Minnesota’s Prices of Local Government

Where in Minnesota is local government’s claim on the economy and the income of local citizens the greatest? How does local government’s fiscal footprint differ across the state? And how does the ability to export local tax burden to non-residents affect this footprint?

In this Issue Brief we examine Minnesota’s Price of Local Government (POLG). Based on the most recently available data (2014/15) we replicate the methodology Minnesota Management and Budget uses to create the state’s Price of Government report and apply it to local governments (cities, towns, schools, and the Metropolitan Council) to calculate a Price of Local Government for all 87 Minnesota counties.

The state’s Price of Government report is based on “personal income” which overstates the income that can be used to actually pay taxes and other charges to local government. We therefore calculate and report three alternative POLG measures based on county “cash income”. Each cash income based measure offers a different perspective on the financing of all local governments within each of Minnesota’s 87 counties:

- **cash income POLG** (which captures local governments’ claim on income local residents can actually use to pay taxes and fees);
- **cash income POLG, net of local tax exporting to non-residents**; and
- **cash income POLG, based on local effort property taxation only**.

**METHODOLOGY**

We gathered data from the following sources to calculate our various Prices of Local Government:

- 2014 city, township and county governmental fund revenue data from the Office of the State Auditor
- 2014-15 school district property tax levies from the University of Minnesota’s *Minnesota Land Economics* (MLE) program
- Other 2014-15 school district general fund revenues from the Minnesota Department of Education
- 2014 personal income data by county from the federal Bureau of Economic Analysis
- 2014 federal income tax data by county from the Internal Revenue Service
- Property taxes paid by class, by county, Minnesota Department of Revenue Property Tax Division

Some cities and school districts, along with the Metropolitan Council, are located in multiple counties. In these cases, we allocated the jurisdiction’s property tax and special assessment revenues among counties based on net tax capacity shares because these revenues have a strong relationship to property values. We allocated all other revenues, such as licenses and permits or charges for services, based on population shares. For such schools, the data allowed us to allocate tax levies to the appropriate counties. We allocated all other school revenues based on net tax capacity because school district population, by county, was not immediately available. For the Metropolitan Council, we allocated property taxes by net tax capacity and all other revenues by population.

Like the statewide Price of Government metric, our analysis includes only “own-source revenues” – those revenues raised by local governments themselves. Where the state’s POG metric leaves out federal grants to state and local governments; our analysis leaves out both federal and state grants to local governments. This provides an accurate estimation of the burdens local governments actually impose.

The analysis excludes “special districts”¹ except for the Metropolitan Council because the time and effort needed to collect financial data for each of these small government units was prohibitive. It also excludes “enterprises” operated by local governments – including but not limited to golf courses, liquor stores and municipal utilities. These ventures are not part of the standard suite of local government services.

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¹ Examples of “special districts” include park districts, housing and redevelopment districts, and watershed districts.
TRADITIONAL POLG
(Total Own Source Revenues Collected in County / County Personal Income)

Answers the question: What is local governments’ claim on the economic activity within a county?

Figure 1 shows the aggregate Price of Local Government (POLG) in 2014 for each of Minnesota’s 87 counties using “personal income”. Since personal income is a measure of economic activity, this figure assesses local governments’ claim on economic activity. Statewide, local governments raise revenues equal to about 4.1% of the state’s economic activity – slightly less than in 2013. The figure highlights the considerable variation in the burdens local governments across the state impose – ranging from a minimum of 2.8% of personal income in Winona County to a high of 7.5% in Cook County.

Figure 1: Price of Local Government, 2014, by County

As the map illustrates, there are some regional patterns in this POLG measure. Half of the 12 counties where the POLG is at least 25% more than the state average are in the Headwaters or Arrowhead regions. On the other hand, roughly half of counties with a POLG 10% to 25% below the state average are either in Minnesota’s northwest corner or in the seven-county metro area. The metro area shows notable diversity.
Dakota and Washington Counties are more than 10% below the statewide average; Ramsey County is more the 10% above average, and the other counties are within 10% of the average. Table 1 shows the five counties where local governments have the highest and lowest POLGs.

