
Introduction

Government budgets receive considerable attention and are debated intensely. But often lost in the debate and media coverage is a long-range perspective on how much government spending has changed and what has caused spending growth.

This report steps back from the debate and tracks how state and local government spending in Minnesota has changed over a 35-year period. As requested by the Legislative Audit Commission, the report addresses the following questions:

- **On what functions do state and local governments in Minnesota spend public money? How are government expenditures financed?**
- **How has state and local government spending in Minnesota changed over time? How much has spending changed if adjusted for inflation and population growth or increases in personal income?**
- **What types of government expenditures account for the past growth in spending? What have been the major factors driving spending growth?**
- **How do spending levels and spending trends in Minnesota compare with national averages for state and local governments?**
- **For particular types of spending, what are the major factors which explain the differences in spending between Minnesota and other states?**

In addition, we review the factors which may affect future spending growth and examine projections of future state and local budget gaps in Minnesota. The report does not attempt to develop strategies or recommend policies to change the level of spending or taxation.

The report is organized into three parts. The first part, which covers overall trends and comparisons, includes four chapters. Chapter 1 provides background on the types of analyses and data sources we use throughout the report. Chapter 2 examines overall expenditure trends in Minnesota and other states. In addition, the chapter compares Minnesota spending to national averages for state and local governments. Chapter 3 describes how Minnesota governments finance government

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spending and makes national comparisons of government revenues and revenue trends. Finally, Chapter 4 summarizes how the level of public employment and average salaries and fringe benefits have changed in Minnesota and other states. It also compares public employee staffing levels, salaries, and fringe benefits in Minnesota with national averages.

The second part of the report examines spending trends in detail for each of six major functions of state and local government. In addition, we make more detailed national comparisons and discuss why Minnesota spending differs from national averages. This part of the report consists of six chapters, which cover the following government functions: elementary-secondary education (Chapter 5), human services (Chapter 6), higher education (Chapter 7), transportation (Chapter 8), public safety (Chapter 9), and environment and natural resources (Chapter 10). These functions account for more than 80 percent of the state and local government spending in Minnesota.

The third part of the report examines spending trends and their potential impact on future state and local government budgets in Minnesota. Chapter 11 reviews projections made by Minnesota Planning and the Minnesota Department of Finance, which suggest Minnesota faces budget deficits over at least the next five to ten years. The chapter also presents various budget scenarios based on the most recent forecasts of personal income and the "price of government" resolution passed during the 1995 legislative session.