

# Major State Aids & Taxes

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A COMPARATIVE ANALYSIS, INCLUDING REGIONAL AND COUNTY  
DATA ON WHERE THE AIDS GO AND WHERE THE TAXES COME FROM

# Overview of Presentation

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I will cover three topics or questions:

- Why does this report exist?
- What's in the report? Which state aids and taxes are included? What are the shortcomings of the data?
- What's the geography? Where do aids go to, and where do taxes come from?

# Why does this report exist?

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BASIC HISTORY OF MAJOR STATE AIDS & TAXES

# Legislative interest

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**Legislators are interested** in knowing where taxes that fund the state budget comes from, and where state aids go.

- How much comes from the major taxes relative to each other, and how much goes to the major aids relative to each other
- How much of the taxes come from the various regions of the state, and how much of those taxes are returned in the form of aids

# Legislative interest

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## **No other state agency or legislative office compiles this data**

- House Fiscal Analysis Department regularly prepares pie charts of state expenditures for all funds
- House Research's *Minnesota Government in Brief* (prepared every two years) includes graphs for all state spending and all state revenues
- Neither publication shows aids or taxes by geography

# What's in the report?

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HOW DOES AN AID OR TAX GET TO BE “MAJOR”?

# What aids and credits are included?

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- 2012 update, issued in April 2016, included \$13.6 billion in state-paid aids and credits.
- **Aids paid to local governments**
  - Paid to or for the benefit of local taxing districts, or on behalf of individuals in the jurisdiction
  - Education aid, human services aid, county, municipal and town highway aid, local government aid, county program aid, disparity reduction aid, community corrections funding
  - Generally reduce what is needed from local property tax levy
- **Property tax credits**
  - Paid to local taxing districts, but listed on property tax statements as a credit against gross tax
  - Agricultural market value credit, various miscellaneous credits
- **Property tax refunds**
  - Paid to individuals
  - Homestead credit refund, renter property tax refund, targeting refund

# What is *not* included?

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- **State spending of federal funds**
  - Temporary assistance to needy families (TANF)
  - Federal highway aid
  - Uncategorical federal grant-in-aid
- **Direct state spending on employees and facilities**
  - Higher education institutions
  - Prisons
  - Health care facilities
  - Other state operations



# How were aids selected?

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- **Geographic data must be available:** (or some reasonable way to allocate the aid to counties)
  - State generally knows where aids go
  - Some aids are paid to groups of counties (community corrections funding, some counties jointly administer human services programs)
  - Community corrections funding allocated based on geographic distribution of Part 1 crimes, human services aids based on population
- **No minimum dollar amount for inclusion:** Smallest aids in 2012 update are Targeting refunds (\$3 million), MinnesotaCare payments (\$17 million) and Disparity Reduction Aid (\$18 million)
- **Mix of aids and taxes must fit on a single page**

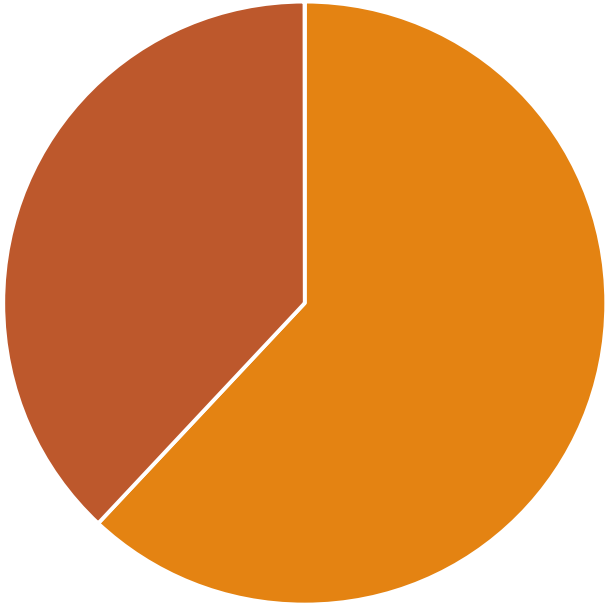
# How much spending is covered?

