Minnesota Spending 101

Smart Budgeting for an Era of Limits

Peter J. Nelson

Center of the American Experiment
Building a Culture of Prosperity

Center of the American Experiment is a nonpartisan, tax-exempt, public policy and educational institution that brings conservative and free market ideas to bear on the hardest problems facing Minnesota and the nation.

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Executive Summary

Every two years Minnesota lawmakers must set a budget for the next biennium. Their central task is to decide how much money to spend and where to spend it. Minnesotans need a state government that protects the fruits of their labor while providing core services and protections such as an efficient infrastructure, high quality education and a safety net for those most in need. It is a truism that bears repeating: all of these core state services depend on a robust private economy. Too much government spending—and spending on the wrong things—will leave core services underfunded while discouraging the private investment and entrepreneurial spirit that supports private and public prosperity.

This report provides vital information to help understand and evaluate state spending.

The need for spending restraint. In Part I, the report explains why Minnesota must restrain—and perhaps redirect—the growth of state spending. While today's balance sheets are an improvement over recent budgets, a number of factors (namely demographics, globalization, health care spending, pension liabilities and reductions in federal grants due to federal debt) threaten to throw future state budgets out of balance no matter what governing philosophy predominates.

How viable is it to restrain spending growth? To begin answering that question, Parts II and III evaluate state spending trends that reveal two key findings:

- Since 1960, inflation-adjusted spending per biennium steadily grew from $8.1 billion to $61.9 billion (a 667 percent increase). Even after adjusting for population growth, the only noticeable dip in spending occurred during the 1980s recession.
- K-12 education and health and human services are currently consuming a larger portion of the budget—about 74 percent of general fund spending and 60 percent of total spending—which leaves a smaller portion of the budget for every other state spending priority.

How does Minnesota compare? Part IV compares Minnesota spending to other states, with a special focus on comparing how much states spend per person served by the major categories of state spending, with a further focus on similarly situated "peer states." Here are the highlights.

- After Alaska, Minnesota spends more per low-income person on public welfare than any other state and outspends the average peer state by nearly $4,000.
- On K-12 education, Minnesota spending per pupil ranked fifteenth highest in the nation. Minnesota spends more than any Midwestern state, but less than most Northeastern states.
- Compared to peer states, Minnesota spends about $1,700 more on public research universities per student than Wisconsin, the next highest spending peer state.
- Minnesota spends dramatically less than most states on corrections. Nationally, Minnesota ranks 48th lowest on corrections spending per person in prison and under community supervision.

Two Spending Restraint Scenarios. This report estimates in Part V what state spending would be if the state had held spending to 1986, 1996 and 2004 levels while adjusting for inflation and population growth. Estimates are also provided for holding spending to growth in the state economy. State spending would be over $20.5 billion less today if spending had been held to inflation and population growth since 1986. If spending had just been held to state economic growth beginning in 1996, then spending would be $4.8 billion lower.

Conclusion. The above analysis leads to a number of important conclusions. First and foremost, there is ample room to reduce state spending. That is not to say reducing spending or even reducing the growth in spending would be easy, but spending restraint will be needed to help address future budget challenges.

Because Minnesota is such an outlier on public welfare spending, these programs are the natural place to look first to at least begin reducing the rate of growth. To start, the state should begin restructuring benefit and eligibility levels across public welfare programs to better match peer states. Higher education spending also warrants special review due to differences with peer states. To aid in these and other spending reviews, lawmakers will need much more detailed, accurate and regular assessments of public programs to know whether they deliver value and results.

Finally, state lawmakers have not consistently demonstrated a competence for spending restraint in good times or bad, and therefore the state might benefit greatly from new spending limits through statute or constitutional amendment.

Introduction

Every two years Minnesota lawmakers must set a budget for the next biennium. Their central task is to decide how much money to spend and what to spend it on. A certain level of spending supports those core government services that are essential to the prosperity and the well-being of all Minnesotans. Minnesota's future prosperity, however, also depends on a thriving private economy, which can be undermined by too much government spending. The challenge then in setting Minnesota's state budget is figuring out the level and variety of government services to provide without undermining the economy and the well-being of the people of Minnesota.

This report provides vital information to help evaluate state spending. It begins by explaining why Minnesota must restrain the growth of state spending. While today's balance sheets are a welcome relief from recent budgets, a number of factors threaten to throw future budgets out of balance.

How viable is it to restrain spending growth? To answer that question, the report goes on to evaluate state spending trends and compare Minnesota to other states on key categories of state spending. The evaluation shows there is plenty of room for restraint and even reduction in state spending.

This report then estimates what state spending would have been if the state had held spending to 1986, 1996 and 2004 levels while adjusting for inflation and population growth. Estimates are also provided for holding spending to growth in the state economy. This final exercise highlights just how important lower spending today will be in order to avoid future budget shortfalls tomorrow. All of these findings lead to a number of conclusions to guide state budget decisions.

Part I: The need for spending restraint

The strength of Minnesota's economy and the well-being of its people and communities have always depended on the effective delivery of key government services. To prosper, Minnesotans need a state government that protects the fruits of their labor, supports a highly educated workforce, sustains a robust infrastructure, and provides for the well-being of those most in need.

Protecting Minnesota's prosperity. The state, however, must take great care in deciding the level and variety of government services to provide. Minnesota's future prosperity also depends on a thriving private economy that increases the economic pie for everyone. Too much government spending and spending on the wrong things can crowd out and even undermine the private investment and entrepreneurial work necessary for sustained economic growth. Indeed, at some point, higher and higher state spending on good things like education and infrastructure undermine the state's productivity and the well-being of its people. That's because increased spending depends on higher taxes and higher taxes discourage work, savings, and investment—all key ingredients to a productive and prosperous state.[1] Moreover, spending itself—in particular, spending on public welfare—can discourage productivity when it reduces incentives to work.[2]

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1 *See* Neil Bania, Jo Anna Gray and Joe A. Stone, "Growth, Taxes, and Government Expenditures: Growth Hills for U.S. States," *National Tax Journal*, Vol. 60, pp. 193-204 (2007), available at http://ntj.tax.org/wwtax/ntjrec.nsf/27D181DD6FB580F98525732C00019441/$FILE/Article%2002-Bania.pdf ("Our key result is that the incremental effect of taxes directed toward productive government activities and investments is initially positive, but eventually turns negative as the tax share rises. … The decline arises primarily from the crowding out of private capital as the rising (distortionary) tax share reduces the net return to private capital.")

2 *See* L. Jay Helms, "The effect of state and local taxes on economic growth: A time series-cross section approach," *The Review of Economics and Statistics*, Vol. 67, No. 4., pp. 574-582 (1985) ("Our results indicate that tax increases

Striking a balance. The challenge in setting Minnesota's state budget is figuring out the level and variety of government service to provide without undermining the economy and the well-being of the people of Minnesota.[3]

The challenge is heightened by the substantial policy disagreements over the usefulness of various government services and the capacity of Minnesota's economy to fund those services, as well as the countless special interests competing for dollars. But the challenge is growing and will continue to grow because there is more and more pressure on state budgets. This pressure is coming from at least five sources.

- **First, demographics.** Minnesota is aging. The first of the baby boomers began retiring in 2008 and these retiring baby boomers put pressure on the state budget in two ways. The moment they retire their income drops and, consequently, they provide less tax revenue. Next, as boomers move into retirement their demand for government services—especially Medicaid long-term care—increases.
- **Second, globalization.** Minnesota businesses and their employees increasingly compete on a global scale. As the Minnesota Department of Revenue reports, "No state can afford to ignore the challenges—and the opportunities—brought by the rise of global trade."[4] Globalization will continue to pressure states to reduce revenues from sources that are more affected by the mobility of labor and capital.[5]
- **Third, health care spending.** State health care expenditures are expected to grow faster than revenue. In 2009 the State Budget Trends Study Commission projected that health care expenditures would grow by 8.5 percent per year between 2008 and 2033 while revenues would only grow by 3.9 percent.[6] Therefore, they concluded "Minnesota will not generate sufficient revenues to sustain current rates of spending growth." More recent estimates by Mathematica Policy Research for the Minnesota Department of Health project average annual growth of 10.1 percent in public spending on health care between 2009 and 2019—and that does not include long-term care.[7]

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significantly retard economic growth when the revenue is used to fund transfer payments; as a result, programs of income redistribution are more effectively undertaken at the federal than at the state and local level."

3 Of course, evaluating government spending isn't just about maximizing productivity. There are certain areas of life and the economy where the government doesn't belong and certain services government delivers regardless of the economic impact. Nonetheless, it's only natural and fitting to focus on the economic impact of the state budget and state spending. Most of the major categories of state spending directly impact the economy and the overall level of spending and taxation directly impact Minnesota's economic potential. Further, the capacity to support government services that don't add to the state's productivity depends on the strength of the economy.

4 Minnesota Department of Revenue, "Minnesota's State and Local Tax System," at http://www.revenue.state.mn.us/legislativeupdate/Documents/MN_Tax_Sytem_Overview_Jan_2013.pdf ("States that fall behind on key services—such as education, health care and roads—or get too far ahead with high tax burdens are at a strategic disadvantage. This may result in an outflow of investment capital and the loss of jobs."

5 *See* James Alm, James Shiyuan Chen and Sally Wallace, "State and Local Goverments' Susceptibility to Globalization," *Proceedings of the Annual Conference on Taxation*, pp. 155-64 (2002); and Marius R. Busemeyer, "From myth to reality: Globalisation and public spending in OECD countries revisited," *European Journal of Political Research*, Vol. 48, Iss. 4, pp. 455-482 (2009). *But see* Geoffrey Garret and Deborah Mitchell , "Globalization, government spending and taxation in the OECD," *European Journal of Political Research*, Vol. 39, Iss. 2, pp. 145-177 (2003).

6 State Budget Trends Commission, *Budget Trends Study Commission Report* (January 2009), available at http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf.

7 David Jones, Michaela Vine and Deborah Chollet, *Projected Health Care Spending in Minnesota: 2009-2019*, (Mathematica Policy Research June 29, 2011), available at http://www.mathematica-mpr.com/publications/PDFs/health/projected_spending_MN.pdf

- **Fourth, pension liabilities.** State and local government unfunded public pension liabilities are $16.7 billion and growing.[8] If the state needs to direct spending to bail out public pensions, then there will almost certainly be fewer public funds to spend on other priorities.

- **Fifth, federal debt.** There is increasing pressure to cut federal budget deficits. Minnesota depended on federal grants for over 28 percent of total state revenues in 2012. A cut in federal grant dollars could represent a sizable reduction in state revenue.

All of this means that Minnesota's budget continues to be under serious pressure, despite recent improvements in the state's balance sheet. Therefore, spending restraint must be a top priority.

The consequences of a more carefree tax and spending policy are much higher today than in the past. Obviously, the reason why has a lot to do with the first two points above. Boomer demographics were a boon to past state budgets that benefited from a rising proportion of the working, taxpaying population. Yet today, the impact is quite the opposite. Additionally, tax and spending policies had far less competitive impact on businesses when the economy was more localized.

There's one additional change, though, that often goes overlooked: The competitive hit from raising state income tax rates to fund new spending is much larger today. Over the years, various state and federal tax benefits tied to the interaction of state and federal deductions lowered the effective income tax rate on top earners in Minnesota. Starting in 1986, these tax benefits started disappearing and, as they disappeared, the effective Minnesota income tax rate on top earners increased. Consequently, the benefit to a high wage earner of moving to a state with a lower income tax rate increased.[9] Federal legislation to avoid the fiscal cliff in January 2013 reinstated limits on deducting state taxes for top earners, which means federal tax benefits no longer limit the impact of Minnesota's high tax rate on top earners.