Table 1: Counties With Five Highest and Five Lowest Traditional POLG, 2014

<table>
<thead>
<tr>
<th>Top Five</th>
<th>County</th>
<th>POLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cook</td>
<td>7.5%</td>
</tr>
<tr>
<td>2</td>
<td>Swift</td>
<td>6.0%</td>
</tr>
<tr>
<td>3</td>
<td>Itasca</td>
<td>6.0%</td>
</tr>
<tr>
<td>4</td>
<td>Lake</td>
<td>5.9%</td>
</tr>
<tr>
<td>5</td>
<td>Hubbard</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bottom Five</th>
<th>County</th>
<th>POLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>83</td>
<td>Todd</td>
<td>3.5%</td>
</tr>
<tr>
<td>84</td>
<td>Dakota</td>
<td>3.5%</td>
</tr>
<tr>
<td>85</td>
<td>Pennington</td>
<td>3.2%</td>
</tr>
<tr>
<td>86</td>
<td>Roseau</td>
<td>3.2%</td>
</tr>
<tr>
<td>87</td>
<td>Winona</td>
<td>2.8%</td>
</tr>
</tbody>
</table>

Although the Price of Local Government climbed in 49 of Minnesota’s 87 counties for 2014, a definite pattern emerged based on population. Six of the seven metro-area counties and seven of the state’s ten largest counties saw a decline in their Prices of Local Government, which offset the increases in smaller counties and led to the slight year-on-year decline in the statewide average.

Overall, personal income in Minnesota grew by 4.0% between 2013 and 2014 – faster than the 2.9% growth in local governments’ own-source revenues. These averages do mask some important points:

- In the 49 counties where the POLG increased, the combined own-source revenues for all local governments grew by 5.5%, compared to a much smaller 0.4% growth in personal income.
- In the 38 counties where the POLG declined, combined own-source revenues grew by only 2.1%, compared to much more robust personal income growth of 5.1%.
The term “personal income” can be a bit misleading because it is not synonymous with most people’s concept of income: resources available to spend. Rather, “personal income” is a broad measure of economic activity, and as such it includes several types of “income” that can’t be used to pay taxes while excluding some important sources of income people do receive and use to pay for things.

We have created a “cash income” measure quantifying the actual resources people can use to pay government taxes and fees. Measuring local government revenues against cash income provides a better sense of the public’s ability to finance state and local government operations. We use “personal income” as a starting point for calculating “cash income” and then subtract the following items:

- Contributions employers make toward pension and insurance plans
- Payment employers make to the government for Social Security and Medicare
- The value of government-sponsored medical benefits (the largest of which is Medicaid)
- Imputed interest
- Imputed rent
- The value of Supplemental Nutrition Assistance Program (food stamp) benefits
- The value of education and training assistance benefits
- Government transfers to nonprofit institutions

We then add the following items that people can (and do) use to pay for governments’ operating costs (at the state, local, and federal level) to the mix:

- Payments employees make to the government for Social Security and Medicare
- Distributions from IRAs
- Pension and annuity benefits
- Capital gains

Cash income is lower than personal income in all 87 counties across the state and is about 14% less than personal income overall (Table 2). However, there is considerable variation between counties (cash income is 5.1% less than personal income in Washington County and 32.5% less than personal income in Mahnomen County).

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2 We would have preferred to use the term “money income” for our measure. However, “money income” already names a statistic the Census Bureau calculates (see http://www.census.gov/cps/data/incdef.html) and so we use the term “cash income” to prevent readers from confusing our measure with that one.

3 This is the value of investment income earned on life insurance and the value of services that depository institutions provide without an explicit charge for doing so.

4 This includes the value of things such as the rental value of owner-occupied housing, the value of farm products consumed at home by the producers, and pay-in-kind in the form of meals and lodging.

5 Largely federal fellowship payments and interest subsidy on higher education loans, Pell Grants, Job Corps payments, education exchange payments, and state education assistance payments.