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- **2012 update covered about 62 percent of total state spending, excluding federal funds**
- **Nearly all of the aids are aids paid to local governments (\$13.1 billion)**
  - Only \$48.5 million in property tax credits
  - Only \$474 million in aids paid directly to individuals (property tax refunds)
- **About half of total is for education aid**
  - Another 35% for human services

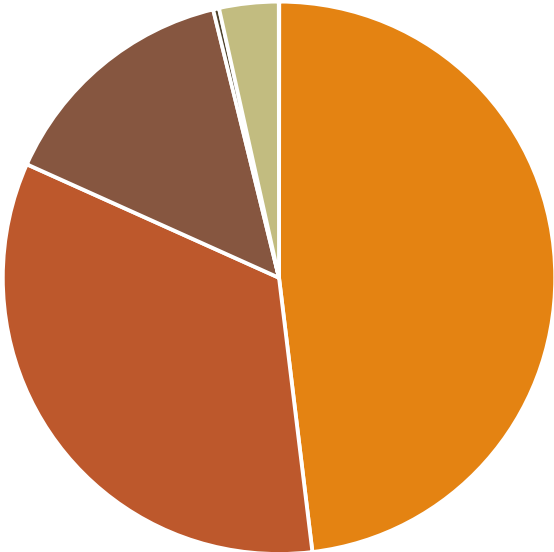
# Relative size of aids and credits

As share of state spending



■ included in report ■ not included in report

As share of aids and credits in report



■ Education aid ■ Human Services aid ■ All other aids  
■ Property tax credits ■ Property tax refunds

# What taxes are included?

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- 2012 update included \$15.0 billion of taxes paid by Minnesota residents, and \$1.2 billion paid by nonresidents.
- Not limited to general fund taxes – includes motor vehicle taxes
- Taxes that aren't included are
  - Relatively small
  - Dedicated to specific uses
  - No geographic data available (and no obvious way to allocate state total)

# How were taxes selected?

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- **Geographic data must be available** (or some reasonable way to allocate the aid to counties):
  - Some geographical data may not reflect actual “source” of revenue – e.g., location often not relevant to tax compliance (not audited), income taxpayer moves during the year, etc.
    - County data for sales tax shows where tax is collected, not where the people who pay it live
  - Motor vehicle taxes and corporate tax only available as statewide figures, which are allocated to counties
    - Motor fuels tax allocated using vehicle miles traveled by county
    - Motor vehicle registration tax allocated using DPS estimates of amounts by county
    - Motor vehicle sales tax allocated half based on registration tax, half based on DPS data of passenger and pickup truck registrations
    - Corporate franchise tax allocated based on total sales from Census Bureau Survey of Business Owners
- **Includes 7 largest taxes collected by the Department of Revenue**
- **Mix of aids and taxes must fit on a single page**

# How much state revenue is covered?

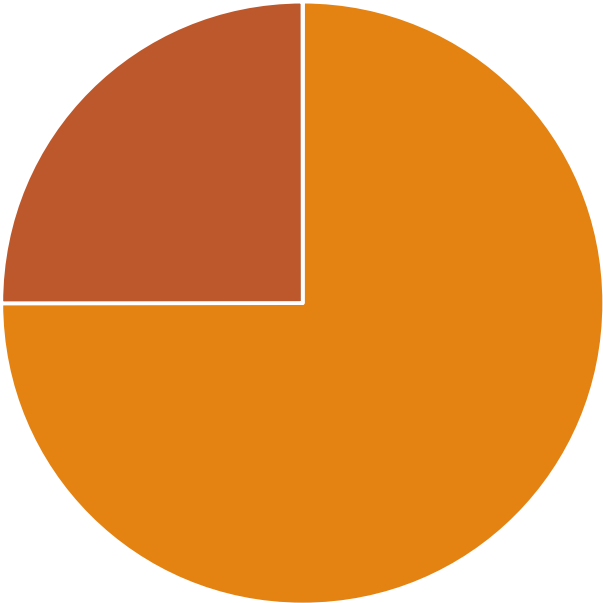
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- **2012 update included about 75 percent of state revenues, excluding federal grants, and about 88 percent of all taxes paid**
- **Almost half of the revenue is from individual income tax (\$7.0 billion)**
  - Another 27% from sales tax – 32% if motor vehicle sales tax included
- **All other taxes relatively small – between \$500 million and \$1 billion**

