



## League of Women Voters of Minnesota Records

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# FACTS and ISSUES FINANCING STATE GOVERNMENT

League of Women Voters of Minnesota

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## *Minnesota's Multi-Tax System*

This "Facts and Issues" contains a description of every tax used for raising revenue in Minnesota. The major taxes, personal income, property, and sales taxes, are presented first. The other taxes are grouped by type. Each tax is explained in terms of who is taxed, how much is collected, which government unit collects and distributes the tax, and which criteria can be used to evaluate the tax. Collection figures for each tax are for the fiscal year 1975, running from July 1, 1974, to June 30, 1975. The total collected by the Minnesota Department of Revenue and other state agencies in fiscal 1975 was \$2,019,936,000; this does not include property tax revenue, collected by local governments, estimated at \$1,001,208,000 in fiscal 1975.

### **PROPERTY TAX**

One of the first taxes levied by civilized man was the tax on property. As early as the fourth century B.C., the Greeks and Romans were working out definitions for terms like "property," "equitable assessment," and "administration." The property tax survived through the years despite considerable criticism, perhaps because (1) it raises revenue needed by local government units, (2) it has a certain "relevance," because it pays for services to those who are taxed (e.g. street maintenance and fire and police protection), and (3) it is easy to locate for assessing because real property is mostly fixed or immobile. Today, property taxes account for about one out of every six tax dollars collected in the United States.

In computing property taxes in Minnesota, each local taxing district — cities, counties, townships, and special taxing units like school districts — decides how much money it needs from the property tax for the coming year. This amount, called a levy, is applied against the assessed values to arrive at the mill rates required to raise necessary amounts. Then all the mill rates for a given area are applied to the assessed value of each piece of property within the area to compute the tax on that property. The property owner pays the taxes to the county treasurer, who returns the money to each local government or taxing unit in proportion to the unit's mill rate.

Not to be confused with property tax are special assessments levied on property for improvements like storm sewers, curbs, water mains, and sidewalks. Such improve-

ments may benefit the property receiving them and may increase the market value of the property, but special assessments are levied for specific projects and appear on property tax statements as a separate item.

Although the state no longer imposes or collects the property tax, it still regulates many of its aspects. Sometimes, such regulation becomes extremely complicated. For example, state law requires that all property in Minnesota must be valued at market value for tax purposes. This means that the assessor's estimated value for each real estate parcel should be the same as the probable selling price of the property, thus "equalizing" taxes for individual property owners and taxing districts. Actual practice, however, varies considerably, despite the law. Studies have shown that estimated market values in the state range from 50% to 140% of actual market value; this ratio of estimated market value to probable selling price at the time of assessment is called the sales ratio. Recognizing this variation, and recognizing its special importance to local governments and school districts, whose municipal aids and state school aids are based on the equalization principle, the state has established the Equalization Aid Review Committee (EARC). The state commissioners of education, revenue, and administration meet as the EARC to review such studies and adjust assessed values where necessary. Assessment/sales ratio studies also provide valuable information for taxpayers, assessors, the legislature, and tax administrators.

The state legislature also limits the amount of revenue each taxing unit can raise by property tax levies. The first such legislation was passed in 1971. Today, there are two basic levy limitation laws; one pertains to local governments and one to school districts. Local governments with a population over 2500 are limited to a percentage increase per year, while school districts are limited to increases based on the maximum mill rate.

There are also numerous tax advantages in the form of classifications, credits, and exemptions by which the legislature has tried to make the property tax less burdensome and more equitable. The first of these devices was classification, adopted in 1913. The legislature divided real and personal property into four classes, with the tax rate applied to varying proportions of assessed value. The home-

stead classification was adopted in 1933 to help property owners in danger of foreclosure and eviction. It was also supposed to encourage homeownership, because it reduced the tax levied on real property occupied by its owner. The homestead classification now includes mobile homes, and defines a farm homestead as up to 120 acres of land contiguous to the dwelling. The number of classifications has increased steadily over the years; currently there are more than 30. This makes Minnesota's tax system complex and cumbersome to administer, and makes property difficult to assess. Some classification of property may be desirable, but many experts deplore the results of the system: favored treatment of one group or class of property is nearly always achieved at the expense of other groups.

The Tax Reform and Relief Act of 1967 introduced the first tax credit for property owners through the homestead credit. Low-income senior citizens and renters were also given special property tax relief by the 1967 legislature. Each legislative session since 1967 has made changes in the credit. In 1973, for example, totally disabled and legally blind persons became eligible for the credit, and a special property tax "freeze" was enacted, freezing the net homestead property tax at the amount it was when the homeowner reached age 65. This freeze now depends on income.

In 1975 the legislature created the income-adjusted homestead credit. It introduced the concept of personal income as a factor in the property tax system. This was Minnesota's first "circuit breaker" type legislation, so-called because it prevents an overload on taxpayers, just as an electrical circuit breaker prevents an overload on an electric power source. It authorized the state to "pay" the taxpayer, in the form of a credit against his income taxes, if property taxes exceeded a certain percentage of household income. Renters also benefit from this circuit breaker. They may assume that 20% of their rent goes for property tax, and apply for a refund or state income tax credit. The income-adjusted homestead credit, and the other special freezes and credits, are administered through the income tax, and are further explained in that section.