The declining competitiveness of Minnesota's income tax rate underscores why raising taxes is not a long-term solution. Minnesota already struggles with high tax rates that make it harder for businesses to compete. Furthermore, tax increases may lead to further spending increases without solving the underlying problems driving higher rates of spending growth, which means these problems will again emerge in future budgets. As such, a tax increase without changes on the spending side is just another form of kicking the can down the road.

In sum, while today's balance sheets are a welcome relief from recent budgets, they don't negate the demographics and other hard realities that put future balances at serious risk. All that is to say that Minnesota lawmakers need to pay very close attention to state spending. The rest of this report offers vital information necessary to begin evaluating state spending.

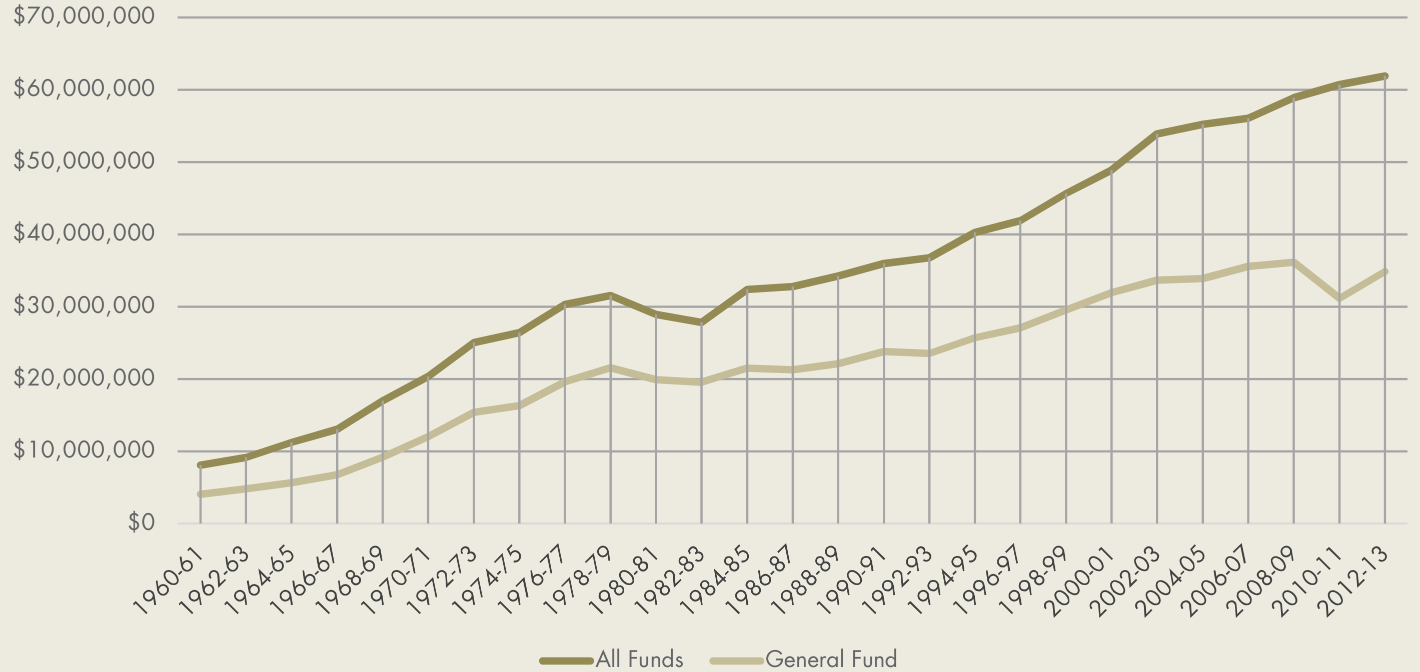
Part II: State Spending Trends, 1960 - 2013

From nearly every vantage point, total state spending in Minnesota climbs up and up from biennium to biennium. As shown in Figure 1, over the past fifty years spending from all funds, in fiscal year (FY) 2012 dollars, increased from $8.1 billion in the 1960-1961 biennium to $61.9 billion in the current biennium. That's a 667 percent increase in real spending.

8 Minnesota Legislative Commission on Pensions and Retirement, Minnesota Legislature, *Summary of Actuarial Valuation Results: Minnesota Public Employee Retirement Plans* (Jan. 30, 2013), available at http://www.commissions.leg.state.mn.us/lcpr/documents/valuations/2012/2012_valuation_summary_ava.pdf.

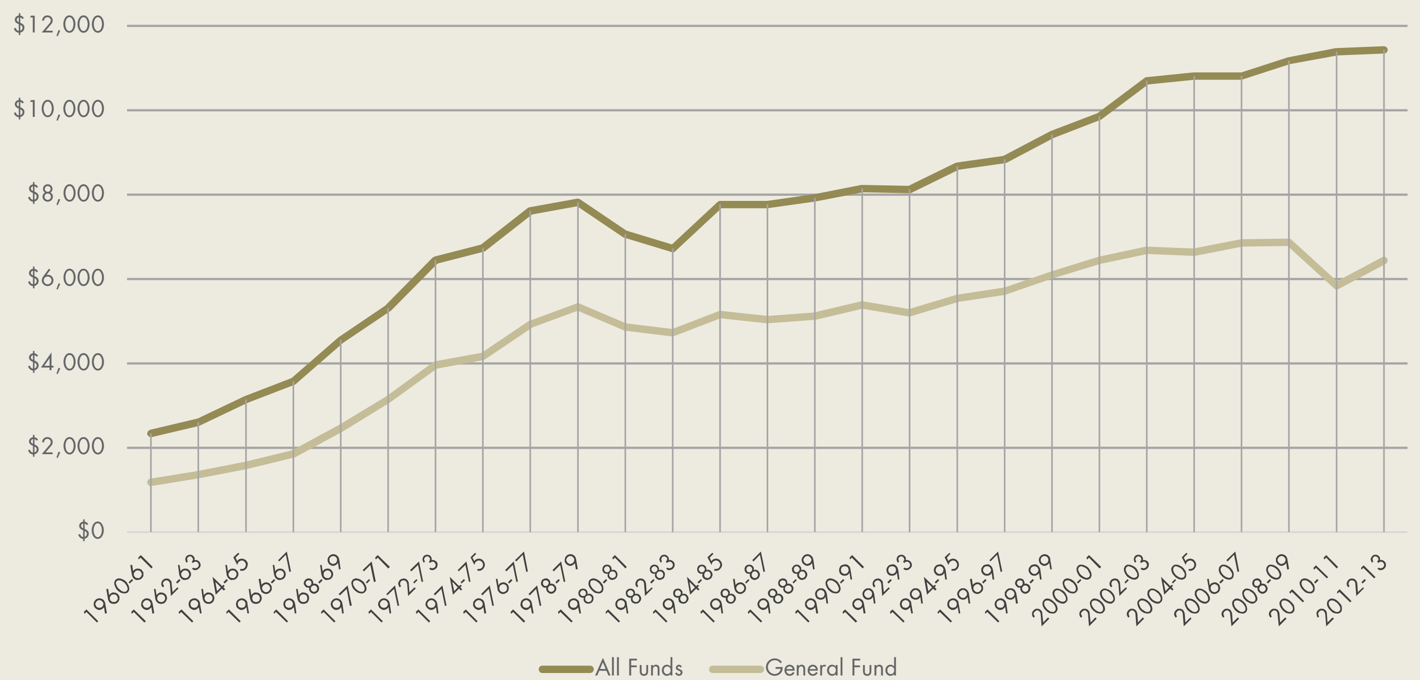
9 Peter J. Nelson, "Why the Anti-Competitive Impact of Minnesota Income Tax Rates is Greater Today than in the 1970s," *Policy in Detail* (Center of the American Experiment July 14, 2011), available at http://www.americanexperiment.org/publications/policy-in-detail/why-the-anti-competitive-impact-of-minnesota-income-tax-rates-is-great.

Figure 1: State Expenditures, Minnesota, 1960-61 to 2012-13 biennial budgets (in thousands of FY 2012 dollars)

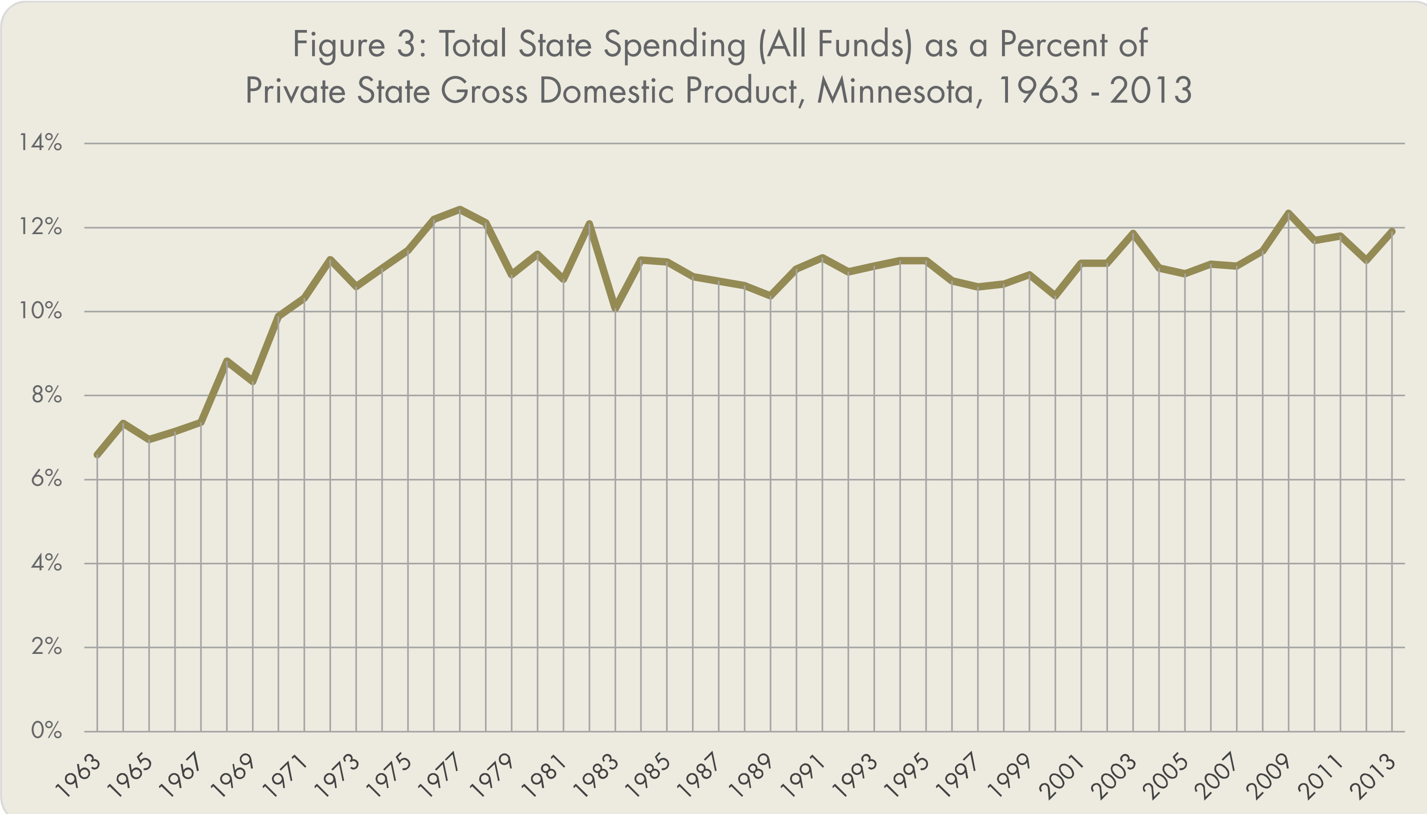


Sources: Author calculations based on Minnesota Management and Budget (Feb 14, 2013); Minnesota Management and Budget (Dec. 2012); Minnesota Management and Budget (Nov. 2012); and Massachussets Institute of Technology, Fiscal Year Cost Indices.