# Relative size of taxes

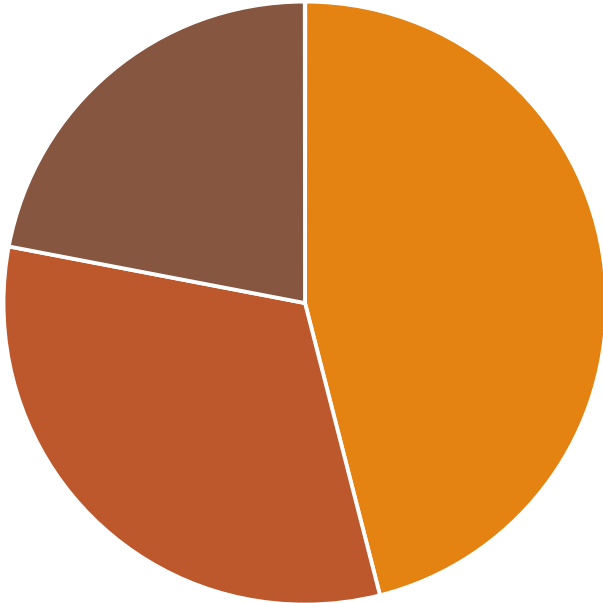
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As share of state revenues



■ included in report ■ not included in report

As share of state taxes in report



■ Individual income ■ Sales tax ■ All other taxes

# Where do the aids go?

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AND WHERE DO THE TAXES COME FROM?