Another legislative device concerns certain kinds of property which are exempt from taxation — property owned by religious, educational, charitable, and governmental entities, certain personal property, Indian lands, real and personal property used to control air, water or land pollution, and industrial commercial tools, machinery and equipment. Certain types of public utilities property are also exempt, but are subject to the gross earnings tax instead. Federally owned land is also exempt from taxation except for specific cases authorized by Congress. Some experts view exempt property as beneficial, because tax-exempt private institutions, for example, render services to the community that would otherwise have to be provided at public expense. However, in a community with a high proportion of exempt property, non-exempt taxpayers carry a heavier portion of taxation.

Minnesota's pioneering Fiscal Disparities Act, passed in 1971, acknowledges the wide differences in taxing capabilities of the more than 300 units of government in the seven-county Minneapolis-St. Paul metropolitan area. It

recognizes that benefits of local services flow across the boundaries of the taxing governments, among suburbs, between suburbs and central cities, and among school districts. It calls for pooling 40% of the growth of the commercial and industrial tax base in the metropolitan area. The pooled tax base is then redistributed to local taxing units, both governments and school districts, by a formula based on population and need.

The state legislature has also used its tax regulatory powers to try to achieve more equitable property taxation in other areas. The 1967 Agricultural Property Tax Law, known as the "green acres" law, defers tax increases and special assessments on property in urban fringe areas which is used for agricultural purposes. Although the land may increase in value because of its potential for residential or commercial use, the tax continues to be based on the value for agricultural use until it's sold or is no longer used for agriculture. It is then subject to additional taxes equal to the difference between its agricultural value and its market value for the three years of deferment immediately preceding the sale. Thus increases in land values do not discourage property-owners on the urban fringe who want to continue farming. Here too, however, tax relief granted to one group must be borne by other groups.

Two other taxing methods offered by the state and designed to encourage use of land for conservation practices are the Tree Growth Tax and the Auxiliary Forest Tax. Owners of five or more acres of forest land may apply to have their land taxed under the "tree growth" tax law instead of paying any other type of property tax on it. Charges for the land differ according to its current productivity. Land suitable for growing commercial timber, in lots of no less than five nor more than 40 acres, may be taxed as "auxiliary forests" if the county auditor approves. This levy supersedes any property tax. Salable timber or mineral interests in the land are taxed separately.

The 1975 state legislature passed a number of laws which affect property taxes. In addition to the income-adjusted homestead credit, the legislature (1) directed the state to assume 90% of non-federally funded medical welfare costs which counties had been funding primarily through the property tax. (2) increased state aid to local governments and revised the formula for distributing such aids; (3) modified tax levy limitations to reduce restrictions on local spending; (4) repealed the 5% assessment limitation on increases in property valuation so that all property assessments may be brought up to market value within four years; (5) changed homestead assessment procedures to make them more responsive to inflation; (6) increased the taconite production tax and changed its distribution formula; (7) increased the school maintenance mill reduction for agricultural property and seasonal recreational property.

Revenue from property taxes in Minnesota was estimated at \$1,001,208,000 in fiscal 1975. While this figure has been rising, it has grown smaller as a percentage of total revenues in the state, reflecting the legislation drawn to afford relief to property owners. In fiscal 1974, for the first time, the property tax lost its distinction as top revenue raiser in Minnesota, being surpassed by the combined total of personal and corporate income tax revenues.



## STATE INCOME TAX

If economists and politicians were polled on which kind of tax they preferred, most would probably choose the income tax. Economists like it because it can be structured in accordance with the taxpayer's ability to pay; politicians like it because it is a relatively easy way to raise substantial sums of money. Minnesota first levied a state income tax in 1933; today it is the state's major source of tax revenue. In fiscal 1975 it produced \$807,100,000, or about 40% of state tax revenues. Collected by the Minnesota Department of Revenue, it goes to the state treasury, where it is credited to the general revenue fund.

The Minnesota income tax is levied on most income, including wages, salaries, tips, dividends, interest, pensions, and annuity payments. Wages and salaries are taxed by withholding a specified portion; other forms of income are taxed in quarterly prepayments based on a declaration of estimated tax. By law, Minnesotans must file an income tax return if their Minnesota income exceeds a certain specified amount, the amount varying with such factors as age and marital status.

The taxpayer does not pay income tax on gross income. Instead, he pays taxes on what is called taxable income. To arrive at taxable income, the taxpayer must first compute his Minnesota adjusted gross income. This is all the money received during the year which is subject to Minnesota taxation, including any federal income tax refund, minus federal taxes paid for the year. Then the standard or itemized deductions allowable are subtracted from this adjusted gross income; what's left is taxable income.

Besides being able to reduce the net income on which taxes must be paid, the taxpayer may be able to reduce the tax itself by using tax credits. Minnesota law provides two types of credits, refundable and non-refundable. Refundable credits may be paid to the taxpayer in cash, non-refundable ones are subtracted from his tax liability. There are five *non-refundable credits*. (1) *Personal and dependent credits*, allowed since 1972, include \$21 each for the taxpayer, his or her spouse, each dependent, and the estate of a family member who has died during the year, plus an additional \$21 for the spouse if they are 65 or older. (2) *Income tax paid to other states* can be credited if the income was derived from personal or professional services, if the other state doesn't allow a credit for Minnesota residents, and if he must pay income tax to the other state on the earnings. (3) *Pollution control equipment credit* can be taken for items purchased to reduce air, land, or water pollution. (4) *Political contributions* to a party and candidate can be used as a tax credit up to 50% of the contribution up to \$12.50, or to \$25 for a married couple filing jointly. When the contribution is only to a party, the credit is \$5 for an individual and \$10 for a joint return. (5) *Low income credit* "forgives" all or part of income tax owed by the so-called "working poor." The amount of qualifying income varies according to family size, from \$4,400 for a single wage-earner to \$7,800 for a family of six or more.