Figure 2: State Expenditures per Capita, Minnesota, 1960-61 to 2012-13 biennial budgets (FY 2012 dollars)



Sources: Author calculations based on Minnesota Management and Budget (Feb 14, 2013); Minnesota Management and Budget (Dec. 2012); Minnesota Management and Budget (Nov. 2012); Massachussets Institute of Technology, Fiscal Year Cost Indices; and U.S. Census Bureau, Population Estimates.



Sources: Author calculations based on Minnesota Management and Budget (Dec. 2012); Minnesota Management and Budget (Feb 14, 2013); and Bureau of Economic Analysis (June 5, 2012). 2012 and 2013 current dollar growth rates are based on Office of Management and Budget projections.

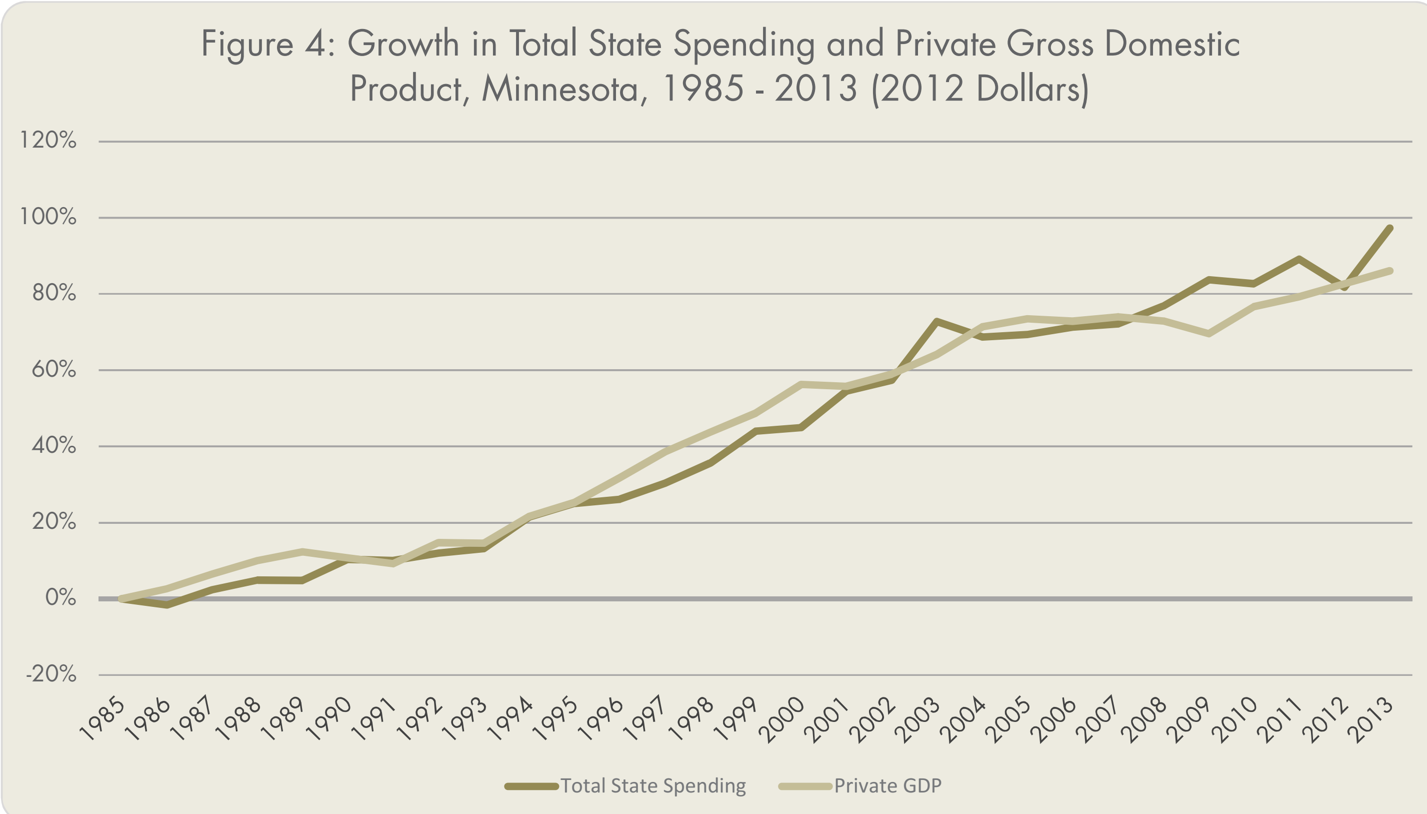
Even after accounting for population growth, spending from all funds grew substantially. As shown in Figure 2, per capita spending, in FY 2012 dollars, grew from $2,341 in the 1960-61 budget to $11,433 in the current budget, which accrues to a 388 percent increase.

Spending increases indeed dominated the past fifty years. The most rapid spending increases took place between 1968 and 1973, a time when the state introduced the sales tax for the first time (1968) and passed the so called Minnesota Miracle (1971), the largest tax increase in state history. In that time, spending increased by over 20 percent per biennium on average. After the state recovered from the recession of the early 1980s, state spending has grown at a fairly consistent pace—a 4.7 percent average rate of increase per biennium from 1985 to now.

However, real spending increases did moderate to around 2 percent per biennium in two consecutive budgets in the mid-2000s. On a per capita basis, spending remained flat through this period.

Recessions create pressure on state budgets from both the revenue side (lower income growth means lower revenue growth) and the spending side (more people struggling economically means higher demand for public services). Despite these pressures, Minnesota made it through the “Great Recession” without cutting total spending or raising tax rates. Incredibly, Minnesota managed to increase real spending through the worst of the great recession, even as the state faced a $6 billion budget shortfall. That bears repeating: *Total inflation-adjusted state spending grew in Minnesota through the Great Recession*. Specifically, state spending increased by 3.1 percent in 2010-11 and by 1.9 percent in the current biennim. These spending increase were made possible by federal grants, accounting shifts and the sale of bonds on Minnesota’s tobacco settlement.

In contrast, real spending dropped by 8.3 percent in the 1980-81 budget and by another 3.8 percent



Sources: Author calculations based on Minnesota Management and Budget (Dec. 2012); Minnesota Management and Budget (Feb 14, 2013); and Bureau of Economic Analysis (June 5, 2012). 2012 and 2013 real dollar growth rates are based on Global Insight projections from the November 2012 Economic Forecast. The federal government changed the way it estimated state GDP in 1997. From 1998 and forward, state GDP estimates are based on NAICS classifications, while state GDP prior to 1998 is based on SIC classifications.

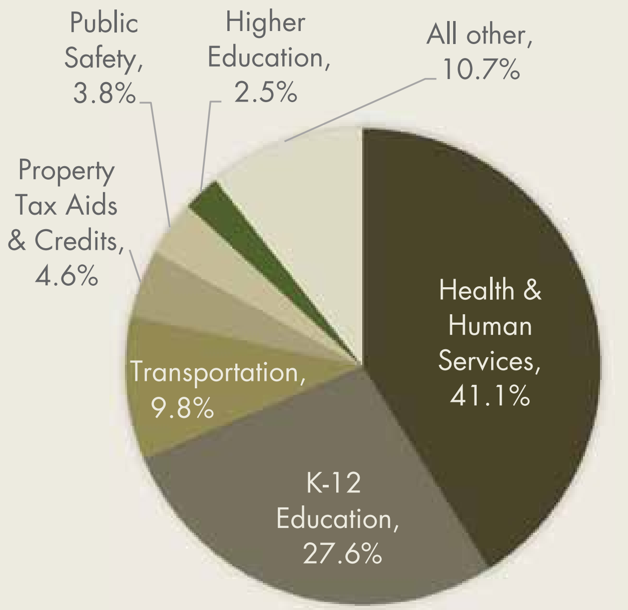
in the 1982-83 budget during the 1980s recession. These two biennia represent the only biennia with a noticeable drop in both real and real per capita spending.[10]

Comparing total state spending to the size and growth of the private economy offers one last vantage point on spending. Figure 3 depicts state spending as a percent of Minnesota's gross domestic product attributable to private industries.[11] After a substantial period of consistent growth between 1963 and 1977, state spending as a percent of the private economy leveled out at around 11 percent in the mid-1980s. In the past four years, however, this number has consistently registered closer to 12 percent. Figure 4 compares the growth in state spending against the growth in the private economy starting in 1985, which confirms that state spending has grown at roughly the same rate as the private economy. However, growth in state spending is now ahead of the private economy. Whether that is evidence of a long-term trend or the Great Recession remains to be seen. What Figure 3 and Figure 4 do show is that state spending compared to the private economy is on the high side of where it has been over the past twenty five plus years.

10 The only other negative showings were microscopic drops of $25 and $2 in real per capita spending in 1992-93 and 2006-07, respectively.

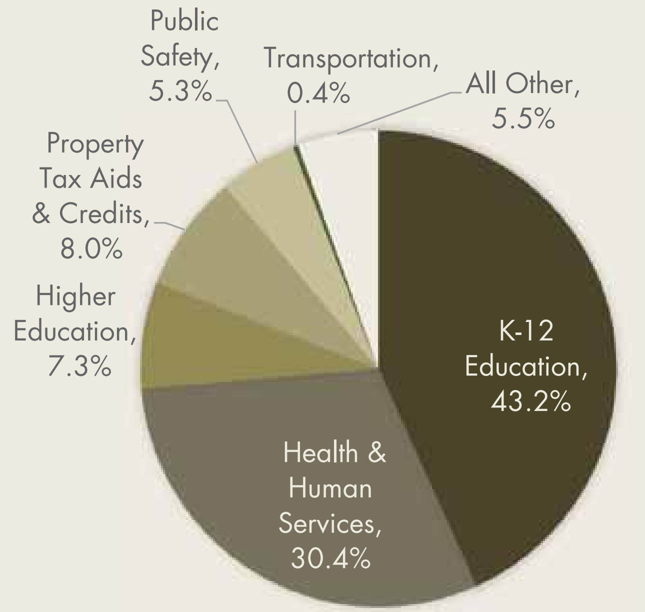
11 When comparing state government to the private economy, readers will likely be more familiar with the price of government (POG) measure the state publishes by law each year. The POG measures total state and local revenues as a percent of personal income. This report, however, is focused on the state budget, not local budgets. Further, the POG is flawed on many counts. To point out just one flaw, the POG does not account for the portion of state and local government supported by federal grants.

Figure 5: Total Spending from All Funds, Minnesota, 2012-13



Source: Minnesota Management and Budget (Nov. 2012).

Figure 6: General Fund Spending, Minnesota, 2012-13



Source: Minnesota Management and Budget (Nov. 2012).

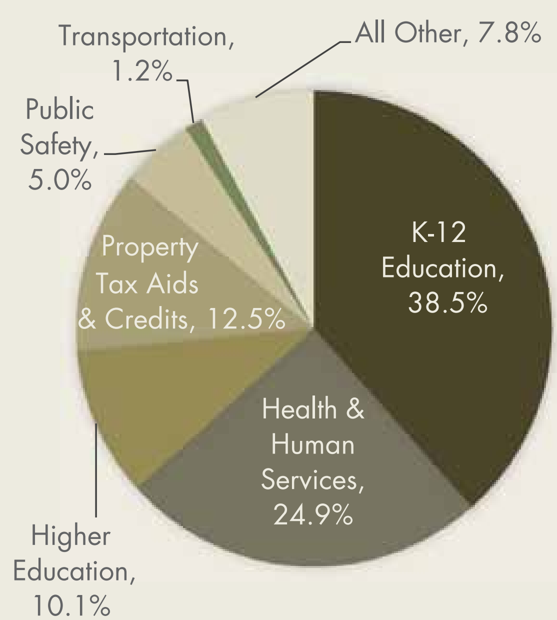
Part III: Where does the money go?