6 Except for one-half of the self-employment taxes, which are essentially a mandatory business expense.
Table 2: Cash Income Relative to Personal Income (CI vs PI), by County, 2014

<table>
<thead>
<tr>
<th>County</th>
<th>CI vs PI</th>
<th>County</th>
<th>CI vs PI</th>
<th>County</th>
<th>CI vs PI</th>
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<td>-15.9%</td>
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<td>Jackson</td>
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<td>Ramsey</td>
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<td>Becker</td>
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<td>Kanabec</td>
<td>-16.0%</td>
<td>Red Lake</td>
<td>-14.7%</td>
</tr>
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<td>Beltrami</td>
<td>-23.1%</td>
<td>Kandiyohi</td>
<td>-17.2%</td>
<td>Redwood</td>
<td>-20.8%</td>
</tr>
<tr>
<td>Benton</td>
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<td>Kittson</td>
<td>-16.7%</td>
<td>Renville</td>
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<tr>
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<td>-22.2%</td>
<td>Koochiching</td>
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<td>Rice</td>
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<td>-19.1%</td>
<td>Lac Qui Parle</td>
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<td>Rock</td>
<td>-17.9%</td>
</tr>
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<td>Lake</td>
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<td>Roseau</td>
<td>-20.2%</td>
</tr>
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<td>Carver</td>
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<td>-12.1%</td>
<td>Scott</td>
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</tr>
<tr>
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<td>Lincoln</td>
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<td>Sherburne</td>
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<tr>
<td>Chippewa</td>
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<td>Lyon</td>
<td>-21.5%</td>
<td>Sibley</td>
<td>-16.3%</td>
</tr>
<tr>
<td>Chisago</td>
<td>-9.2%</td>
<td>Mahnomen</td>
<td>-32.5%</td>
<td>Stearns</td>
<td>-19.0%</td>
</tr>
<tr>
<td>Clay</td>
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<td>Steele</td>
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<td>Stevens</td>
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<td>McLeod</td>
<td>-17.2%</td>
<td>Swift</td>
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</tr>
<tr>
<td>Cottonwood</td>
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<td>Meeker</td>
<td>-14.5%</td>
<td>Todd</td>
<td>-15.8%</td>
</tr>
<tr>
<td>Crow Wing</td>
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<td>Mille Lacs</td>
<td>-18.8%</td>
<td>Traverse</td>
<td>-21.9%</td>
</tr>
<tr>
<td>Dakota</td>
<td>-10.4%</td>
<td>Morrison</td>
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<td>Douglas</td>
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<td>Waseca</td>
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<td>Faribault</td>
<td>-18.8%</td>
<td>Nicollet</td>
<td>-11.9%</td>
<td>Washington</td>
<td>-5.1%</td>
</tr>
<tr>
<td>Fillmore</td>
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<td>Nobles</td>
<td>-20.2%</td>
<td>Watonwan</td>
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</tr>
<tr>
<td>Freeborn</td>
<td>-16.9%</td>
<td>Norman</td>
<td>-18.6%</td>
<td>Wilkin</td>
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<tr>
<td>Goodhue</td>
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<td>Olmsted</td>
<td>-14.4%</td>
<td>Winona</td>
<td>-20.8%</td>
</tr>
<tr>
<td>Grant</td>
<td>-19.8%</td>
<td>Otter Tail</td>
<td>-16.1%</td>
<td>Wright</td>
<td>-10.0%</td>
</tr>
<tr>
<td>Hennepin</td>
<td>-14.1%</td>
<td>Pennington</td>
<td>-24.3%</td>
<td>Yellow Medicine</td>
<td>-23.3%</td>
</tr>
<tr>
<td>Houston</td>
<td>-11.2%</td>
<td>Pine</td>
<td>-16.9%</td>
<td>Statewide</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Hubbard</td>
<td>-14.1%</td>
<td>Pipestone</td>
<td>-17.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Isanti</td>
<td>-12.4%</td>
<td>Polk</td>
<td>-19.7%</td>
<td></td>
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</tr>
</tbody>
</table>