There are three *refundable credits* which may be paid in cash to the taxpayer if they exceed his total state income tax liability. (1) *the income-adjusted homestead credit (circuit breaker)* — enacted by the 1975 legislature — attempts to tie property tax liability to a renter's or homeowner's income. It is based on whether the homeowner's

property tax, or the portion of property tax included in rent, exceeds a certain percentage of the taxpayer's gross income. The percentage rises with income and is determined by a sliding scale. Homeowners over 65, disabled persons, and renters may claim this credit against their income taxes or receive a cash payment if the amount due exceeds their tax liability; other homeowners can claim it only as a credit against their income tax. It does not replace the existing homestead credit allowed against a homeowner's property tax, but the income-adjusted credit is reduced by the amount allowed for the homestead credit. (2) *The property tax freeze credit* freezes a homeowner's property tax when he reaches 65. The state then pays the county any difference between the amount at which the tax was frozen and the amount due in subsequent years. The 1975 circuit breaker legislation partially removed the freeze for senior citizens with incomes over \$10,000; those with annual incomes of \$19,500 or more must pay current property taxes in full. (3) There is also an *exempt agricultural electricity credit*, which refunds sales tax paid on electricity used for farming.

Although taxpayers lament about having to pay income taxes, this form of taxation does meet a number of the common criteria for judging a tax. One of the chief advantages is that it matches the taxpayer's ability to pay, because the rate structure is progressive up to \$20,000 of taxable income, and it can be personalized through deductions and credits so that, for example, a single taxpayer with an income of \$8,000 pays more than a married taxpayer trying to support a spouse and two children on the same \$8,000.

Another feature of the income tax which is attractive to government is that it is elastic. It is the only major tax which grows faster than overall economic activity. A 10% rise in personal income can yield a 15% increase in tax collections, because as a taxpayer's income rises, he or she moves into higher tax brackets. Much of the \$200,000,000 surplus in the state treasury at the end of the 1975-76 biennium was a result of the elastic nature of the income tax. Income tax receipts in fiscal 1975 increased 15% over 1974, although the rate structure stayed the same.

Other qualities of the income tax desirable to government are its high yield and the relative ease with which it is administered.

The Minnesota income tax does have its limitations, however. Some contend that the current flat rate of taxation on incomes over \$20,000 should be changed to make the rates progressive at higher levels of income. One way to accomplish this would be elimination of the federal deductibility provision, which would raise taxes substantially for persons with higher incomes by no longer allowing Minnesota taxpayers to deduct federal taxes paid from their state taxable income. The federal rate structure is more progressive than Minnesota's, so if Minnesota eliminated federal deductibility, people in higher income brackets would see their taxable income increase by a larger percentage than people with lower incomes.

In considering the merits of this suggestion, it might be instructive to examine the impact of federal deductibility on state revenues. The federal income tax is the single



most important deduction Minnesotans make in computing their taxable income; it comprised 48% of all deductions in 1968. As a result of this deduction, 14% of gross income earned in Minnesota is not subject to Minnesota income tax. In fiscal 1967, removal of federal deductibility would have increased state tax revenues by \$87,000,000, or 34%, and by fiscal 1973, the increase would have been \$360,400,000. Given the accelerating demands on state government, it's easy to understand why the proposal to eliminate federal deductibility has strong support.

Proponents of this measure also put forward several other arguments in its favor. They claim that permitting federal deductibility makes Minnesota dependent on the federal tax system and its periodic rate changes. They also point out that if federal deductibility were eliminated, the legislature could lower the rate structure and still raise as much as, or more than, the state collects now.

An argument put forward against removal of federal deductibility is that it is unfair to tax income used to pay taxes, but supporters of the idea counter by pointing out that many other taxes are not deductible, and that taxes are simply part of the cost of living, just as goods and services are. The argument for maintaining federal deductibility is strengthened by the fact that Minnesota consistently ranks in the top ten states in income tax rates. With-

out lower rates, a rise in individual tax liabilities could become a political liability for many a state legislator.

Another criticism frequently leveled at the Minnesota income tax structure is that the family with one wage-earner is penalized, since it pays taxes at a significantly higher rate than the family with two wage-earners. This happens because Minnesota tax laws make a different distinction between married and single taxpayers than federal laws do. A family with one wage-earner who earns \$20,000, for example, pays approximately \$1,315 in state income tax, but a family with two wage-earners who together earn the same \$20,000 might pay only \$947, depending, of course, on other deductions. Those who favor the present plan contend that families with two wage-earners incur additional expenses, such as child care and transportation, which should be reflected in their tax liability. They also like the balanced contrast Minnesota taxes offer to federal taxes, which fall more heavily on the single taxpayer.

Other proposals for the income tax are concerned with simplification of forms and rates, or changes which would allow more people to use standard rather than itemized deductions. Since taxable income is based primarily on figures from federal income tax determinations, changes proposed in Minnesota are sometimes limited in impact by what happens to the income tax at the federal level.

## SALES AND USE TAX

As the demand for state government services expanded in the 1960's, Minnesota had to find additional sources of revenue, and in 1967 the legislature introduced a 3% sales tax. The sales tax was part of a major tax reform and relief act, and was designed to cover revenue losses projected by elimination of personal property taxes and state property levies. In 1971, the legislature raised this tax to 4%.

