MINNESOTA’S STATE-LOCAL FISCAL RELATIONSHIP: PAST & PRESENT

Presentation to the
2015 Community Economic Development Symposium
May 1, 2015
Jeff Van Wychen
**Role of State Government:**

- Make it possible for local governments to generate revenue needed to pay for public services and infrastructure

  *while at the same time...*

- Making sure that local governments are accountable to citizens for spending decisions
TRENDS IN LOCAL GOVERNMENT FINANCE SINCE CY 2002 / FY 2003
Real Per Capita Local Government Revenue Declined Significantly from 2002 to 2013

Total Local Government Revenues
Constant 2015 Dollars Per Capita

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<th>CY 02/</th>
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LOCAL GOVERNMENT IN MINNESOTA RELATIVE TO OTHER STATES
Per Pupil School Spending in Minnesota is Comparable to the National Average

FY 2012 Public Elementary & Secondary School Current Spending

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<tr>
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<th>Per Pupil</th>
<th>% of Personal Income</th>
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<tr>
<td>U.S.</td>
<td>$10,608</td>
<td>39.3%</td>
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<tr>
<td>MN</td>
<td>$10,796</td>
<td>35.8%</td>
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$10,000  $10,796  $10,608

$2,000

$12,000

$0

$10,000

$8,000

$6,000

$4,000

$2,000

$0

U.S. | MN

U.S. | MN
Per Capita City Spending in Minnesota is Modestly Below the National Average

2012 Adjusted City Expenditures

Adjusted Total Expenditures
- U.S.: $1,914
- MN: $1,774

Adjusted Current Operations
- U.S.: $1,213
- MN: $1,123
RECENT IMPROVEMENTS IN THE STATE-LOCAL FISCAL RELATIONSHIP
SIGNIFICANT REDUCTION IN TAX REGRESSIVITY DUE TO 2013 & 2014 TAX ACTS

- Made it possible to increase funding for public services and infrastructure that had been slashed in preceding years
- Minnesota taxes are now more evenly distributed among income groups
  - ETR gap between high income and moderate income households cut in half
  - Minnesota reduces tax regressivity more than any other state in the nation
- Minnesota’s tax system remains significantly regressive
CITY LOCAL GOVERNMENT AID (LGA)

- Substantial improvements in the LGA formula
- Significant increase in LGA funding to partially restore a decade of cuts
County Program Aid (CPA)

- Significant increase in CPA funding to partially restore a decade of cuts
K-12 Education Funding

- Significant increases in state funding for public K-12 education
FY 2015 & FY 2015 School Aid Increases Replace a Large Portion of Past Cuts

State Operating Aid for E-12 Education
Constant FY 2015 Dollars Per Pupil

Fiscal Year


$10,358 $10,019 $9,455 $9,321 $9,130 $9,165 $9,112 $8,913 $8,775 $8,716 $8,863 $8,971 $9,400
**Substantial Increase in Property Tax Refunds**

- PTRs are the most progressive feature of Minnesota’s tax code.

- Funding for both the homeowners’ and the renters’ PTRs was increased.
The Future of the State-Local Fiscal Relationship
LEGISLATION INTRODUCED DURING THE CURRENT SESSION WILL:

- Increase funding for LGA and CPA, further restoring past cuts
- Enact reforms to the CPA formula
- Increase state funding for education
On the Other Hand, Other Legislation Will:

- Dramatically reduce LGA funding for Minneapolis, Saint Paul, and Duluth
- Provide school funding insufficient to keep pace with inflation and enrollment growth
- Undermine the recent progress made toward reducing tax regressivity
Which Way Will Minnesota Go?

- Predictions are always dangerous, especially about the future.

- The course that policymakers choose today will have implications for future economic development.