Figure 2 presents POLGs on a cash income basis. The primary effect of moving to a cash income POLG is that every county’s POLG increases – generally by about 15% to 25%. Statewide, the average cash income POLG is 4.80% -- a slight reduction from last year’s figure of 4.91%, indicating that cash income grew faster than local governments’ own source revenues overall. The cash income POLG for individual counties ranges from a high of 8.9% in Cook County to a low of 3.5% in Winona County. As the results shown in Table 2 suggest, the impact of switching the analysis from a personal income to a cash income perspective affects some counties more than others. In 6 counties (led by Marshall, Wadena, and Pennington), this switch increases the POLG in excess of 25%. Conversely, Scott, Carver, and Washington Counties are those least affected by this switch with the POLG increasing by between just 5% and 7%.
Table 3 shows the five counties where local governments have the highest and lowest POLGs on a cash income basis.

<table>
<thead>
<tr>
<th>Top Five</th>
<th>County</th>
<th>POLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cook</td>
<td>8.9%</td>
</tr>
<tr>
<td>2</td>
<td>Swift</td>
<td>7.7%</td>
</tr>
<tr>
<td>3</td>
<td>Itasca</td>
<td>7.2%</td>
</tr>
<tr>
<td>4</td>
<td>Lake</td>
<td>7.0%</td>
</tr>
<tr>
<td>5</td>
<td>Mahnomen</td>
<td>6.8%</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Bottom Five</th>
<th>County</th>
<th>POLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>83</td>
<td>Roseau</td>
<td>3.9%</td>
</tr>
<tr>
<td>84</td>
<td>Carver</td>
<td>3.9%</td>
</tr>
<tr>
<td>85</td>
<td>Dakota</td>
<td>3.9%</td>
</tr>
<tr>
<td>86</td>
<td>Washington</td>
<td>3.8%</td>
</tr>
<tr>
<td>87</td>
<td>Winona</td>
<td>3.5%</td>
</tr>
</tbody>
</table>
ALTERNATIVE #2: CASH INCOME POLG AFTER EXPORTING TAXES PAID BY NON-COUNTY RESIDENTS
(Total Own Source Revenues Collected in County Minus Cabin Property, Local Sales, and Local Lodging Taxes Paid by Non-County Residents and Property Tax Refunds/County Cash Income)

Answers the question: What is local government’s claim on cash income in the county after excluding the local government revenues paid by non-residents?

The “price” of government communicates a consumer perspective: what people pay for local government services. But determining how much local residents and businesses pay directly to their local governments is complicated by tax exporting – collecting tax revenues from nonresidents or visitors to the area, which exports government costs to people who cannot vote for or against those imposing the taxes.

Local governments can easily export three taxes directly to non-county residents: cabin property taxes (billed directly to owners who live elsewhere), lodging taxes (billed directly to visiting hotel/motel guests), and local sales taxes (billed directly on sales to out-of-town purchasers). They can also export property taxes on homes and rented housing to the state through the property tax refund programs.

Data exists on property tax refund payments the state makes to homeowners and renters in each county. However, it is not possible to determine the precise share of the cabin, local lodging, and local sales taxes non-county residents pay. We estimate the POLG net of local tax exporting on the following assumptions:

- **Local sales taxes** – According to the Department of Revenue’s *Tax Incidence Study* approximately 20% of local sales taxes are paid by out of state residents. We assume an additional 10% of local sales taxes are paid by Minnesota residents who live outside the county where they make the purchase.

- **Cabin property taxes** – According to the *Tax Incidence Study*, out-of-state residents directly pay about 20% of the local cabin property taxes. However, a significant share of cabin property taxes is paid by Minnesotans who live outside the county where their cabin is located. Based on communication with county assessors, our estimate assumes that 80% of total local cabin property taxes are exported to non-county residents.

- **Local lodging taxes** – Given the nature of lodging, we assume 90% of local lodging taxes are paid by individuals living outside the county where the hotel collecting the tax is located.