Most retail sales are subject to this tax. The important exceptions are food, clothing, and prescription medicines and drugs. Sales taxes are also collected on admissions, amusement devices, furnishing of meals, drinks, and/or take-out food, hotel and motel rooms, electricity, gas, water, and certain telephone services. Coin-operated vending machines which make taxable sales are subject to a tax of 3% of their gross receipts. There is also a use tax, a sales tax primarily intended to cover purchases from out-of-state retailers. It is imposed on the storage, use, or consumption of taxable items, and serves the useful purpose of preventing Minnesotans from evading the sales tax on "big-ticket" items like large appliances, carpeting, or boats by purchasing them in a nearby state. Motor vehicles are exempt from the sales and use tax, but they are subject to a 4% excise tax collected by the Department of Public Safety.

Together, the sales and use taxes netted \$350,000,000 in fiscal 1974 and \$383,000,000 in fiscal 1975. They are expected to generate 17% of all state and local taxes during the 1975-77 biennium. Every person who leases, rents or sells taxable items at retail in Minnesota must have a Minnesota Sales and Use Permit; he must impose the tax on the buyer and report it and pay it to the state. The money goes to the state treasury, where it is credited to the

general fund.

The sales and use tax, like any tax, has both advantages and disadvantages. One of its major advantages is that it is reliable, and its yield grows automatically as the economy grows. Another advantage is that it is economically neutral — that is, it does not materially affect business decisions of either industry or labor. A third advantage is that, because it falls on the ultimate consumer, it is easy to increase or decrease the tax "take" from a given category of users. (A tax increase at any other point in production or sales would involve such things as inventory counting; and setting up new reporting and collecting procedures.) Another advantage of the sales tax in a tourist state like Minnesota is that it is also paid by visitors from out-of-state, who come to enjoy the state's recreational and vacation facilities. By paying sales tax, they help pay for many government services which benefit them, too.

The sales tax is apparently popular with taxpayers — 54% of respondents in the LWVMN telephone tax survey chose it as the "most fair" tax, and it is also popular with the tax collector. Among the reasons are these: (1) it's relatively painless, because it's collected in small and often unnoticed amounts; (2) the taxpayer is always current, never in arrears; (3) there are no lump sum payments to make or deadlines to meet; (4) the government can collect large amounts of money despite the low rate. For example, increasing the sales tax from 3% to 4% in fiscal 1971 brought in an additional \$96,000,000 in tax revenue. Politicians like the sales tax because it seems to incur less voter resistance than other taxes; businessmen like it because it doesn't interfere with how they run their business, and it doesn't take away the incentive to work.

One of the disadvantages of the sales tax is the confusion both buyers and sellers sometimes face when the specific use of an item determines whether it's taxable. If a person is buying upholstery fabric (which is taxable) to make a skirt or vest (which are wearable items of clothing and thus tax-exempt), no sales tax should be charged. The true cost to retailers of these and other collection details is hard to compute, but can be substantial. Another disadvantage of the sales tax is that it is regressive, because it taxes the poor, who must spend a large proportion of their income for necessities, at the same 4% rate as higher-income people. Minnesota tax law combats this regressive feature by exempting food and clothing from the sales tax,

although it does not exempt certain high-priced, so-called "luxury" items. Fur coats, for example, are an item of clothing, but the buyer must pay sales tax, if the value of the fur is more than three times the value of the next most costly material in the coat. In this way, relatively affluent people who buy expensive items like boats, furs, and recreational goods and services make large sales and use tax payments each year, while low income people whose earnings go primarily for such necessities of life as food and clothing make relatively small sales tax payments. Thus, though the sales tax is still regressive, it is less so in Minnesota than in many other states, except, perhaps, for the very poor and the very rich.

## OTHER TAXES

### **Corporate Excise Tax**

Every state that taxes personal incomes also taxes corporate incomes. By law, a corporation has no tax-paying ability separate and apart from that of its stockholders, so Minnesota calls its tax a corporate excise tax, and defines it as a tax on the value of the privilege of operating in the state. In contrast to the personal income tax, which is progressive, the corporation tax is proportional, in that it taxes all income at the same rate.

In fiscal 1975, Minnesota collected \$180,482,000 in corporate excise taxes. Although this was 18.2% of all income tax collected, it was only 9% of total state tax revenues, compared to 40.1% in 1941 and 16.5% in 1973. This decrease in percentage of total tax collections occurred despite an actual increase in collections. The corporate excise tax rate was increased from 7% to 12% during that period, but the addition of new taxes (like the sales tax) and increases in other tax rates made the percentage difference.

A Minnesota corporation is required to file an annual tax return if its gross income is over \$5,000 or its taxable net income over \$500. Since 1973, every such corporation must pay at least the minimum tax of \$100. Net taxable income is determined by total gross income, less business expenses paid during the year and a number of exemptions and credits. For example, there is a formula for exempting out-of-state sales from state income taxes. This formula, in effect, encourages Minnesota-based manufacturers to expand manufacturing, research and office facilities in the state, and serves as an incentive for those firms to sell finished products or services nationwide. There is also a \$500 credit for every corporation filing a return, and there are credits for dividends received from another corporation, contributions to the state and its political subdivisions (but not individuals), and contributions to nonprofit organizations operating in Minnesota. A 5% credit for the cost of buying, installing, and using pollution control equipment is allowed up to a maximum of \$50,000, with feedlot operators allowed 10% and no maximum. Taxes paid to the federal government or to foreign countries are not deductible.