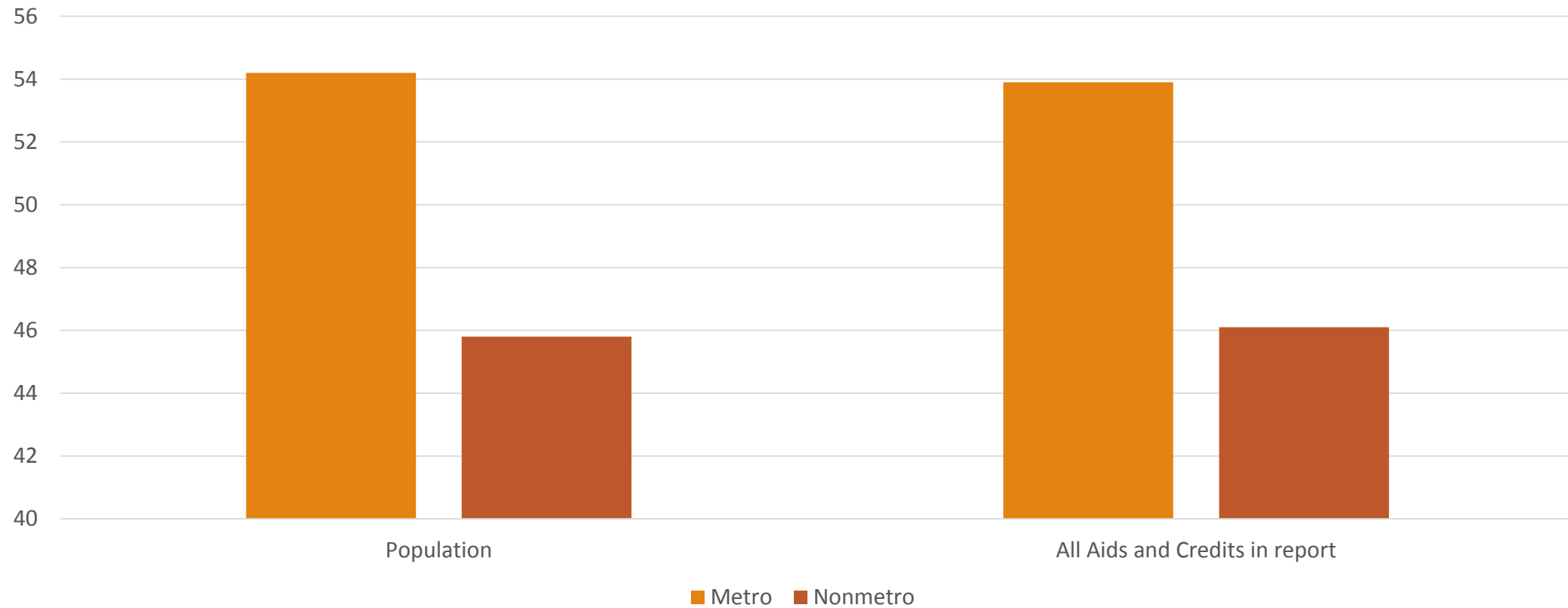


# Many aids reflect where people live

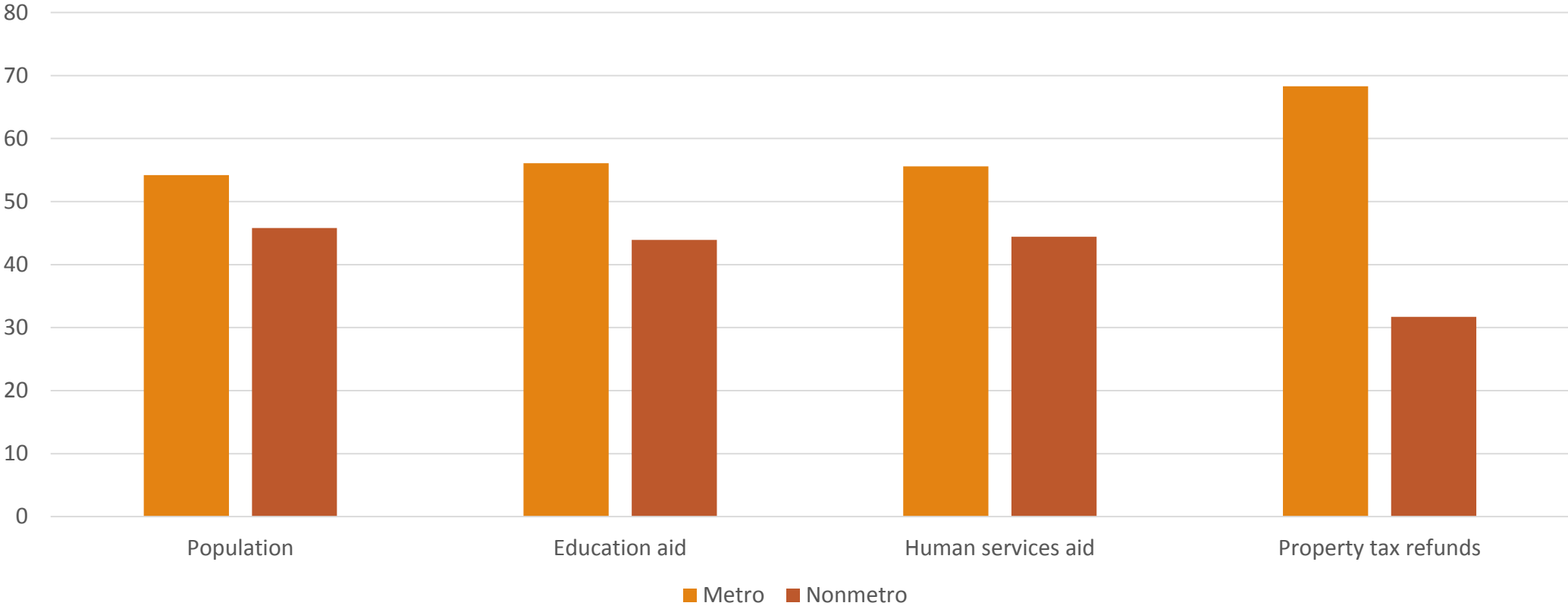
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- **In 2012, 54.2% of Minnesota's population was in the 7-county metro**
- **Table 2-4 shows 53.9% of aids and credits going to the metro**
- The metro received larger shares of
  - Education aid (56.1%)
  - Human services aid (55.6%)
  - Property tax refunds (68.3%)
- The metro received smaller shares of
  - Local government aid (31.3%)
  - County program aid (41.6%)
  - Community corrections funding (48.7%)
  - Property tax credits (4.8%)