Table 4 shows exported taxes in each county relative to total own source revenues (OSR). As the table illustrates, although local governments export on average 7.5% of OSR, the ability to export tax burdens varies significantly around the state. In 30 counties, local governments can export only 4% or less of OSR while in 17 counties exported taxes represent over 10% of OSR – and over 20% in four cases.

Table 4: Total Exported Taxes as Share of All Own-Source Revenues, by County, 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>County</th>
<th>Amount</th>
<th>Rank</th>
<th>County</th>
<th>Amount</th>
<th>Rank</th>
<th>County</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
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<td>Cook</td>
<td>29.4%</td>
<td>10</td>
<td>Douglas</td>
<td>14.2%</td>
<td>19</td>
<td>Chisago</td>
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<tr>
<td>2</td>
<td>Cass</td>
<td>26.4%</td>
<td>11</td>
<td>Mille Lacs</td>
<td>14.2%</td>
<td>20</td>
<td>Beltrami</td>
<td>9.0%</td>
</tr>
<tr>
<td>3</td>
<td>Crow Wing</td>
<td>22.6%</td>
<td>12</td>
<td>Todd</td>
<td>13.2%</td>
<td>21</td>
<td>Kanabec</td>
<td>8.6%</td>
</tr>
<tr>
<td>4</td>
<td>Aitkin</td>
<td>22.5%</td>
<td>13</td>
<td>Pine</td>
<td>12.9%</td>
<td>22</td>
<td>Stearns</td>
<td>8.4%</td>
</tr>
<tr>
<td>5</td>
<td>Hubbard</td>
<td>19.8%</td>
<td>14</td>
<td>Pope</td>
<td>11.0%</td>
<td>23</td>
<td>Olmsted</td>
<td>8.3%</td>
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<tr>
<td>6</td>
<td>Otter Tail</td>
<td>18.7%</td>
<td>15</td>
<td>Morrison</td>
<td>10.4%</td>
<td>24</td>
<td>Kandiyohi</td>
<td>8.0%</td>
</tr>
<tr>
<td>7</td>
<td>Becker</td>
<td>17.3%</td>
<td>16</td>
<td>Itasca</td>
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<td>25</td>
<td>Isanti</td>
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<tr>
<td>8</td>
<td>Lake/Woods</td>
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<td>17</td>
<td>St. Louis</td>
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<td>Hennepin</td>
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<tr>
<td>9</td>
<td>Lake</td>
<td>14.7%</td>
<td>18</td>
<td>Carlton</td>
<td>9.2%</td>
<td>27</td>
<td>Benton</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

7 [http://www.revenue.state.mn.us/research_stats/Pages/Tax_Incidence_Studies.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Tax_Incidence_Studies.aspx)
Table 4 (cont): Total Exported Taxes as Share of All Own-Source Revenues, by County, 2014