Revenue from the corporate excise tax is deposited in the state treasury and credited to the general fund. Quarterly pre-payments are required if the annual tax is expected to be over \$1,000.

Minnesota's 12% rate for corporate taxes is the highest in the country, and has been a source of conflict between

Minnesota business firms and state officials in recent years. A series of articles in the *Minneapolis Star* in December, 1975, examined the issue and concluded that each side had been "overstating" its case. The series made the point that the level of public services the state provides is high enough to bring companies into the state in spite of the high tax rate. Moreover, a recent U.S. Bureau of Economic Analysis report predicts a faster growth of employment in Minnesota through 1990 than in neighboring states which have lower corporate taxes. This could seem to discredit corporation claims that high taxes are costing the state money and jobs.

An important point to remember is that the burden of corporate taxes does not fall on an impersonal business; it falls on people. The corporation's taxes are absorbed by stockholders, who receive reduced dividends, by consumers, who pay higher prices, or by workers, who receive lower wages. The specific incidence of the tax, however — who eventually pays what part of it — is controversial and difficult to measure, although economists continue to investigate this tax-shifting process in an effort to measure the tax burden on different groups in the population more accurately.

Government views the corporate income tax as providing stable, reliable growth in yield. It is easy to administer and there are few attempts to evade the tax.

### **Bank Excise Tax**

The bank excise tax is a 12% tax on the net income of every national and state bank in Minnesota. Each bank is considered a separate corporation, even if it is part of a large bank system or group. Net income is determined just as it is determined for other corporations, with additional adjustments for certain investments and dividends. Filing requirements and tax minimums are also identical to those for corporations. This tax contributed \$15,412,000 to state revenues in fiscal 1975.

The bank excise tax is in lieu of all taxes on capital, surplus, property assets and shares. However, banks do pay the local property tax. Until 1973, part of the revenue from the bank excise tax also went to local taxing districts. Now all revenues are deposited in the state treasury and credited to the general fund.

Like the corporate excise tax, the bank excise tax is stable, grows steadily in yield, and is easy to administer and enforce. Unlike corporate excise taxes, it is not a subject of widespread criticism, perhaps because the tax rate was reduced in 1973 from 13.34% to the present 12%.



### ***Employer's Excise Tax***

Minnesota is the only state with an employer's excise tax. Enacted in 1973, this tax is imposed on payrolls over \$100,000 per calendar year. Specifically exempted are freight, express, sleeping car and taconite company railroads, incorporated public institutions, government-owned corporations, and public charitable institutions. The tax rate is two mills per dollar (.2%) on payroll excess over \$100,000, or 1% if an employer has no net taxable income. It is reported and paid quarterly, and all revenue is credited to the state general fund. Revenues from this source totaled \$15,180,000 in fiscal 1975.

The employer's excise tax is stable, efficient, economical and easily administered, but employers call it unfair. They claim it is not based on ability to pay because it does not take corporate income into consideration, and they cite it as an example of the so-called anti-business climate the state legislature has created in the state. The question of who really pays what part of this tax is unanswerable. Obviously, the costs are passed on to stockholders, employees, and customers, just as they are with corporate and bank excise taxes. Legislation to repeal this tax passed the state senate during the last session, but not the house.

### ***Inheritance and Estate Taxes***

The inheritance tax is levied when real or personal property is transferred to a new owner after the death of the original owner. The 1976 legislature made several changes in the inheritance tax law. It doubled the amount of property exempted from the inheritance tax from \$30,000 to \$60,000, extended the period of time in which the tax can be paid from one year to five when more than \$5,000 in tax is involved, removed sex designations so that the law refers to the "surviving spouse" rather than the "widow," added an "undue hardship" deferral provision, and increased the deduction which is an amount allowed for survivors' living expenses for one year.

In addition to the inheritance tax, estate taxes may also be levied on estates exceeding \$60,000, but seldom are. This is because such estates are taxed by the federal government; the state estate tax, if one is assessed, is the difference between the maximum federal credit allowed for state death taxes and those actually paid, and the difference is usually minus. Both the inheritance and the estate tax, if any, are collected by the state and credited to the general fund, but 10% is returned to the county it came from. Inheritance and estate taxes brought in \$39,209,000 in fiscal 1975.

### ***Gift Tax***

Taxes are imposed on property transferred from one person to another as a gift. Gifts up to \$3,000 in any calendar year are exempt, as are gifts to the country, state, locality, non-profit organizations and employees. Exemptions are also allowed on gifts to relatives, with the exemption increasing with the closeness of the relationship between the giver and the recipient. State income from this tax in fiscal 1975 was \$2,482,000.

### ***Alcoholic Beverage Taxes***

Minnesota charges taxes on liquor, wine, and malt beverages (beer and ale) at the wholesale distribution level, in addition to the regular 4% sales tax at retail. The tax rate for wine and malt beverages depends on the amount of

alcohol they contain. All distilled spirits (liquor), however, are taxed at \$4.39 per gallon, no matter what the alcoholic content. These taxes brought in a total of \$48,878,000 in fiscal 1975.

### ***Cigarette and Tobacco Taxes***

Cigarettes are not subject to the regular Minnesota sales tax. Instead, they have their own excise tax based on weight. This tax on a pack of cigarettes is now 18 cents, with other tobacco products taxed at 20% of the wholesale price. A small discount is allowed for large volume purchases. State income from these taxes was \$78,785,000 in fiscal 1975.