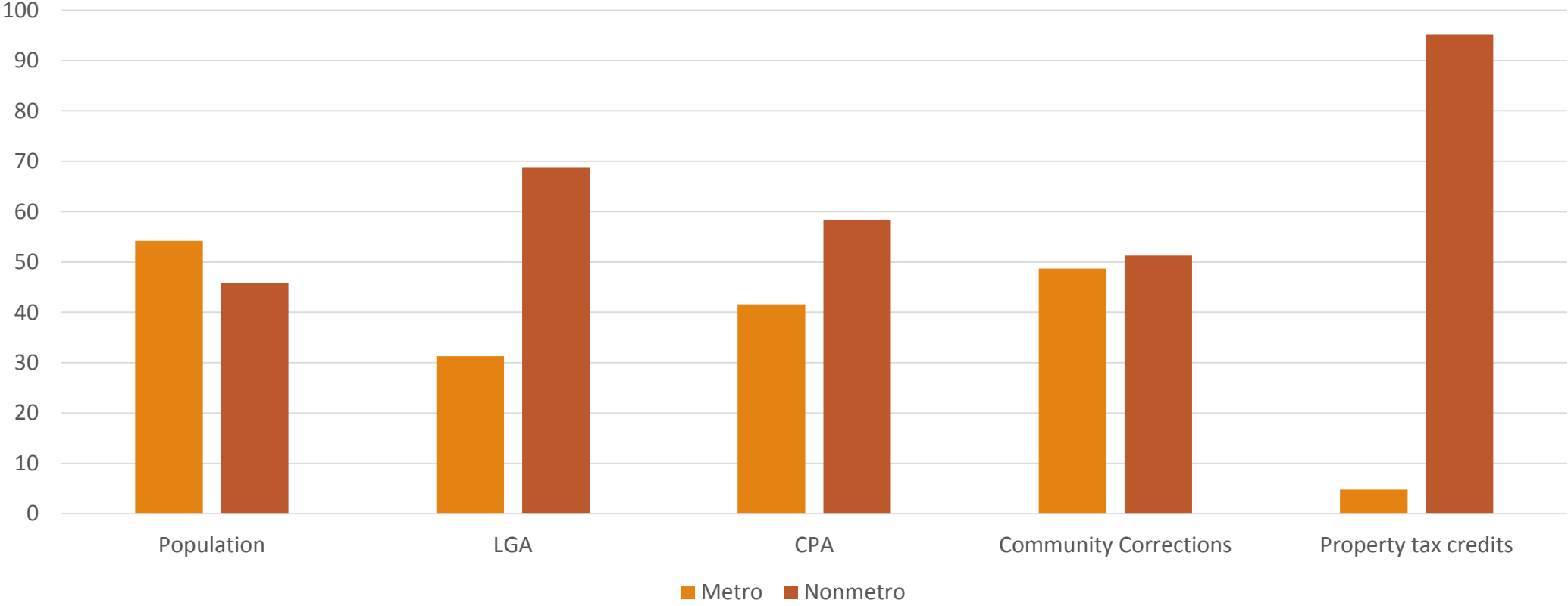
# Aids and credits relative to population



# Metro gets larger share of some aids



# Nonmetro gets larger share of other aids



# Some aids reflect other factors than population

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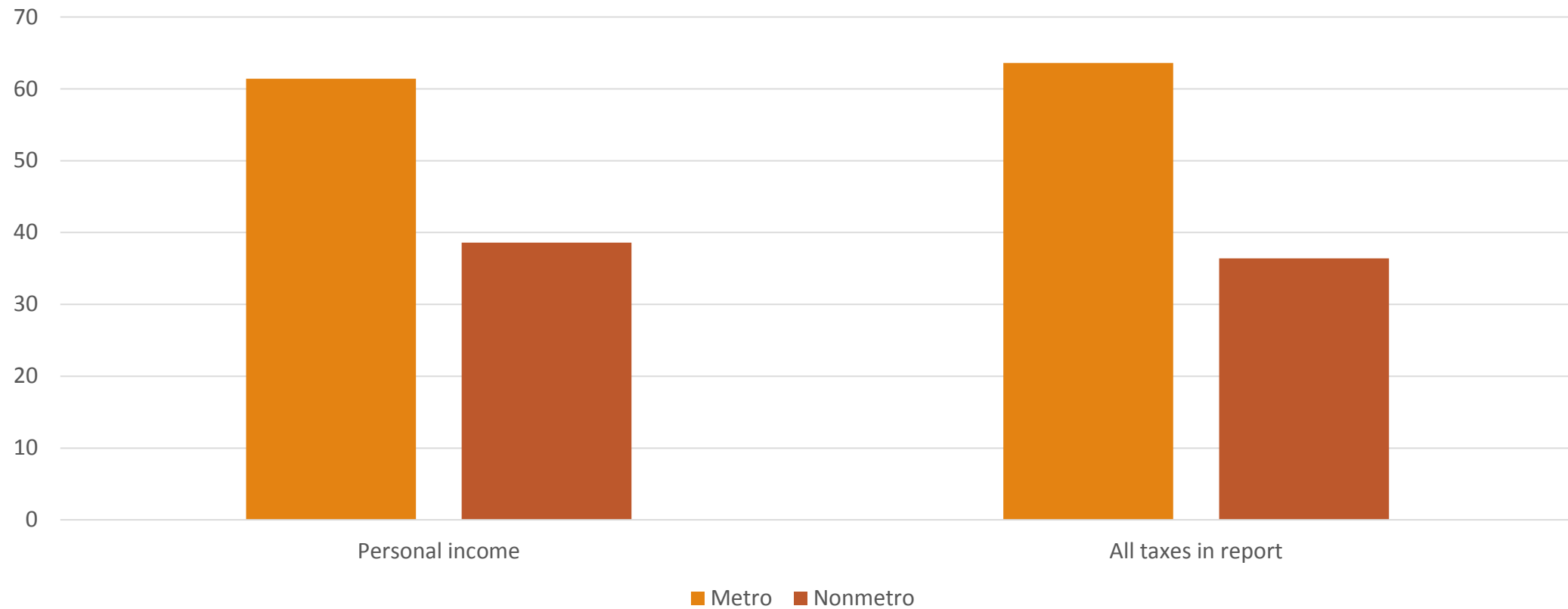
- **Highway aid**
  - Aid goes where the roads are
- **LGA and CPA**
  - Aid reflects ability of local governments to raise revenue relative to formula-determined “need”
- **HCSR and Renter PTR**
  - Refunds go to individuals with property taxes that are high relative to their incomes – generally where property tax rates are higher and/or home values are higher