<table>
<thead>
<tr>
<th>Rank</th>
<th>County</th>
<th>Amount</th>
<th>Rank</th>
<th>County</th>
<th>Amount</th>
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<td>51</td>
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<td>72</td>
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<td>Watonwan</td>
<td>1.9%</td>
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<td>34</td>
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<td>55</td>
<td>Carver</td>
<td>4.4%</td>
<td>76</td>
<td>Yellow Medicine</td>
<td>1.8%</td>
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<td>35</td>
<td>Wabasha</td>
<td>6.5%</td>
<td>56</td>
<td>Pennington</td>
<td>4.3%</td>
<td>77</td>
<td>Rock</td>
<td>1.7%</td>
</tr>
<tr>
<td>36</td>
<td>Dakota</td>
<td>6.4%</td>
<td>57</td>
<td>Waseca</td>
<td>4.1%</td>
<td>78</td>
<td>Norman</td>
<td>1.7%</td>
</tr>
<tr>
<td>37</td>
<td>Scott</td>
<td>6.1%</td>
<td>58</td>
<td>Mower</td>
<td>3.9%</td>
<td>79</td>
<td>Pipestone</td>
<td>1.6%</td>
</tr>
<tr>
<td>38</td>
<td>Koochiching</td>
<td>6.0%</td>
<td>59</td>
<td>Roseau</td>
<td>3.6%</td>
<td>80</td>
<td>Faribault</td>
<td>1.6%</td>
</tr>
<tr>
<td>39</td>
<td>Sherburne</td>
<td>6.0%</td>
<td>60</td>
<td>Clearwater</td>
<td>3.6%</td>
<td>81</td>
<td>Swift</td>
<td>1.4%</td>
</tr>
<tr>
<td>40</td>
<td>Washington</td>
<td>5.6%</td>
<td>61</td>
<td>Dodge</td>
<td>3.3%</td>
<td>82</td>
<td>Lac Qui Parle</td>
<td>1.3%</td>
</tr>
<tr>
<td>41</td>
<td>Wadena</td>
<td>5.5%</td>
<td>62</td>
<td>Fillmore</td>
<td>3.3%</td>
<td>83</td>
<td>Jackson</td>
<td>1.3%</td>
</tr>
<tr>
<td>42</td>
<td>Nicollet</td>
<td>5.4%</td>
<td>63</td>
<td>Freeborn</td>
<td>3.2%</td>
<td>84</td>
<td>Renville</td>
<td>1.2%</td>
</tr>
<tr>
<td>43</td>
<td>Winona</td>
<td>5.4%</td>
<td>64</td>
<td>Murray</td>
<td>3.0%</td>
<td>85</td>
<td>Wilkin</td>
<td>1.1%</td>
</tr>
<tr>
<td>44</td>
<td>Houston</td>
<td>5.3%</td>
<td>65</td>
<td>Nobles</td>
<td>2.9%</td>
<td>86</td>
<td>Marshall</td>
<td>1.0%</td>
</tr>
<tr>
<td>45</td>
<td>Steele</td>
<td>5.3%</td>
<td>66</td>
<td>Red Lake</td>
<td>2.6%</td>
<td>87</td>
<td>Kittson</td>
<td>0.9%</td>
</tr>
<tr>
<td>46</td>
<td>McLeod</td>
<td>5.1%</td>
<td>67</td>
<td>Stevens</td>
<td>2.5%</td>
<td>88</td>
<td>Statewide Average</td>
<td>7.5%</td>
</tr>
<tr>
<td>47</td>
<td>Goodhue</td>
<td>4.7%</td>
<td>68</td>
<td>Lincoln</td>
<td>2.5%</td>
<td>89</td>
<td></td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Grant</td>
<td>4.7%</td>
<td>69</td>
<td>Martin</td>
<td>2.4%</td>
<td>90</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Overall, we estimate local governments in Minnesota were able to export 7.5% of their own-source revenues to non-residents, a full percentage point higher than the amount in 2013 (6.5%). This increase was largely driven by a $126 million increase in the property tax refunds the state pays to homeowners and renters. 75 of the 87 counties increased the exported proportion of their total tax base, perhaps not surprising given that the property tax refund increase affected all counties. The 12 counties where the exported portion of the tax base declined tend to have relatively high proportions their property tax base in cabins, and the declines are likely the result of a shift in tax base away from cabins and their exportable taxes.

Figure 3 presents cash income POLG findings after taking out these exported taxes. On a statewide level local tax exporting has only a modest impact – reducing the statewide average POLG from the 4.59% in Figure 2 to 4.44%. Removing exported taxes reduces the county-to-county variability in the POLG (as measured by comparing the size of the standard deviation to the statewide average) by about 3% – somewhat less than the 15% that resulted from the same change in 2013.

As the results from Table 4 indicate, the effects of tax exporting vary considerably between counties. Places with the highest proportion of exported taxes – largely tourism-dependent areas and/or counties with a high proportion of cabin property – had the largest reductions in the POLG on a percentage basis.
Figure 3: 2014 Cash Income Price of Local Government, by County, After Exporting Taxes

Table 5 shows the five counties where local governments have the highest and lowest POLGs – after subtracting exported taxes – on a cash income basis.