### ***Mortgage Registry Tax***

When a mortgage on real property is filed — that is, recorded by the county recorder in the county in which the transaction takes place — the mortgagee pays a tax of 15 cents on each \$100 of debt secured by the property. This tax netted \$4,672,000 for the state in fiscal 1975, with 95% of the proceeds retained by the state and 5% by the county.

### ***Deed Transfer Tax***

This tax is imposed on the transfer of all land and buildings. The tax is based on a certificate of value which must be presented before the transfer is recorded by the county auditor. Documentary stamps purchased from the auditor are used to pay the tax. Proceeds from this tax go to the state's general fund and in fiscal 1975 were \$4,197,000.

### ***Motor Vehicle Recycling Tax***

Purchasers of new or used vehicles weighing more than 1,000 pounds pay a fee of \$1 which the state uses to recycle or dispose of abandoned vehicles and scrap metal. All these dollar bills added up to \$816,000 in fiscal 1975.

### ***Gross Earnings Taxes***

Certain kinds of companies are exempted from property taxes and instead pay a percentage of their gross earnings. This includes railroads, taconite railroads and express companies, which pay 5%; freight lines, which pay 7%; and sleeping car and telegraph companies, which pay 6%. Telephone companies with annual gross earnings of \$1,000 or less pay 30 cents for each phone they have connected, while the rest pay a percentage of gross earnings based on the population of the area served (4% for rural or small town service, 7% for larger areas). The state retained all of the \$53,800,000 collected in gross earnings taxes in fiscal 1975 except for taconite railroad taxes, of which 6% is retained by the state and the remaining 94% is distributed to local government units in the districts where the taconite railroads are located.

### ***Insurance Premiums Taxes***

Taxes paid on insurance sold in the state depend on the type of insurance sold and the type of company. The tax is allowed as a credit against the corporation excise tax, and for many companies this credit reduces the amount of income tax they pay to the minimum of \$100. Domestic and foreign insurance sales companies are assessed a 2% tax on gross insurance premiums, both general and life, less returned premiums for all business received in Minnesota. In addition, all companies except mutual and township fire



insurance companies must pay  $\frac{1}{2}$  of 1% on fire insurance premiums, minus returns, to maintain the office of the fire marshal. Town and farmer's mutual, mutual insurance companies like Blue Cross, and fraternal organizations like Lutheran Brotherhood are taxed only on fire, lightning and sprinkler premiums. Proceeds from these taxes in fiscal 1975 came to \$34,443,000.

### **Rural Electric Cooperatives Tax**

Electric utilities cooperatives operating in rural areas pay a tax of \$10 per 100 members in lieu of property taxes on their lines. This tax brought in \$32,000 in fiscal 1975.

### **Boxing Exhibition Tax**

Gross receipts from professional boxing or sparring exhibitions and receipts from lease or sale of radio, movie, and television rights to such exhibitions are taxed at 5%. The tax must be paid within 24 hours after the event, and brought the state \$18,000 in fiscal 1975.

### **Airflight Property Tax**

This tax is levied on the flight property — that is, the equipment — of all air carriers operating in Minnesota under Civil Aeronautics Board certificates. Carriers without a CAB certificate pay a 1% aircraft registration tax or may choose to pay this tax if computations result in a lower amount. To compute the tax, the airline's total flight property value is determined. Then an amount is apportioned to Minnesota based on the airline's tonnage, time in flight, and number of revenue ton miles of passengers, mail, express, and freight flown in the state. This Minnesota portion is then multiplied by the state's average rate of property taxes to determine the tax owed. The airlines paid \$2,334,000 in taxes to Minnesota in fiscal 1975.

### **Severance Taxes**

A severance tax is a specialized business tax imposed in Minnesota on all minerals taken out of the ground. There are three kinds of Severance Taxes — Occupation, Royalty, and Production — and there is also a Severed Mineral Interests Tax. Most of these taxes are paid in lieu of state income taxes; the exception is taxes paid on copper-nickel ores, which may be credited against state income taxes.

The *Occupation Tax* is an excise tax on the occupation of mining, and is computed at various percentages for different minerals, averaging about 15% of the value of the mineral being mined. Net proceeds from this tax in fiscal 1975 were \$9,820,000 on iron ore and \$10,235,000 on taconite. This revenue is divided between Iron Range school districts, the University of Minnesota, the Iron Range Resources and Rehabilitation Commission, and the general fund.

The *Royalty Tax* on mining is the state's share of the profits paid to the owner of the property on which the mine is located. The mining company pays at a statutory rate of about 15%, depending on the type of mineral. In fiscal 1975, net proceeds from this tax were \$1,532,000 on iron ore, \$2,356,000 on taconite, and \$2,000 on copper-nickel. This revenue all goes into the general fund.

The *Production Tax* applies only to taconite and is based on the amount produced. In 1975, the state legislature increased this tax; the current production tax of 22.5¢ per ton will almost triple by 1979, increasing to 61.5¢ a ton. In

fiscal 1975, net proceeds from the taconite production tax were \$11,952,000. This revenue is divided among the cities, towns, school districts, and counties in which the taconite is mined.

The *Severed Mineral Interests Tax* applies to the entrepreneur who owns mineral rights without owning surface rights on land which is taxed some other way, or is tax-exempt. The mineral rights are taxed at 25 cents an acre, with a minimum of \$2. Twenty per cent of the proceeds from this tax is earmarked for loans to Indians who want to start or expand a business, and 80% is distributed to local government units in the same way as general property tax revenues.