Two areas of state spending dominate the budget: K-12 education and health and human services. Looking at total spending in the current budget, education consumes 27.6 percent and health and human services consumes 41.1 percent. This totals more than two-thirds of state spending (see Figure 5). At 9.8 percent, transportation is the only other category higher than 5 percent of total spending.

So far, this report has focused on total spending from all state funds because it offers the best comparison across time and between states. However, as Bill Marx—chief fiscal analyst at the Minnesota House of Representatives—states in a recent report on state spending, "Most discussions of state expenditures focus on the state general fund."[12] That's because, as Marx explains, "the general fund is the single

12 Bill Marx, State Expenditures – All Operating Funds, Money Matters: Number 12-2, Fiscal Analysis Department, Minnesota House of Representatives (January 2012), available at http://www.house.leg.state.mn.us/fiscal/files/12allfunds.pdf.

Figure 7: General Fund Spending, Minnesota, 2002-03



Source: Minnesota Department of Finance (Nov. 2003).

largest operating fund and also the one that allows the most flexibility in spending. Most expenditures from funds other than the general fund are limited to certain purposes that are usually related to the source of the fund's revenues." In other words, the general fund is the most discussed because that's where nearly all of the budget reductions and increases occur during the budget setting process.

Like total spending from all funds, K-12 education and health and human services represent the bulk of spending from the general fund, but their respective shares—43.2 percent and 30.4 percent—are reversed from their shares of total spending. This difference is largely due to the fact that total spending includes federal grants, which primarily support health and human services spending. Property tax aids and credits (8.0 percent) and higher education (7.3 percent) are the next largest portions of the general fund spending. Because these four spending categories are the largest, they are also the first place lawmakers go to find savings when the budget needs trimming.

Over the past decade, both the education and health and human services budgets have taken greater shares of the general fund budget. In the 2002-03 budget, K-12 education equaled 38.5 percent of general fund spending and HHS equaled 24.9 percent. Combined, that's 10.2 percentage points less than their share of the current general fund budget. Their larger share in the current budget is largely offset by reductions in the share of the budget spent on higher education and property tax aids and credits.

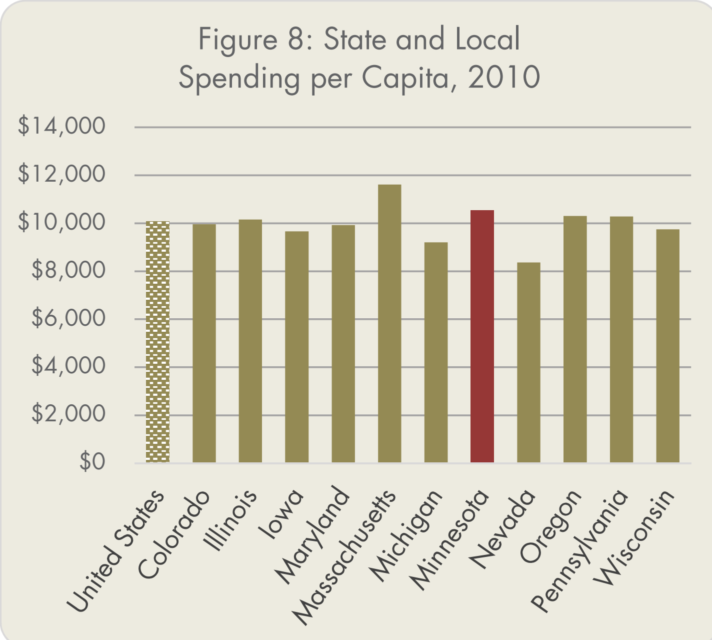
Part IV: How does Minnesota compare?

Making comparisons between states is no easy task. One of the major problems is that states vary in the proportion of public services provided at the state versus local level of government. This is particularly true for education. Thus, it's often best to compare combined spending at the state and local level, assuming good data exists. Another issue is that states will have different levels of need for particular public services. For instance, a state with a higher proportion of teenagers will need to spend more on secondary education and a state with lower crime rates will need to spend less on corrections. Finally, the cost of the inputs for providing public services can vary across states. Teacher salaries are far higher in Connecticut than Montana.

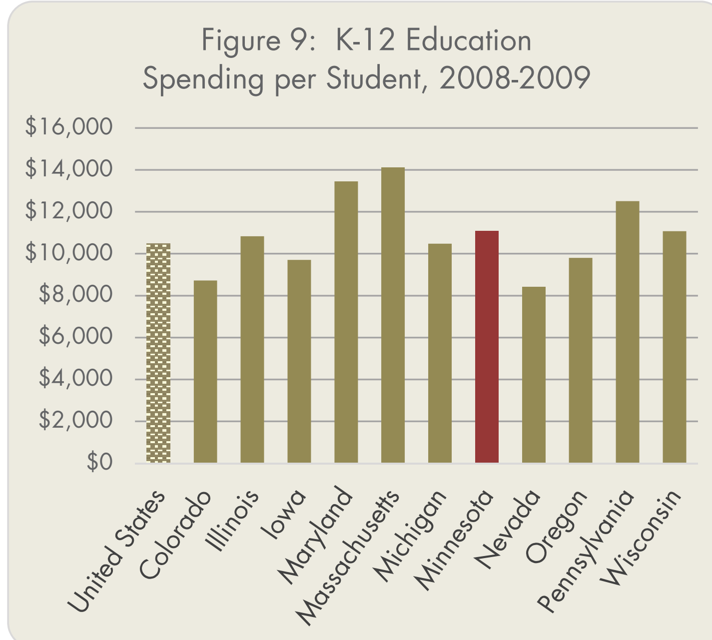
Comparing per person state and local spending provides a good starting point to begin understanding how Minnesota compares.[13] In 2010, total state and local government spending per person in Minnesota added up to $10,534. By this measure, Minnesota was the fifteenth highest spending state in the U.S. and, as shown in Figure 8, the state spent the second most behind Massachusetts when compared to peer states. Peer states are explained in more detail on the next page. This simple comparison offers a helpful high-level view, but a more complete—albeit still high level—understanding of Minnesota requires a look at specific types of state spending.

Figures 9 through 15 compare Minnesota spending within the major categories of the state general fund budget to peer states and the United States average. These categories include K-12 education, public welfare, higher education, corrections and

13 Another popular measure used to compare spending is the ratio of spending to personal income. This is the go-to statistic if you want to make a high spending state look stingy. The measure does provide valuable information on the size of government relative to the economy, which is why a similar measure is evaluated for Minnesota above. However, when used to compare states, it skews the rankings and places high income states very low. For instance, Massachusetts and Connecticut rank 43rd and 48th, respectively, based on state and local spending as a proportion of personal income. No one would consider these low-spending states. Minnesota ranks 27th. Low income states can also rank very high on this measure because it takes a larger proportion of their income to provide basic government services and infrastructure due to their lower income and population densities. The California Taxpayers Association appropriately asks, "Why should California policy makers feel pressure to 'keep up' with states that rank higher merely because they are poorer and less populated?" California Taxpayers Association, "How (Not) to Measure Tax Burden," *Cal-Tax Research* (March 1996), available at http://www.caltax.org/research/taxburdn.htm.



Source: Author calculations based on U.S. Census Bureau, 2010 Annual Surveys of State & Local Finance data and U.S. Census Bureau, Population Estimates.



Source: U.S. Census Bureau, Public Education Finances: 2009 (May 2011).

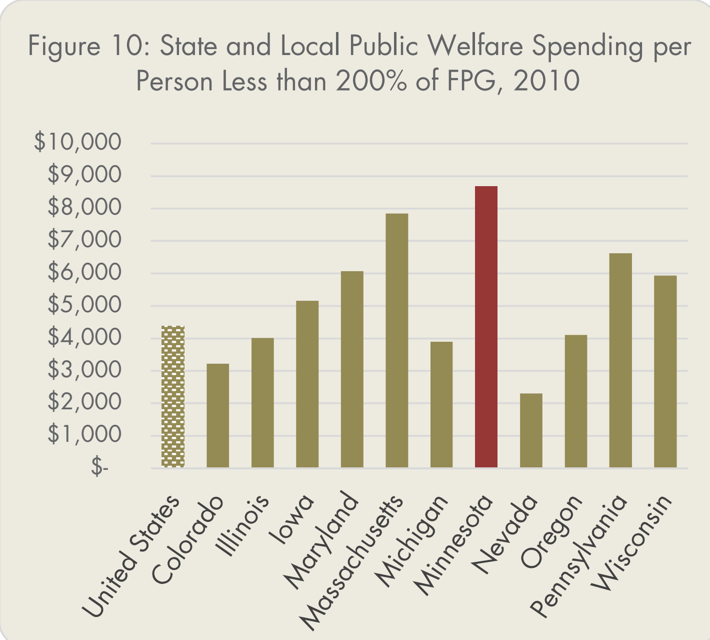
debt service. In each case, states are compared by a measure of how much the state spends per person served. This helps clear away distortions that might occur when a state happens to have a disproportionate number of citizens who rely on a particular state service, such as a disproportionately large student population.[14]

Ideally, state spending would also be adjusted for variations in the cost of inputs to deliver public services, especially state labor costs for labor intensive spending categories such as K-12 education, higher education and corrections. Short of making complicated and likely imprecise adjustments, this issue can fairly be addressed by paying special attention to similarly situated states. Enter the peer states. Here a peer state is generally defined as a state that pays state and local employees salaries similar to those paid in Minnesota.[15] This should help address the fact that South Dakota can pay the average K-12 teacher $38,516, while New Jersey pays $73,902. (Minnesota, by the way, pays $56,086.) Peer states include: Colorado, Illinois, Iowa, Maryland, Massachusetts, Michigan, Nevada, Oregon, Pennsylvania, and Wisconsin.

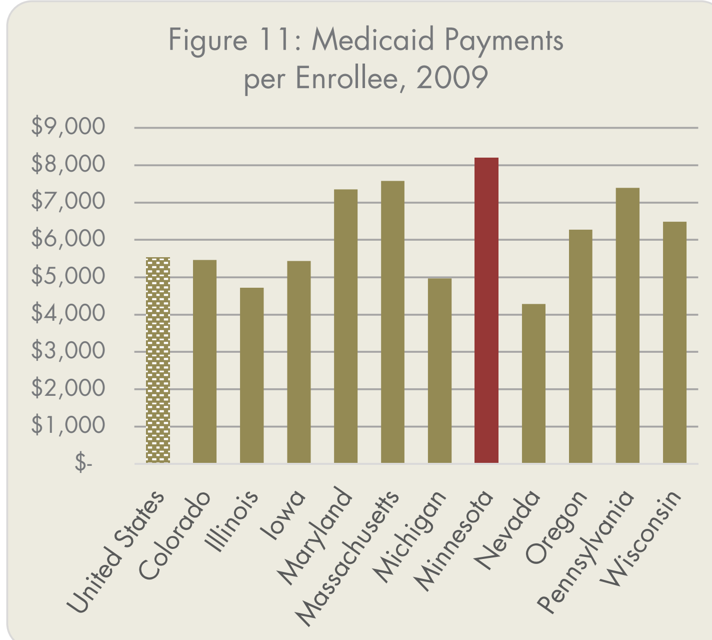
K-12 education. The U.S. Census Bureau annually reports education finance data. While the most recent data is for the 2009-10 school year, Figure 9 reports data from the 2008-09 school year because it is the last year in which the data do not appear to be skewed by the education spending shifts

14 *See* Yesim Yilmaz, et al., "Measuring Fiscal Disparities across the U.S. States: A Representative Revenue System/ Representative Expenditure System Approach Fiscal Year 2002," Urban Institute Occasional Paper Number 74 (November 2006), available at http://www.urban.org/UploadedPDF/311384_fiscal_disparities.pdf; and Robert Tannenwald, "Interstate Fiscal Disparity in 1997," *New England Economic Review*, Federal Reserve Bank of Boston, 2002, available at http://www.bos.frb.org/economic/neer/neer2002/neer302b.pdf; and Advisory Commission on Intergovernmental Relations, Measuring State Fiscal Capacity: Alternative Methods and their Uses (Sept. 1986), available at http://www.library.unt.edu/gpo/acir/Reports/information/m-150.pdf.