Table 5: Counties With Five Highest and Five Lowest Cash Income POLG (Net of Exported Taxes), 2014

<table>
<thead>
<tr>
<th>Top Five</th>
<th>County</th>
<th>POLG</th>
<th>Bottom Five</th>
<th>County</th>
<th>POLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Swift</td>
<td>7.6%</td>
<td>83</td>
<td>Carver</td>
<td>3.8%</td>
</tr>
<tr>
<td>2</td>
<td>Wilkin</td>
<td>6.6%</td>
<td>84</td>
<td>Dakota</td>
<td>3.6%</td>
</tr>
<tr>
<td>3</td>
<td>Traverse</td>
<td>6.5%</td>
<td>85</td>
<td>Washington</td>
<td>3.6%</td>
</tr>
<tr>
<td>4</td>
<td>Jackson</td>
<td>6.5%</td>
<td>86</td>
<td>Todd</td>
<td>3.6%</td>
</tr>
<tr>
<td>5</td>
<td>Itasca</td>
<td>6.5%</td>
<td>87</td>
<td>Winona</td>
<td>3.4%</td>
</tr>
</tbody>
</table>
As decades of tax policy debates in Minnesota have shown, perceptions about the price and affordability of local government hinge on levels of property taxation. People often link local property tax prices with the price of local government, despite the fact that property taxes routinely pay far less than half of their costs.

Our final POLG perspective considers the relationship between the property taxes county residents and businesses with property located in the county pay to local governments and county cash income. This excludes all non-tax revenues that local governments raise themselves (including but not limited to charges for services, license and permit fees, fines, and schools’ nontax revenues), all non-property taxes (mostly local sales and local lodging taxes), the cabin taxes we assume are exported to non-county residents, and the property taxes exported to the state via the property tax refund. Figure 4 presents the findings.

**Figure 4: 2014 Locally-Paid Property Tax POLG by County**

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**ALTERNATIVE #3: LOCALLY-PAID PROPERTY TAX POLG**

(Local Property Taxes Minus Exported Cabin Taxes and Property Tax Refunds / County Cash Income)

Answers the question: How big is local effort property taxes’ claim on cash income within the county?
As the figure indicates, across the state net locally-paid property taxes are, on average, 2.95% of cash income – nearly 5% below the 3.11% figure from 2013. However, 34 of the state’s 87 counties – all located outside the state’s largest metropolitan areas – have a higher locally-paid property tax POLG in 2014 than in 2013. Perhaps not surprisingly, there are wide disparities in the figure across the state, as Figure 4 demonstrates. Seventeen counties have a locally-paid property tax POLG that is at least 25% above the state average – led by Swift County at 5.2%. Conversely, 14 counties have a locally-paid property tax POLG between 10% and 25% below the state average, with Winona County bottoming out at 2.3%. Note that no counties were 25% or more below the average.

Relative to the total cash income POLG less exported taxes (alternative #2), the standard deviation relative to the statewide average rises by about 10%. This finding indicates that net locally-paid property taxes are more variable between counties than other forms of own-source revenue are as a group – and is opposite from the effect this change had last year, when it reduced the county-to-county variability by about one-third.

Removing the non-tax revenue sources that local governments can raise themselves has by far the biggest transformational impact on the POLG map – indicating the extent to which local governments rely on non-tax revenues, exported property taxes, and other taxes (primarily sales and lodging). Several counties that were consistently high in the earlier POLG metrics are now near or even below state average levels, while the reverse is far less common. Most notably, whereas the Arrowhead and north-central regions of Minnesota generally rank highly in the other POLG metrics, but residents and local businesses pay relatively low property taxes relative to the cash income available to the local economy. Relatively high property tax burdens seem to be clustered along Minnesota’s western border with the Dakotas and its southern border with Iowa.

Table 6 shows the five counties where local governments have the highest and lowest POLGs when measured using locally-paid property taxes.