### **Motor Vehicle Excise Tax**

Automobiles are not subject to the 4% Minnesota sales tax; they are, however, subject to a 4% tax called a motor vehicle excise tax, which is collected on sales of both new and used automobiles and trucks. Exemptions include government purchases, gifts between family members, and voluntary or involuntary transfer between husband and wife in a divorce proceeding. The motor vehicle excise tax is paid to a deputy registrar, and must be paid before license plates or a certificate of ownership can be issued. The net amount collected in fiscal 1975 was \$51,346,000. Revenues are deposited in the state treasury and credited to the general fund.

### **Motor Fuel Taxes**

Minnesota's highway users help pay for their roads through dedicated funds, which are specific tax revenues set aside for a specific purpose. The principal sources of highway funds collected by the state are the motor fuels (gasoline) tax and the motor vehicle registration tax (license plate fee). An excise tax of nine cents per gallon on gasoline for motor vehicles operated on public highways goes to the Highway User Tax Distribution Fund, which is part of the Trunk Highway Fund. Under the so-called "62-29-9" amendment to the state constitution, ratified in the fall of 1956, 62% of the Trunk Highway Fund is allocated to trunk highways, 29% to counties and municipalities under 5,000 population, and 9% to municipalities over 5,000 population.

The highway gasoline tax netted \$142,446,000 in 1975, the motor vehicle (and aircraft) registration fee \$84,201,000. Because Minnesota is on a 90-10 sharing arrangement with the federal government on interstate highway projects and a 70-30 sharing plan on most state highway projects, the state received \$86,638,828 in federal matching funds in 1974.

The same fuels excise tax of nine cents per gallon is also imposed on marine and aviation fuels and on combustible gases and liquid petroleum products, except for petroleum substitutes manufactured from waste materials. The revenue from this part of the motor fuels excise tax goes to various state agencies depending on type of fuel. Taxes paid for off-road vehicle fuels (marine, snowmobile and aviation) may be refunded to the individual who paid the tax if he files a claim with the Department of Revenue. Unrefunded revenue collected on fuel for snowmobiles goes to the Commissioner of Natural Resources for snowmobile trail and area maintenance and construction; unrefunded marine gasoline tax monies are divided equally among the

state park development account, the game and fish fund, and the general fund for boat and water safety. Unre-fund-ed revenues from aviation and special fuels are credited to the aviation fuel tax fund.

### **Motor Vehicle Licenses**

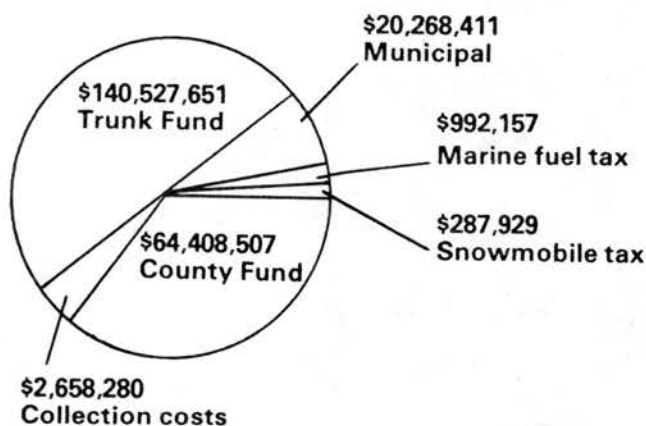
#### **(Registration Tax for License Plates)**

Minnesotans pay a variety of license and registration fees, some to support activities connected with the license (motor vehicle and game and fish), and some to simply add to state general revenues. All of them add an aspect of widespread participation to the general tax system and provide a dependable source of revenue to the state.

Motor vehicles using the public streets and highways are taxed to help pay for them. Rates vary according to the vehicle's age and use. New passenger cars are taxed at a rate of \$10 per vehicle plus 1.25% of the base value, which is the manufacturer's suggested retail price, plus destination charges, but excluding cost of accessory items or optional equipment. The base value is decreased by a certain percentage each year, reflecting the decreasing value of the car as it gets older. Other vehicles, like farm trucks, buses and recreational vehicles, are taxed according to weight, with depreciation usually starting after the third year. Licenses must be renewed every year.

Motor vehicle licensing fees brought in \$83,574,000 in fiscal 1975. They are collected by the registrar of motor vehicles, paid into the state treasury, and credited to the Highway User Tax Distribution Fund.

**HIGHWAY USER TAX  
DISTRIBUTION FUND  
(1974 figures)**



### **Motor Vehicle Operators Licenses (Driver's Licenses)**

Everyone operating a motor vehicle in Minnesota must have either an instruction permit or a drivers license. As of January 1975, there were 2,455,000 licensed drivers in Minnesota. Of the three classes of license, the most familiar is class "C," the license issued to passenger car drivers. The others are for single unit vehicles (like buses) and for all other vehicles (trucks, etc.). Licenses must be renewed every four years. Minnesota residents paid \$3,859,000 for drivers licenses and permits in fiscal 1975, of which 90% was credited to the Trunk Highway Fund and 10% to the general fund.

### **Watercraft Licenses**

There are four categories of watercraft license fees — canoes and sailboats used by non-profit organizations for teaching water safety, watercraft for rent, privately-owned watercraft, and dealers. Fees range from \$2 to \$15 for a three-year license, and are collected by the Department of Natural Resources and dedicated to administration and enforcement of water and watercraft safety laws, inspection of watercraft, and acquisition and development of sites for public access to Minnesota waters. Up to 75% of the monies may be paid to counties to defray expenses for these activities. Total yield from this source in fiscal 1975 was \$646,000.