15 Minnesota's peer states are the ten states that pay state and local government employee nearest to what Minnesota pays. As it turns out, five states pay more and five states pay less. All states pay within eight percent of what Minnesota pays. Average pay is derived from Census Bureau data, which includes gross payroll before taxes and excludes the employer share of fringe benefits like retirement and health care. U.S. Census Bureau, *2011 Survey of Public Employment & Payroll* (August 2012), available at http://www.census.gov/govs/apes/.



Source: Author calculations based on U.S. Census Bureau, 2010 Annual Surveys of State & Local Finance data and U.S. Census Bureau, Current Population Survey.



Source: Kaiser Family Foundation.

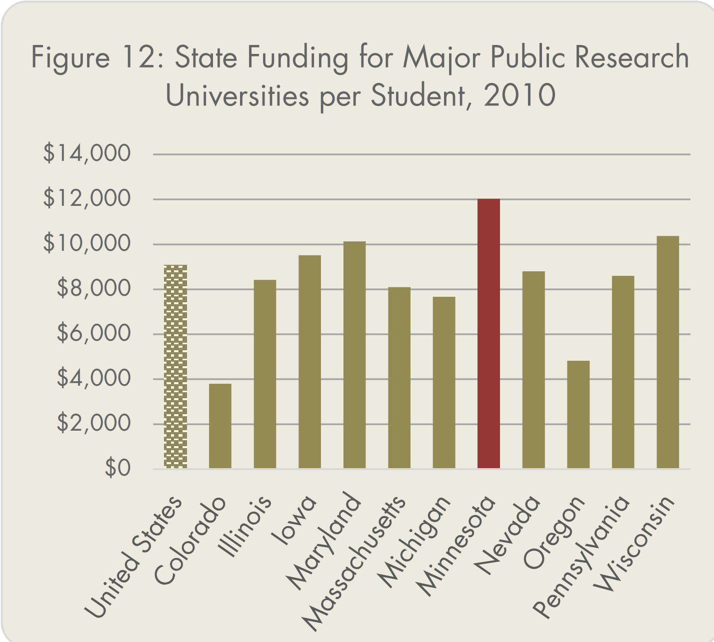
Minnesota used to balance the state budget over the past couple of budgets. In the 2008-09 school year, Minnesota spent $11,098 per student, which was $599 higher than the national average and the fifteenth highest in the country. Compared to peer states, only the three states on the eastern seaboard spent more than Minnesota. Outside of the East, Wyoming was actually the only state in the lower forty-eight to spend more than Minnesota.[16]

Public welfare. Public welfare primarily includes spending on health care and cash assistance programs for needy people. To get a sense of how much each state spends per person on public welfare, public welfare spending is measured per person below 200 percent of the federal poverty guideline. While this is by no means a perfect measure, most people who receive public welfare will live below 200 percent of the federal poverty guideline (FPG).[17] Minnesota spends more per person under 200 percent of FPG than any other state besides Alaska. State and local government spending for this purpose in Minnesota ($8,680) is about twice the national average ($4,389).[18] When spending is compared on per capita and personal income bases, the state still ranks sixth and eighth highest in the country, respectively. Of Minnesota's peer states, only Massachusetts even begins to

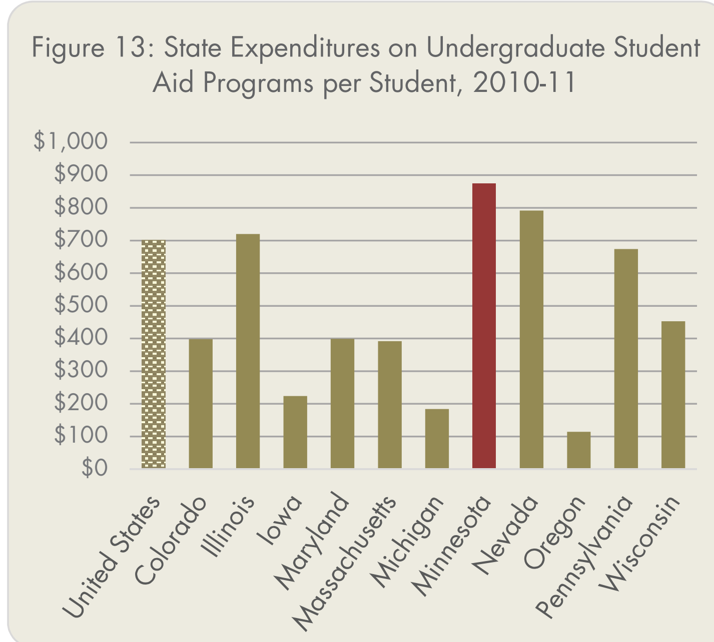
16 Wyoming spends more largely because the courts took control of the funding system for a number of years. In 1995, as Eric Hanushek explains, the Wyoming Supreme Court "ordered the legislature to provide enough money to local school districts to enable them to furnish an education that is the 'best' and is 'visionary and unsurpassed.'" In 2001, the court found the legislature had not done enough and ordered more funding. "As a result," according to Hanushek, "Wyoming has increased spending to the point that, when adjusted for cost of living differences, it now has the fourth highest per-pupil expenditures in the nation." Eric Hanushek, *Courting Failure* (Hoover Institution 2006), available at http://www.hoover.org/publications/books/8341.

17 Economists use a similar methodology when assessing a state's "fiscal need." As defined by Robert Tannenwald and Jonathan Cowan, fiscal need is "the extent to which a state, through no fault of its own, faces conditions that increase per unit costs of providing state and local public services or augment the scope of services that its government must provide." Robert Tannenwald and Jonathan Cowan, "Fiscal Capacity, Fiscal Need, and Fiscal Comfort among U.S. States: New Evidence," *Publius*, Vol. 27, No. 3 (Summer 1997): pp. 113-125.

18 This may appear to be a low number. However, this is an average of everyone below 200 percent of the federal poverty guideline; not everyone below 200 percent of FPG receives public welfare. The actual spending per person who receives public welfare would be much higher.



Source: National Science Foundation, Science and Engineering Indicators 2012.



Source: National Association of State Student Grant & Aid Programs, 42nd Annual Survey Report.

approach Minnesota's spending level (see Figure 10). Pennsylvania, the second nearest, is still over $2,000 behind Minnesota.

Medicaid spending per enrollee paints a similar picture. Again, as shown in Figure 11, Minnesota spends more than any peer state. On this measure, Minnesota ranks sixth nationally behind Alaska and four Eastern states.

Higher education. State spending items become much smaller after K-12 education and public welfare. Nonetheless, a hundred million here and a billion there is still real money worth scrutinizing. Though only 2.5 percent of the total budget, higher education still amounts to $1.5 billion. Here again, Minnesota spends more when measured by the people receiving the benefit. In 2010, Minnesota spent $12,030 on public research universities per enrolled student—the eighth highest in the nation and almost $1,700 more than its closest peer state (see Figure 12). Minnesota, however, spends a bit more moderately on student aid per undergraduate. Here Minnesota ranks fourteenth in the nation. But in comparison to peer states, Figure 13 shows Minnesota again spends more than every state.

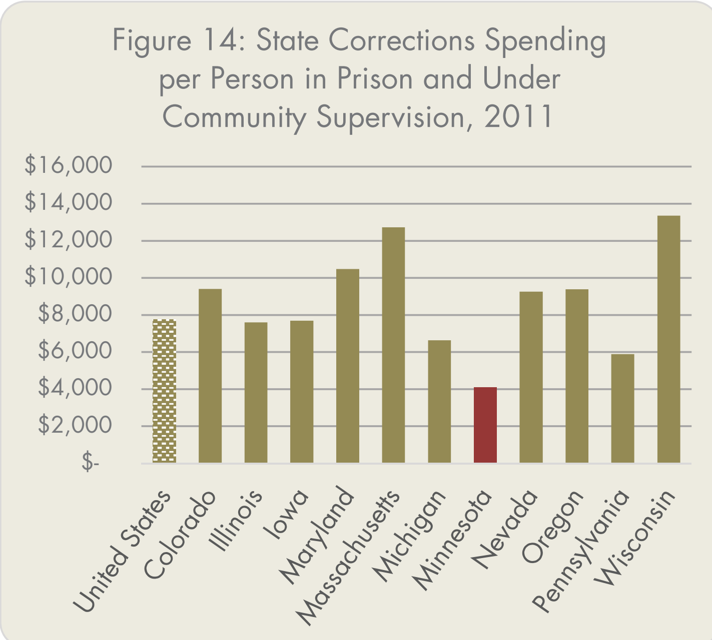
Minnesota's public university budgets are now under serious scrutiny after recent reports showed an inordinately high amount of spending on administrative expenses compared to other university systems. Recent movement in salaries certainly justifies some scrutiny. In 2007, the average annual pay for full time higher education employees in Minnesota ($61,881) roughly matched Wisconsin ($60,985) and Michigan ($61,498).[19] Just four years later, in 2011, the average annual pay in Minnesota was $72,723 versus $66,218 in Wisconsin and $68,137 in Michigan.[20]

Corrections. Minnesota doesn't lead on every category of state spending. As many states struggle with rising corrections spending, which is often contrasted against declining higher education spending, Minnesota spends less on corrections than just about any state.[21] In 2011, on a per capita basis,

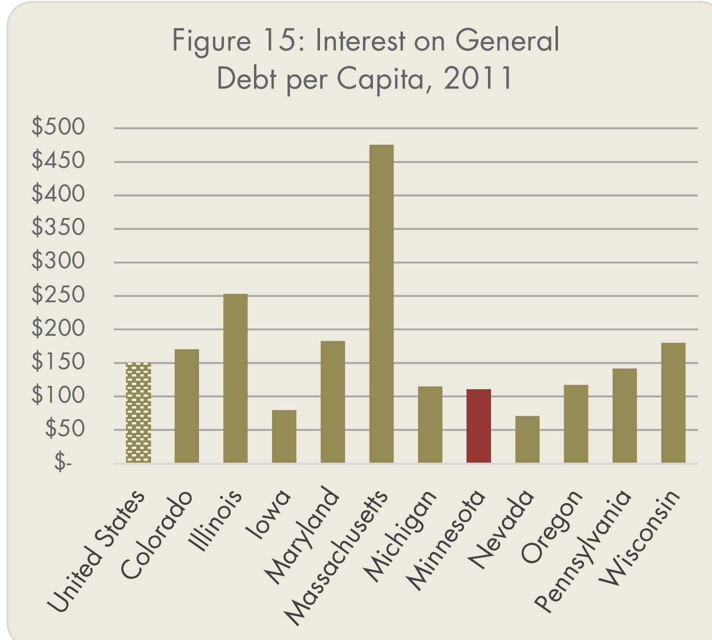
19 U.S. Census Bureau, 2007 Annual Survey of Public Employment and Payroll (December 2009), available at http://www.census.gov/govs/apes/.

20 U.S. Census Bureau, 2011 Annual Survey of Public Employment and Payroll (March 2011), available at http://www.census.gov/govs/apes/.

21 Corrections spending includes the cost of building



Source: Author calculations based on U.S. Census Bureau 2011 Annual Survey of State Government Finances; and U.S. Department of Justice, Bureau of Justice Statistics.



Source: Author calculations based on U.S. Census Bureau, 2011 Annual Survey of State Government Finances U.S. Census Bureau; and U.S. Census Bureau, Population Estimates.

