this assertion is based on growth in the state's general fund from 1990-91 to 2002-03, which is actually a twelve-year period, not a decade. More significantly, the "doubling in a decade" claim is based on an incomplete measure of government revenue (the state's general fund). In fact, total state and local government revenues did not double over the last ten years.

Rather than limiting the analysis to the state's general fund, which includes only about two-thirds of state government revenues, this report focuses on *total* state *and* local government expenditures. In addition, this report also accounts for inflation and population growth. Using this approach, this report finds that:

- From 1987 to 1997, over two-thirds of the growth in Minnesota state and local government spending was necessary to keep up with inflation and population growth.
- As a percentage of Minnesota personal income, total state and local government expenditures in Minnesota declined slightly from 22.2 percent in 1987 to 21.9 percent in 1997.
- Government spending in Minnesota has grown less rapidly than the national average. From 1987 to 1997, state and local government spending for all fifty states and the District of Columbia in real dollars per capita grew by an average of 2.4 percent annually, significantly higher than Minnesota's annual average of 1.8 percent.



Measuring the Size of Government

This report measures growth in government by examining the change in government expenditures over time. This change in expenditures is measured in four ways:

- in simple nominal dollars (i.e., unadjusted for inflation or population growth),
- adjusted for inflation and population growth,
- as a percentage of total statewide personal income, and
- relative to the national average.

Combined, these measures provide a comprehensive picture of changes in the size of Minnesota government over time.

As population grows, public services must be provided to more people. In addition, because inflation erodes the purchasing power of the dollar over time, governments must increase spending in order to provide the same level of services. Examining expenditures in real (inflation-adjusted) dollars per capita allows us to measure the extent to which growth in government is due to inflation and population growth as opposed to other factors, such as the creation of new government programs.

For nearly a decade, lawmakers and business groups have argued in favor of measuring the size of government in relation to statewide personal income. Measuring expenditures as a percentage of statewide personal income helps to gauge growth in government in relation to growth in the state's economy and growth in taxpayers' ability to pay.

In addition, this report measures growth in Minnesota government relative to the national average. This comparison allows us to place Minnesota government growth in perspective by providing a national context.

Examining State and Local Government

As mentioned above, this report includes both state *and* local government. An examination of growth in state government spending that does not take into account growth in local government spending — or vice versa — can yield misleading conclusions. A comprehensive analysis of government growth needs to take into account both state and local government expenditures. There are two reasons why this provides a more meaningful picture.

First, spending responsibilities can shift from one level of government to another. For example, in the 2001 legislative session, policymakers agreed that the state would take over a significant portion of general education costs that had been funded through local property taxes. An analysis that includes only the state's general fund would conclude that this was growth in spending, when in fact it was merely a shift in funding responsibility from local property taxes to the state's general fund. Measuring the combined total of state and local government expenditures avoids this sort of error.

Second, states vary considerably in terms of which services are funded at the state level and which are funded at the local level. In some states, state government spending may appear high in relation to other states only because the state government is financing public services that are financed at the local level in other states. An examination of the combined expenditures of both state and local governments is necessary in order to make meaningful comparisons among states.

The primary source of expenditure data used in this report is the U.S. Census Bureau's *Census of Governments*, which contains data from all state and local governments. The disadvantage of the *Census of Governments* is that data for years after 1997 is not yet available.

In order to determine whether more recent data would yield different results, this report also looks at state and local revenue data up to 2002. The analysis of revenue data from 1990 to 2002 reveals a trend similar to the analysis of expenditure data: state and local government revenues in Minnesota grew less rapidly than the national average and declined as a share of Minnesota personal income.

Impact of Government Spending on Minnesota's Quality of Life

Even though government in Minnesota has grown less rapidly than the national average, total 1997 state and local spending per capita in Minnesota was 10.3 percent above the national average. To what extent has a higher level of public investment in Minnesota resulted in greater economic prosperity and a higher quality of life?

To answer this question, this report examines two policy areas: K-12 education and transportation. Within each policy area, this report examines Minnesota spending relative to the national average. In addition, this report attempts to determine whether a higher (or lower) level of public spending is accompanied by superior (or inferior) public outcomes.

In terms of current K-12 expenditures per pupil, Minnesota ranks 14th highest in the nation and is 6.6 percent above the national average based on the most current *Census of Governments*. There are strong indications that Minnesota has received ample return for greater investment in K-12 education. For example, Minnesota is at the top of the nation in terms of basic skills proficiency and other measurements of academic achievement.

In the area of transportation, the situation is mixed, with Minnesota spending above the per capita national average on highways but below average for transit. Minnesota's highway spending per capita was 42.2 percent above the national average in 1997, although Minnesota's high level of per capita spending on highways is to some extent driven by climate. A more meaningful comparison is between Minnesota and a similar northern state. In 1997, Minnesota spent 9.6 percent more per capita on highways than Wisconsin, which in part reflects the fact that Minnesota has more miles of road per capita than Wisconsin. In addition, roads and bridges in Minnesota are generally in better shape than in Wisconsin and traffic deaths per vehicle mile of travel in Minnesota are significantly lower. Once again, there is evidence that Minnesota is receiving a return on its higher level of government expenditures.

In terms of transit funding, Minnesota's spending per capita in 1997 was 64 percent below the U.S. average. Minnesota's low rate of public investment in transit has translated into low mass transit carrying capacity. Among the 18 states with metropolitan areas of more than two million people, Minnesota ranks last in terms of mass transit carrying capacity.

In general, Minnesota has a strong economy and a high quality of life as measured in terms of employment, wages, hourly earnings, business closings, child poverty, and a variety of other indicators. Various studies have ranked Minnesota at or near the top of the nation in terms of economic performance, development capacity, and quality of life. An examination of the *2001 Development Report Card for the States* indicates that public infrastructure and services have contributed to Minnesota's high rankings.

Planning for the Future

This report addresses growth of government in Minnesota and compares this growth to the national average. This is a relatively easy task. No attempt is made to predict future spending growth or determine which public investments are necessary to ensure Minnesota's future prosperity and quality of life and which are not.

This analysis indicates that state and local government investments in public services and infrastructure have contributed positively to Minnesota's economic health and quality of life. While policymakers need to be attentive to trends in government growth, they should also be mindful of the extent to which Minnesota's current prosperity is the result of wise public investments made in the past. Prudent use of public dollars in the present can reduce the need for government spending in the future. Conversely, the failure to make necessary public investments now will only compound the severity of problems that the state will encounter in the future. Minnesota's experience provides a strong indication that public spending — even spending in excess of the national average — can produce positive public benefits.