# Many taxes reflect the distribution of income or economic activity more than population

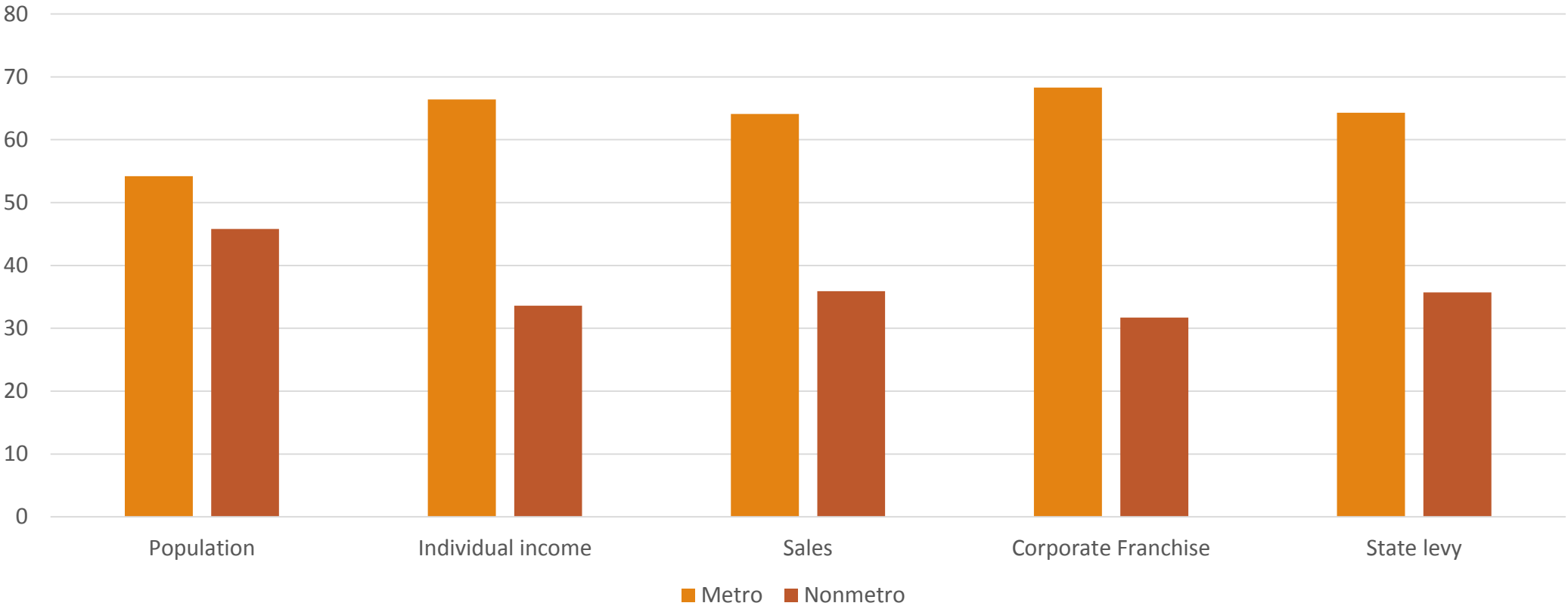
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- **In 2012, 61.4% of Minnesota's total personal income was in the 7-county metro**
- **Table 2-4 shows 63.6% of taxes come from the metro**
  - metro households have higher incomes and consequently can buy more taxable goods
- The metro provided larger shares of
  - Income tax (66.4%)
  - Sales tax (64.1%)
  - Corporate franchise tax (68.3%)
  - State general levy (64.3%)
- The metro provided smaller shares of
  - Motor vehicle sales tax (52.3%)
  - Motor vehicle registration tax (54.0%)
  - Motor fuels tax (47.3%)