Minnesota ranked 48th in spending on corrections. Only Utah and New Hampshire spent less. When measured by state corrections spending per person in prison and under community supervision, Minnesota spent $4,119 and again ranked 48th. As Figure 15 shows, this is far less than any peer state. The closest state, Pennsylvania, still spent $1,777 more than Minnesota.

Corrections spending is trending in very different ways in other states. States like California and Wisconsin have seen corrections consume larger and larger portions of their budgets, crowding out other spending priorities.[22] For instance, a recent report by California Common Sense highlights how higher education's share of California's budget has declined over 30 years while corrections' share has consistently risen.[23]

Debt service. Interest on general debt service is another relatively low ranking, or rather, bright spot in state spending. It's hard to narrow down exactly who benefits from the debt that funds capital expenditures. Consequently, debt service spending is compared on a per capita basis. Among Minnesota's peers, Figure 15 reveals that only Iowa and Nevada spend less. Massachusetts spends the most by a wide margin and not only among Minnesota's peers, but also nationwide. This is no doubt in large measure due to debt issued to finance the Big Dig—the rerouting of Boston's core Interstate into a tunnel—which won't be paid off until 2038.[24]

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and operating prisons systems and administering parole, probation and other community supervision programs.

22 *See* Wisconsin Taxpayers Alliance, "The Cost Corrections: Wisconsin and Minnesota," *The Wisconsin Taxpayer*, Vol. 78, No. 4 (April 2010), available at http://wistax.org/publication/the-cost-of-corrections-wisconsin-and-minnesota; and Tamarine Cornelius, "Increasing Share of Scarce Resources Spent on Corrections," Wisconsin Budget Project Issue Brief #5 (2011), available at http://www.wisconsinbudgetproject.org/corrections_spending.pdf.

23 Prerna Anand, "Winners and Losers: Corrections and Higher Education in California," California Common Sense (Sept 5, 2012), available at http://www.cacs.org/ca/article/44.

24 Eric Moskowitz, "True cost of Big Dig exceeds $24 billion with interest, officials determine," *Boston Globe*, July 10, 2012, available at http://www.boston.com/metrodesk/2012/07/10/true-cost-big-dig-exceeds-billion-with-interest-officials-determine/AtR5AakwfEyORFSeSpBn1K/story.html.

Table 1

Year spending restraint begins	2012-13 Estimated expenditures holding to population growth (FY $2012)	Difference from Actual Spending	2012-13 Estimated expenditures holding to rate of growth of Minnesota GDP (FY $2012)	Difference from Actual Spending
1986	$41,336,392	- $20,542,140	$57,083,574	- $4,794,958
1996	$47,293,862	- $14,584,670	$57,067,324	- $4,811,209
2004	$58,601,043	- $3,277,489	$59,038,325	- $2,840,207

Sources: Author calculations based on Bureau of Economic Analysis (June 5, 2012); Massachussets Institute of Technology, Fiscal Year Cost Indices; Minnesota Management and Budget (Dec. 2012); Minnesota Management and Budget (Feb 14, 2013); and U.S. Census Bureau, Population Estimates.

Part V: "What if?" scenarios

Considering the data shown above, it is clear that Minnesota has long had room to restrain spending. Instead of spending the most per student west of the Appalachian Trail (and south of Ketchikan, Alaska), there should be room to lower or at least contain education spending. And that is even truer when it comes to public welfare spending where Minnesota is a clear outlier. Remember, inflation- and population-adjusted spending has consistently risen since 1960. In over 50 years, only two bienna in the early 1980s showed a measurable drop.

But what if state spending had grown no faster than the rate of inflation and population growth? It's a very interesting counterfactual question. Matthew Mitchell, a Research Fellow with the Mercatus Center at George Mason University, answered that question for the ten states that experienced the largest budget shortfalls in both 2009 and 2010.[25]

One of the main reasons he asked the question for those states was to illustrate "an important principle of spending limitation: budget shocks can entail less pain if a state has limited its government spending growth over the long run. Many states had to make painful budget cuts and revenue increases when the recession hit."

Though Minnesota didn't make Mitchell's study, the state did experience quite a budget shock—a projected $6.2 billion deficit in the current biennium—which could have been less severe and painful if previous spending growth had been limited. Table 1 shows how much lower state spending would have been if spending growth had previously been held to the rate of inflation and population growth beginning in three different years: 1986, 1996 and 2004. For a less restrained spending scenario, the table also shows what state spending would have been if it grew at the same rate as the economy in each of these scenarios.

Of course, the biennium chosen to begin the hypothetical exercise impacts the results. Pick a biennium where spending is unusually low or high will skew the results up or down, respectively. The bienna used here were chosen because they represent average years where the economy was not in an extreme upswing or downswing.[26]

25 Matthew Mitchell, "State Spending Restraint: An Analysis of the Path Not Taken," *Mercatus Center Working Paper No 10-48* (August 2010), available at http://mercatus.org/sites/default/files/publication/State%20Spending%20Restraint%20An%20Analysis%20of%20the%20Path%20Not%20Taken%20corrected.%2010.1.10_0.pdf.

26 It should also be noted that demographics impact the demand for public services, especially the proportion of the population who tend to be more dependent on government services, such as student and elderly populations. A few key demographic statistics suggest there is less demographic-driven demand for public services today, which means that Table 1 might understate the difference from actual

If spending were held to the rate of inflation plus population growth since 1986, Minnesota would have spent $41.3 billion in the current biennium, saving the state $20.5 billion. If this spending restraint began in 1996, the savings would have equaled $14.6 billion. And if this spending restraint began as recently as 2004, the savings would still total $3.3 billion. Holding spending increases to the much less restrained rate of economic growth still results in $2.8 billion to $4.8 billion in savings, depending on the starting year.

Any of these scenarios would have reduced the $6.2 billion deficit for the current biennium projected back in November 2010. Obviously, if spending were lowered over the years, then revenues would be lower too. Thus, it's unrealistic to think that Minnesota could have altogether avoided deficits during the recent recession. But deficits could have been smaller for at least four reasons.

- First, as a percent of a smaller budget, the total deficit would be smaller.

- Second, deficits would be lower because public welfare spending would be a smaller portion of the budget. A disproportionate share of spending increases over the years went to public welfare programs. This extra public welfare spending requires more spending during economic downturns than other spending priorities like transportation and education. Economic downturns don't produce more K-12 students, but they do increase the number of people without jobs who qualify for public welfare.

- Third, budget restraint would provide opportunities to adjust revenues to more stable revenue sources—such as a sales tax on a broader base—that support more revenue and, consequently, lower deficits during economic downturns. Adjusting tax policy is always difficult because there tend to be losers and losers tend to be loud and convincing opponents. In good economic times, instead of letting higher revenues go to autopilot spending increases, revenues can go toward tax deals that mitigate or offset the impact of tax reform on the losers.

- Fourth, budget restraint that targets unproductive and ineffective spending would not only cut wasteful spending but it would also increase state revenues. Less spending on unproductive government programs allows more spending on productive activities that grow the economy in both the public and private sectors. More economic growth would deliver more revenue.

Conclusions

The good news this year is that Minnesota does not have to fix a $6 billion or even $1 billion budget deficit. The bad news: Minnesota's budget continues to face more and more pressure from retiring baby boomers, increasing globalization, rising health care costs, growing unfunded public pension liabilities, and mounting uncertainty over federal grants to states. Minnesota must restrain future spending to address these challenges. Can Minnesota restrain spending? The short answer: Yes. The above analysis leads to a number of important conclusions to help guide state budget decisions.

- **There is ample room to reduce state spending.** The fact that Minnesota's budget, adjusted for both inflation and population growth, has steadily risen since 1984 without any appreciable drop suggests there's plenty of room to reduce spending. At the very least, this underscores the fact that Minnesota has not implemented anything close to "cut-and-

spending. Today's poverty rate is about the same as in 1996, but lower than 1986. On the other hand, the proportion of the population over 65 is higher today, but not much higher (13.1 percent in 2011 versus 12.4 percent in 1986 and 12.5 percent in 1996). There have been more substantial changes in the student-aged population. The K-12 student-aged population was 18.9 percent of Minnesota's total population in 1986, 20.0 percent in 1996, and 17.3 percent in 2011. All in all, this evidence suggests there is less demographic-driven demand for public services today.

slash" policies in recent years. But as shown in this report, state spending would have been $20 billion lower, or about a third lower today if it had been held to 1980s levels. It's certainly reasonable to conclude that a portion of that $20 billion represents an unproductive expansion of state spending. This conclusion is bolstered by the finding that Minnesota spends considerably more on public welfare per low-income person than even high-spending states like Maryland and Massachusetts.

- **To protect the safety net for the neediest and to encourage people to move their lives forward, public welfare eligibility and benefit levels should be adjusted to better match peer states.** The fact that Minnesota is such an outlier on public welfare and Medicaid spending suggests that Minnesota's current benefit and eligibility levels poorly target the neediest Minnesotans. This presents two problems. First, benefits going to people with fewer needs are likely too generous, discouraging them from moving ahead with their lives. Second, while there is no indication Minnesota is spending too little on programs for the neediest, these programs may not receive the attention and oversight they need when the breadth of human services programs is so wide. In addition to these two problems, today's public welfare spending priorities will increasingly compete with the demands of retiring baby boomers. There is a serious risk that spending on retiring baby boomers will crowd out spending on needier and more vulnerable populations. To prepare for higher spending on retiring baby boomers, the state should start restructuring benefit and eligibility levels across public welfare programs today to better match peer states. Any reductions in benefits should focus on removing disincentives to work. The Minnesota Department of Human Services Reform 2020 initiative—a piece of the 2011 budget agreement—is a good start. But the expected $151 million in savings over five years is just a small fraction of what will be needed.[27]

- **Higher education spending reductions should be considered.** Higher education spending in Minnesota is now under the microscope after a *Wall Street Journal* report found the University of Minnesota "had the largest share of employees classified as 'executive/administrative and managerial' among the 72 'very-high-research' public universities in the 2011-12 academic year."[28] The findings in this report support further scrutiny of state spending on higher education. Much of what the state spends on higher education represents a productive investment in human capital. But Minnesota spends about $1,700 more per student than Wisconsin, the next highest spending peer state. Is this extra spending productive? Maybe not. The just referenced *Wall Street Journal* reporting and recent increases in Minnesota higher education salaries, relative to Wisconsin and Michigan, suggest Minnesota higher education dollars are not being spent productively.

- **Minnesota does not shortchange K-12 education spending.** Minnesota spends more per student than any neighboring state, any Midwestern state, and all but one Western state. Yet Minnesota doesn't spend *that* much more than Illinois, Michigan or Wisconsin and the state does spend less than plenty of Eastern states. Therefore, this one indicator doesn't help answer whether Minnesota should spend more or less on K-12

27 Office of Governor Mark Dayton, Reform 2020: Delivering Care More Efficiently (Jan. 2013), available at http://www.mn.gov/governor/images/Reform_2020_Delivering_Care_More%20Efficiently.pdf.

28 Douglas Belkin and Scott Thurm, "Deans List: Hiring Spree Fattens College Bureaucracy—And Tuition," *Wall Street Journal*, December 28, 2012, available at http://online.wsj.com/article/SB10001424127887323316804578161490716042814.html.

education. Still, the fact that Minnesota is a top spender outside of the East strongly suggests the state is not shortchanging K-12 education spending.