Table 6: Counties With Five Highest and Five Lowest Cash Income POLG (Locally-Paid Property Taxes Only), 2014

<table>
<thead>
<tr>
<th>Top Five</th>
<th>County</th>
<th>POLG</th>
<th>Bottom Five</th>
<th>County</th>
<th>POLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Swift</td>
<td>5.2%</td>
<td>83</td>
<td>Todd</td>
<td>2.4%</td>
</tr>
<tr>
<td>2</td>
<td>Traverse</td>
<td>4.8%</td>
<td>84</td>
<td>Cook</td>
<td>2.4%</td>
</tr>
<tr>
<td>3</td>
<td>Wilkin</td>
<td>4.8%</td>
<td>85</td>
<td>Roseau</td>
<td>2.4%</td>
</tr>
<tr>
<td>4</td>
<td>Jackson</td>
<td>4.8%</td>
<td>86</td>
<td>Koochiching</td>
<td>2.3%</td>
</tr>
<tr>
<td>5</td>
<td>Grant</td>
<td>4.7%</td>
<td>87</td>
<td>Winona</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

7 Seven-county Twin Cities metro, Olmsted County (Rochester), Steams County (St. Cloud), and St. Louis County (Duluth).
COMPARISONS TO 2013 RESULTS

Looking at county-level POLG results for any individual year offers a snapshot of how different local governments’ claims on resident’s income compare. Trend data provides information about how those snapshots have changed over time.

Table 7 compares the year on year changes for our three cash income metrics.\(^9\) The table shows changes in percentage points – for example, Kittson County’s increase in the POLG net of exported taxes (Figure 3) from 4.3% in 2013 to 5.8% in 2014 yields the 1.5% increase shown in the table.

<table>
<thead>
<tr>
<th>Biggest Annual Increases and Declines</th>
<th>Price of Local Government Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash Income Basis (Figure 2)</td>
</tr>
<tr>
<td>County</td>
<td>Change (% Points)</td>
</tr>
<tr>
<td>---------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>1 Kittson</td>
<td>+1.5</td>
</tr>
<tr>
<td>2 Wilkin</td>
<td>+1.3</td>
</tr>
<tr>
<td>3 Mahnomen</td>
<td>+1.3</td>
</tr>
<tr>
<td>4 Yellow Medicine</td>
<td>+0.9</td>
</tr>
<tr>
<td>5 Traverse</td>
<td>+0.9</td>
</tr>
<tr>
<td>83 Crow Wing</td>
<td>(0.3)</td>
</tr>
<tr>
<td>84 LeSueur</td>
<td>(0.4)</td>
</tr>
<tr>
<td>85 Morrison</td>
<td>(0.6)</td>
</tr>
<tr>
<td>86 Wadena</td>
<td>(0.6)</td>
</tr>
<tr>
<td>87 Pennington</td>
<td>(1.0)</td>
</tr>
</tbody>
</table>

POLG numbers increase over time because the numerator – own source revenues, own-source revenues less exported taxes, or net property taxes (less exporting) – grow faster than the denominator of cash income. The reverse is true when POLG numbers decline over time.

As Table 7 suggests, the counties where these revenue metrics grew the fastest between 2013 and 2014 are largely located along or near Minnesota’s western border (Kittson, Wilkin, Mahnomen, Traverse, and Yellow Medicine Counties). The counties where the revenue metrics declined the fastest are predominately located in central and north central Minnesota.

Note: Compared with the 2013 data we published in Issue Brief #13 (March 2016), Cook County experiences sharp declines in the net of local tax exporting POLG and the locally-paid property taxes POLG. However, a data entry error in the information Cook County submitted to the State Auditor led us to overstate these two metrics for Cook County. We have used estimated data to correct the metrics for use as the basis for Table 7.

\(^9\) The base year figures used in this table may differ slightly from those publish in Issue Brief #13. Consistent with the state’s practice in its Price of Government report, we have revised our cash income measure for 2013 to incorporate any revisions to personal income made by the BEA.