# Taxes relative to personal income

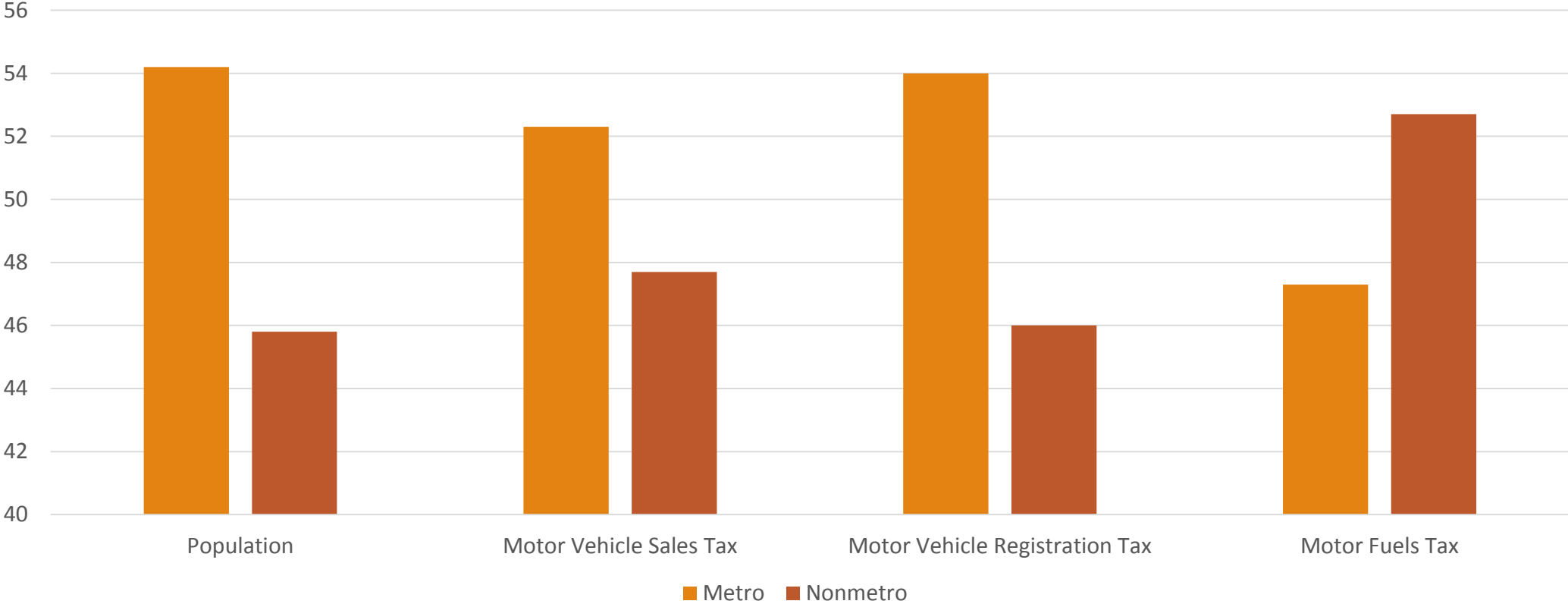


# Metro provides larger share of some taxes





# Nonmetro provides larger share of other taxes



# Some taxes reflect other factors

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- **Income tax has a progressive rate structure**
  - Higher income filers pay a larger share of income as tax
  - Incomes are higher on average in the metro area than in the nonmetro
- **Sales tax reported by where it's collected, not by who pays**
  - There are probably more nonmetro residents who buy things in the metro than vice versa, but no data to show that

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