- **The state should investigate whether corrections spending is adequate.** Corrections is the only major category of state spending where Minnesota spends substantially less than other states. Minnesota spends almost $1,800 less on corrections spending per person in prison and under community supervision than its nearest peer state. Nationally, Minnesota ranks 48th. It's possible that this spending level is okay. It's possible that Minnesota's low crime rate plus more effective corrections policies justify this lower spending. However, a study by the Pew Center on the States recently concluded that Minnesota had the highest recidivism rate in the country.[29] This finding may partly reflect the fact that Minnesota does a better job of putting people in prison who truly represent a danger to society and, consequently, the people in Minnesota prisons are more hardened criminals who are more likely to reoffend. Nonetheless, Minnesota's low corrections spending juxtaposed against its highest-in-the-nation recidivism rate certainly warrants a close and ongoing review.

- **To make informed budget decisions, lawmakers need more detailed, accurate and regular assessments of whether public programs are actually achieving the results taxpayers expect.** Instead of just comparing how much the state spends per capita or as a fraction of personal income, this report compares how much the state spends per person served. These comparisons offer a better perspective on whether the state is getting value for what it spends on public programs. For instance, the fact that the state spends substantially less on corrections and still enjoys a very low crime rate suggests that Minnesota gets a lot of value for each dollar it spends on corrections. However, this is just a suggestion that requires further investigation. Minnesota's recidivism rate suggests otherwise. Lawmakers, therefore, need much more detailed, accurate and regular assessments of public programs to know whether they deliver value and results. This sort of information is very limited, but is absolutely necessary for the state to control and prioritize spending in the future.

- **Impose spending limits through statute or constitutional amendment.** Minnesota's constitution already requires a balanced budget and allows the governor to line-item veto spending provisions, which are two very important mechanisms that work to restrain spending. However, the decades of expenditure growth that consistently overshot inflation and population growth suggest that Minnesota lawmakers need more help reigning in their good intentions. Lawmakers should consider adding further tax and expenditure limits through statute or constitutional amendment. ■

29 Pew Center on the States, *State of Recidivism: The Revolving Door of America's Prisons* (The Pew Charitable Trusts April 2011), available at http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/sentencing_and_corrections/State_Recidivism_Revolving_Door_America_Prisons%20.pdf.

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U.S. Census Bureau, Population Division, *Table 1: Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2011* (NST-EST2011-01) (December 2011), available at http://www.census.gov/popest/data/historical/2010s/vintage_2011/index.html.

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Appendix

Table A1: Minnesota Total Spending from All Funds, 1960-61 - 2012-13

Biennium	Total Spending (Thousands of current dollars)	Percent Change	Total Spending (Thousands of FY 2012 dollars)	Percent Change	Total Spend per Capita (FY 2012 dollars)	Percent Change
1960-61	$1,048,992		$8,072,587		$2,341	
1962-63	$1,218,011	16.1%	$9,162,974	13.5%	$2,601	11.1%
1964-65	$1,532,204	25.8%	$11,232,917	22.6%	$3,142	20.8%
1966-67	$1,855,014	21.1%	$13,018,140	15.9%	$3,578	13.9%
1968-69	$2,597,938	40.0%	$16,973,411	30.4%	$4,550	27.2%
1970-71	$3,465,036	33.4%	$20,334,659	19.8%	$5,309	16.7%
1972-73	$4,621,078	33.4%	$25,029,714	23.1%	$6,451	21.5%
1974-75	$5,706,956	23.5%	$26,394,251	5.5%	$6,736	4.4%
1976-77	$7,608,904	33.3%	$30,302,816	14.8%	$7,619	13.1%
1978-79	$9,068,678	19.2%	$31,528,119	4.0%	$7,819	2.6%
1980-81	$10,414,261	14.8%	$28,907,893	-8.3%	$7,062	-9.7%
1982-83	$11,728,193	12.6%	$27,806,656	-3.8%	$6,723	-4.8%
1984-85	$14,769,830	25.9%	$32,383,184	16.5%	$7,764	15.5%
1986-87	$15,854,828	7.3%	$32,785,278	1.2%	$7,768	0.1%
1988-89	$17,827,733	12.4%	$34,231,456	4.4%	$7,929	2.1%
1990-91	$20,622,719	15.7%	$35,977,831	5.1%	$8,149	2.8%
1992-93	$22,678,830	10.0%	$36,764,332	2.2%	$8,123	-0.3%
1994-95	$26,226,404	15.6%	$40,232,449	9.4%	$8,679	6.8%
1996-97	$28,836,735	10.0%	$41,866,987	4.1%	$8,836	1.8%
1998-99	$32,732,383	13.5%	$45,646,416	9.0%	$9,423	6.6%
2000-01	$36,997,998	13.0%	$48,869,570	7.1%	$9,855	4.6%
2002-03	$42,682,098	15.4%	$53,888,412	10.3%	$10,699	8.6%
2004-05	$45,817,238	7.3%	$55,196,246	2.4%	$10,815	1.1%
2006-07	$49,663,779	8.4%	$56,068,144	1.6%	$10,813	0.0%
2008-09	$55,145,239	11.0%	$58,858,463	5.0%	$11,181	3.4%
2010-11	$58,404,479	5.9%	$60,702,705	3.1%	$11,390	1.9%
2012-13	$62,554,868	7.1%	$61,878,532	1.9%	$11,433	0.4%

Sources: Minnesota Management and Budget, Historical Expenditures: General Fund and All Funds (June 12, 2012), available at http://www.mmb.state.mn.us/doc/budget/report-spend/june12.pdf; and Minnesota Management and Budget, Consolidated Fund Statement (Feb 14, 2013), available at http://www.mmb.state.mn.us/doc/budget/report-cons/jan13/index.pdf. Current dollars are converted to fiscal year 2012 dollars using Massachussets Institute of Technology fiscal year consumer price index for all urban consumers, available at http://web.mit.edu/ir/cost_indices/index.html.

Table A2: Minnesota General Fund Spending, 1960-61 - 2012-13

Biennium	General Fund Spending (Thousands of current dollars)	Percent Change	General Fund Spending (Thousands of FY 2012 dollars)	Percent Change	General Fund Spending per Capita (FY 2012dollars)	Percent Change
1960-61	$528,653		$4,067,713		$1,180	
1962-63	$638,622	20.8%	$4,803,985	18.1%	$1,364	15.6%
1964-65	$770,420	20.6%	$5,647,864	17.6%	$1,580	15.8%
1966-67	$959,558	24.5%	$6,735,316	19.3%	$1,851	17.2%
1968-69	$1,403,508	46.3%	$9,167,664	36.1%	$2,458	32.8%
1970-71	$2,048,771	46.0%	$12,026,401	31.2%	$3,140	27.8%
1972-73	$2,840,127	38.6%	$15,382,906	27.9%	$3,965	26.3%
1974-75	$3,531,454	24.3%	$16,326,744	6.1%	$4,167	5.1%
1976-77	$4,922,882	39.4%	$19,595,890	20.0%	$4,926	18.2%
1978-79	$6,202,888	26.0%	$21,529,926	9.9%	$5,339	8.4%
1980-81	$7,166,080	15.5%	$19,905,716	-7.5%	$4,863	-8.9%
1982-83	$8,236,388	14.9%	$19,545,351	-1.8%	$4,726	-2.8%
1984-85	$9,807,814	19.1%	$21,503,239	10.0%	$5,155	9.1%
1986-87	$10,289,740	4.9%	$21,276,977	-1.1%	$5,041	-2.2%
1988-89	$11,524,013	12.0%	$22,119,987	4.0%	$5,124	1.6%
1990-91	$13,635,374	18.3%	$23,792,308	7.6%	$5,389	5.2%
1992-93	$14,496,834	6.3%	$23,504,196	-1.2%	$5,194	-3.6%
1994-95	$16,739,762	15.5%	$25,679,826	9.3%	$5,540	6.7%
1996-97	$18,629,098	11.3%	$27,048,748	5.3%	$5,709	3.0%
1998-99	$21,193,108	13.8%	$29,555,040	9.3%	$6,101	6.9%
2000-01	$24,179,031	14.1%	$31,936,240	8.1%	$6,440	5.6%
2002-03	$26,648,114	10.2%	$33,650,109	5.4%	$6,681	3.7%
2004-05	$28,128,405	5.6%	$33,878,182	0.7%	$6,638	-0.6%
2006-07	$31,489,542	11.9%	$35,551,361	4.9%	$6,856	3.3%
2008-09	$33,866,405	7.5%	$36,154,416	1.7%	$6,868	0.2%
2010-11	$29,961,691	-11.5%	$31,141,849	-13.9%	$5,844	-14.9%
2012-13	$35,221,940	17.6%	$34,838,503	11.9%	$6,437	10.1%

Sources: Minnesota Management and Budget, Historical Expenditures: General Fund and All Funds (June 12, 2012), available at http://www.mmb.state.mn.us/doc/budget/report-spend/june12.pdf; and Minnesota Management and Budget, Consolidated Fund Statement (Feb 14, 2013), available at http://www.mmb.state.mn.us/doc/budget/report-cons/jan13/index.pdf. Current dollars are converted to fiscal year 2012 dollars using Massachussets Institute of Technology fiscal year consumer price index for all urban consumers, available at http://web.mit.edu/ir/cost_indices/index.html.

Table A3: State Spending Indicators: Per Capita, K-12 education, Public Welfare, and Medicaid

State	State and local spending per capita, 2010 [a]	Rank	Spending of public elementary-secondary school systems per pupil, 2008-09 [b]	Rank	State and local public welfare spending per person < 200% of FPG, 2010 [c]	Rank	Medicaid payments per enrollee, FY 2009 [d]	Rank
Alabama	$8,751	34	$8,870	36	$3,250	45	$4,081	48
Alaska	$20,338	1	$15,552	3	$8,763	1	$8,782	3
Arizona	$8,322	46	$7,813	48	$3,460	40	$4,846	42
Arkansas	$7,786	49	$8,712	40	$3,435	41	$4,639	45
California	$11,624	5	$9,657	29	$3,815	33	$3,527	50
Colorado	$9,965	20	$8,718	39	$3,222	46	$5,458	30
Connecticut	$10,923	8	$14,531	6	$7,131	8	$9,577	1
Delaware	$10,776	11	$12,257	13	$6,516	11	$5,944	22
Florida	$8,659	35	$8,760	37	$3,376	43	$4,168	47
Georgia	$8,088	48	$9,650	30	$2,610	49	$3,979	49
Hawaii	$10,533	16	$12,399	11	$5,241	16	$5,140	35
Idaho	$7,633	50	$7,092	49	$3,047	47	$5,658	27
Illinois	$10,158	19	$10,835	18	$4,014	27	$4,722	44
Indiana	$8,108	47	$9,369	34	$3,823	32	$5,035	36
Iowa	$9,661	25	$9,707	28	$5,161	17	$5,438	31
Kansas	$9,317	27	$9,951	26	$3,554	38	$6,352	17
Kentucky	$8,896	32	$8,756	38	$4,312	25	$5,890	23
Louisiana	$10,670	13	$10,533	20	$3,415	42	$4,899	38
Maine	$9,307	28	$12,304	12	$7,057	9	$6,895	13
Maryland	$9,923	21	$13,449	9	$6,070	13	$7,352	10
Massachusetts	$11,616	6	$14,118	7	$7,848	5	$7,579	8
Michigan	$9,210	29	$10,483	21	$3,894	29	$4,965	37
Minnesota	$10,534	15	$11,098	15	$8,680	2	$8,206	6
Mississippi	$9,117	31	$8,075	45	$3,862	31	$4,890	39
Missouri	$8,373	42	$9,529	32	$3,883	30	$6,504	14
Montana	$9,320	26	$10,059	24	$3,557	37	$7,348	11
Nebraska	$10,631	14	$10,045	25	$4,530	23	$6,069	21
Nevada	$8,363	44	$8,422	44	$2,307	50	$4,286	46
New Hampshire	$8,654	36	$11,932	14	$8,262	4	$6,978	12
New Jersey	$11,665	4	$16,271	2	$6,157	12	$8,268	5
New Mexico	$10,800	9	$9,439	33	$5,561	15	$5,862	25
New York	$15,195	3	$18,126	1	$7,795	6	$8,960	2
North Carolina	$8,360	45	$8,587	41	$3,367	44	$6,098	20
North Dakota	$9,868	22	$10,151	23	$4,750	20	$7,608	7
Ohio	$9,852	23	$10,560	19	$4,939	18	$6,116	19

Table A3 (continued)

State	State and local spending per capita, 2010 [a]	Rank	Spending of public elementary-secondary school systems per pupil, 2008-09 [b]	Rank	State and local public welfare spending per person < 200% of FPG, 2010 [c]	Rank	Medicaid payments per enrollee, FY 2009 [d]	Rank
Oklahoma	$8,400	41	$7,885	47	$3,932	28	$4,848	41
Oregon	$10,302	17	$9,805	27	$4,106	26	$6,272	18
Pennsylvania	$10,279	18	$12,512	10	$6,621	10	$7,397	9
Rhode Island	$10,798	10	$13,707	8	$7,403	7	$8,566	4
South Carolina	$9,193	30	$9,277	35	$3,646	36	$5,181	34
South Dakota	$8,370	43	$8,507	43	$3,700	35	$5,536	28
Tennessee	$8,415	40	$7,897	46	$3,802	34	$4,742	43
Texas	$8,642	37	$8,540	42	$2,806	48	$4,884	40
Utah	$8,816	33	$6,356	50	$3,472	39	$5,475	29
Vermont	$10,772	12	$15,175	4	$8,471	3	$5,331	33
Virginia	$8,523	38	$10,930	17	$4,675	21	$5,870	24
Washington	$11,064	7	$9,550	31	$4,384	24	$5,343	32
West Virginia	$8,442	39	$10,367	22	$4,555	22	$5,855	26
Wisconsin	$9,746	24	$11,078	16	$5,938	14	$6,491	15
Wyoming	$15,361	2	$14,573	5	$4,789	19	$6,405	16
United States	$10,070		$10,499		$4,389		$5,527	

a U.S. Census Bureau, *2010 Annual Surveys of State & Local Finance data* (September 2012), available at http://www.census.gov/govs/estimate/; and U.S. Census Bureau, Population Division, *Table 1: Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2011* (NST-EST2011-01) (December 2011), available at http://www.census.gov/popest/data/historical/2010s/vintage_2011/index.html.

b U.S. Census Bureau, *Public Education Finances: 2009, Table 8. Per Pupil Amounts for Current Spending of Public Elementary-Secondary School Systems by State: 2008-09* (May 2011), available at http://www.census.gov/govs/school/historical_data_2009.html.

c U.S. Census Bureau, *2010 Annual Surveys of State & Local Finance data* (September 2012), available at http://www.census.gov/govs/estimate/; and U.S. Census Bureau, Current Population Survey, *Annual Social and Economic Supplement, Table POV46. Poverty Status by State: 2010*, available at http://www.census.gov/hhes/www/cpstables/032011/pov/POV46_001.htm.

d Kaiser Family Foundation, StateHealthFacts.org, "Medicaid Payments per Enrollee, FY2009," at http://www.statehealthfacts.org/comparemaptable.jsp?ind=183&cat=4.

Table A4: State Spending Indicators: Higher Education, Corrections and Debt

State	State funding for major public research universities per enrolled student, 2010 [a]	Rank	State spending for undergraduate student aid programs per student, 2010-11 [b]	Rank	State spending for corrections per person in prison and under community supervision, 2011 [c]	Rank	State interest on general debt per capita, 2011 [d]	Rank
Alabama	$10,771	14	$87	44	$5,533	44	$73	43
Alaska	$18,049	2	$676	22	$19,967	1	$393	4
Arizona	$7,126	38	$37	49	$7,319	32	$102	36
Arkansas	$10,825	12	$1,160	6	$6,032	42	$52	48
California	$12,495	6	$736	20	$12,425	15	$194	13
Colorado	$3,803	50	$398	29	$9,404	23	$170	18
Connecticut	$9,555	20	$1,020	7	$9,954	21	$414	2
Delaware	$7,016	40	$505	26	$11,377	16	$294	6
Florida	$7,625	34	$864	15	$7,004	34	$75	42
Georgia	$9,400	22	$1,904	2	$2,735	50	$70	45
Hawaii	$10,773	13	$67	46	$6,339	39	$263	7
Idaho	$9,908	18	$76	45	$4,193	47	$111	34
Illinois	$8,420	28	$720	21	$7,596	31	$253	8
Indiana	$6,755	41	$826	16	$3,925	49	$153	23
Iowa	$9,515	21	$224	34	$7,689	30	$80	41
Kansas	$6,015	42	$138	41	$10,765	18	$95	39
Kentucky	$11,829	9	$980	10	$6,271	40	$158	20
Louisiana	$11,183	11	$947	11	$6,935	35	$228	10
Maine	$8,657	26	$319	31	$15,239	5	$188	14
Maryland	$10,136	17	$399	28	$10,470	19	$183	16
Massachusetts	$8,101	29	$392	30	$12,734	13	$475	1
Michigan	$7,666	33	$184	39	$6,634	36	$115	32
Minnesota	$12,030	8	$875	14	$4,119	48	$111	35
Mississippi	$7,457	36	$191	38	$6,116	41	$90	40
Missouri	$9,805	19	$310	32	$6,629	37	$137	26
Montana	$5,170	45	$162	40	$13,022	12	$156	21
Nebraska	$10,394	15	$193	37	$11,136	17	$50	49
Nevada	$8,800	25	$792	17	$9,264	25	$71	44
New Hampshire	$4,795	47	$57	48	$12,639	14	$298	5
New Jersey	$12,389	7	$1,974	1	$9,251	26	$234	9
New Mexico	$11,672	10	$913	13	$13,646	10	$163	19
New York	$15,017	5	$984	9	$13,956	7	$211	11
North Carolina	$16,746	3	$986	8	$9,933	22	$59	46
North Dakota	$7,467	35	$291	33	$13,775	8	$148	24
Ohio	$7,106	39	$205	35	$5,131	46	$130	29

Table A4 (continued)

State	State funding for major public research universities per enrolled student, 2010 [a]	Rank	State spending for undergraduate student aid programs per student, 2010-11 [b]	Rank	State spending for corrections per person in prison and under community supervision, 2011 [c]	Rank	State interest on general debt per capita, 2011 [d]	Rank
Oklahoma	$7,893	32	$537	25	$10,020	20	$114	33
Oregon	$4,820	46	$114	42	$9,391	24	$117	30
Pennsylvania	$8,602	27	$674	23	$5,896	43	$141	25
Rhode Island	$4,110	48	$201	36	$6,393	38	$407	3
South Carolina	$7,306	37	$1,719	3	$7,140	33	$101	37
South Dakota	$5,440	44	$110	43	$8,551	28	$156	22
Tennessee	$15,314	4	$1,348	4	$7,689	29	$40	50
Texas	$8,051	30	$767	19	$5,494	45	$55	47
Utah	$8,826	23	$62	47	$13,728	9	$98	38
Vermont	$3,875	49	$539	24	$14,023	6	$201	12
Virginia	$5,550	43	$781	18	$17,708	2	$137	27
Washington	$8,815	24	$915	12	$8,790	27	$186	15
West Virginia	$8,047	31	$1,292	5	$15,813	4	$131	28
Wisconsin	$10,374	16	$453	27	$13,351	11	$180	17
Wyoming	$18,901	1	$7	50	$16,602	3	$116	31
United States	$9,082		$701		$7,746		$150	

a National Science Foundation, "Science and Engineering Indicators 2012 State Data Tool, Table 8-29," at http://www.nsf.gov/statistics/seind12/c8/interactive/table.cfm?table=29.

b National Association of State Student Grant and Aid Programs, *42nd Annual Survey Report on State-Sponsored Student Financial Aid, 2010-2011 Academic Year*, available at http://www.nassgap.org/viewrepository.aspx?categoryID=3. Spending per student is calculated from total expenditures in "Table 8: Expenditures for Undergraduate Student Aid Programs by Need, Merit, or Special Purpose for Award, by State (in millions of dollars): 2010-11" and undergraduate FTE students in "Table 12. Estimated Undergraduate Grant Dollars per Undergraduate Enrollment, by State: 2010-11."

c U.S. Census Bureau, *2011 Annual Survey of State Government Finances* (Dec. 6, 2012), available at http://www.census.gov/govs/state/; E. Ann Carson and William J. Sabol, *Prisoners in 2011*, U.S. Department of Justice, Bureau of Justice Statistics (December 2012), available at http://bjs.ojp.usdoj.gov/index.cfm?ty=pbdetail&iid=4559; and Laura M. Maruschak and Erika Parks, *Probation and Parole in the United States, 2011*, U.S. Department of Justice, Bureau of Justice Statistics (November 29, 2012), available at http://bjs.ojp.usdoj.gov/index.cfm?ty=pbdetail&iid=4538.

d U.S. Census Bureau, *2011 Annual Survey of State Government Finances* (Dec. 6, 2012), available at http://www.census.gov/govs/state/; and U.S. Census Bureau, Population Division, *Table 1: Annual Estimates of the Resident Population for the United States, Regions, States, and Puerto Rico: April 1, 2010 to July 1, 2011* (NST-EST2011-01) (December 2011), available at http://www.census.gov/popest/data/historical/2010s/vintage_2011/index.html.

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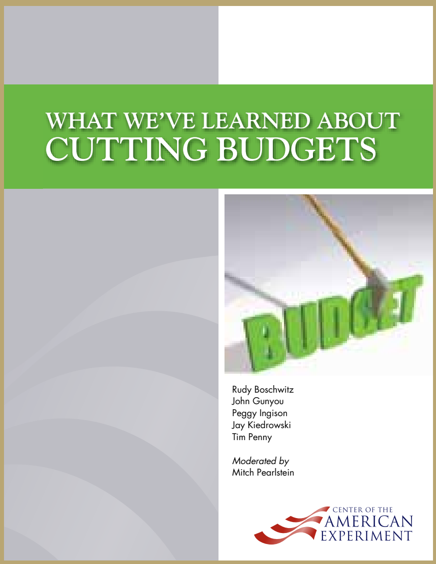

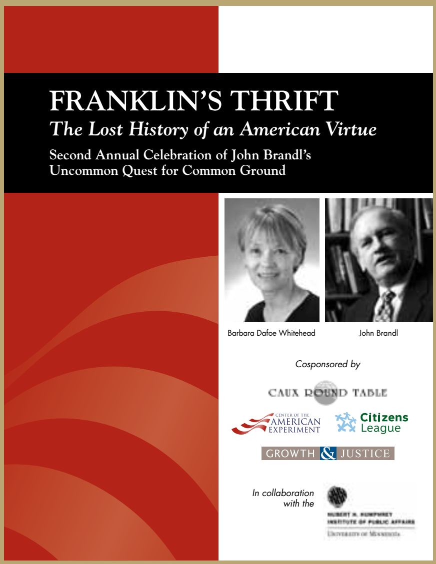

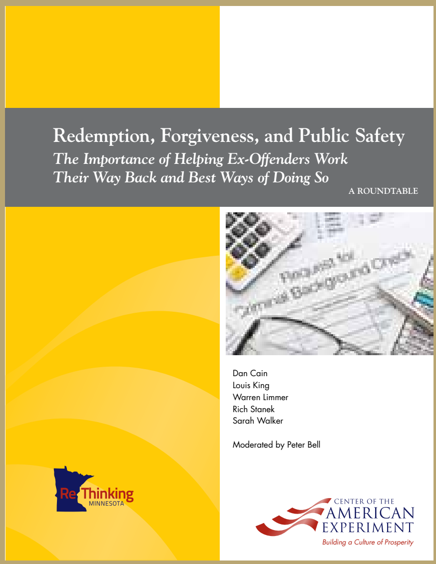

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