### **Snowmobile Registration Fees**

This fee is divided into three categories. Manufacturers and dealers pay the higher fees, snowmobile users — that is, private citizens — the lowest fee. The former must re-register annually, but private citizens register only every three years. In fiscal 1975, \$1,282,000 was collected in snowmobile fees and deposited in the state treasury for the general fund.

### **Boxing Exhibition Licenses**

This license is in essence an amusement tax, and is in addition to the 5% tax on boxing exhibitions. It is issued by the Boxing Commission to persons conducting a boxing or sparring exhibition. The fee varies according to population and whether the exhibition is amateur or professional. A minor source of tax revenue, this fee raised \$7,000 in fiscal 1975.

### **Game and Fish Licenses**

These licenses are required for both residents and non-residents who plan to hunt or fish in Minnesota. Costs vary according to resident or non-resident status, method of taking the animal, and type of animal, with various exemptions. Persons under 16 years of age and over 64 do not have to buy a fishing license; others with qualifying physical and mental disabilities are also exempt. The county auditor issues the licenses, retaining 10% of the fee, and sending the remainder to the Department of Natural Resources; the yield in fiscal 1975 was \$9,611,000.

### **Wild Rice Licenses**

This license fee varies according to who is doing the harvesting, with special consideration given to Indians on certain reservations. Only Indians or other reservation residents may harvest rice on the White Earth, Leech Lake, Nett Lake, Vermillion, Grand Portage, Fond du Lac and Mille Lacs reservations. The state regulates types of boats used and methods and hours of harvesting, and also specifies how much rice can be harvested each year. 6,122 licenses were sold in fiscal 1975, raising \$22,476 for the state.

### **Business Licenses and Permits and Corporation Fees**

There are 78 kinds of occupations or businesses which require state permits or licenses. The fees and restrictions are determined by state statutes and many are renewable annually. Revenue from these sources were \$16,100,000 in fiscal 1975. All corporations operating in the state are required to file with the Secretary of State; this fee is paid only once and yielded \$774,000 in fiscal 1975.

## LOCAL TAXES

### Local Cigarette Licenses

Any city or town can license and regulate retailers who sell cigarettes and cigarette paper. A county can also do so if it has no organized municipalities. The maximum annual licensing fee, set by the state, is \$12, with proceeds going to the levying body.

### Sand and Gravel Occupation Tax

Clay, Wilkin and Norman counties tax persons whose business is removing gravel from pits. Proceeds go to the three counties' road and bridge funds, and are also used to restore abandoned pits.

### Trust Companies Gross Earnings Tax

Trust companies must pay 6% of their gross earnings to the counties in which their principal place of business is

located. The revenue derived is distributed to local government units within the county.

### Utility Companies Gross Earnings Tax

St. Paul and Minneapolis levy their own gross earnings taxes on utilities operating within their borders. St. Paul gets 8% of gross earnings on gas, steam, and electricity sold within the city; Minneapolis gets 3% of gross revenue on gas and electricity sold within the city.

### Local Sales Tax

Duluth, Bloomington, Minneapolis, Rochester and St. Paul all impose some kind of local sales tax. Most involve payments for lodging, some for admissions and amusements, and one, Duluth, has a 1% "piggyback" sales and use tax which is charged in addition to the state sales and use tax.

## COMPARISONS

Chart A

General Revenue of state and local governments from own sources per \$1,000 of personal income, fiscal 1973 & 1974

State	Amount (dollars)		As a % of U.S. average		Rank (among 50 states and D.C.)	
	1973	1974	1973	1974	1973	1974
U.S. average	161.36	156.83	100.0	100.0	—	—
Wisconsin	193.04	180.73	119.6	115.2	5	7
Minnesota	193.63	176.24	120.0	112.4	4	9
South Dakota	175.09	144.85	108.5	92.4	13	31
North Dakota	184.35	140.44	114.2	89.5	7	38
Iowa	156.34	139.93	96.9	89.2	26	40

Many sets of statistics are available for comparing tax revenues in Minnesota with those in other states. However, these statistics, like others, must be used with caution when making generalizations; one can almost always find supporting statistics for both sides of an argument!

Information on revenue and expenditures is compiled regularly by the Government Division of the U.S. Bureau of the Census. The Bureau uses uniform data classifications for all states and localities, but one should be cautious in using them to make comparisons among states, for the following reasons. (1) State figures are actual totals, but local government information is estimated from a random sample from each state; this makes aggregate state-local figures more reliable than local figures alone. (2) Comparing specific individual taxes or using either state or

local revenue alone can be misleading, because states vary widely in their dependence on a particular tax as a percentage of total revenue. (3) Incomes of individuals in a state may vary considerably from one year to the next, changing certain tax revenues as a percentage of the state's total revenue. (4) Some states rely on revenue primarily from tax sources, but others rely more on charges for public services and other non-tax revenue.

Some of the more meaningful comparisons can be made by using both total state and local collections per \$1,000 income and total collections per capita. (See charts A and B.) Another interesting question concerns what services the state provides in relation to its level of revenue. Chart C shows per capita general expenditures for two years.

Chart B

Per Capita General Revenue of state and local governments from own sources fiscal 1973 & 1974

State	Amount (dollars)		As a % of U.S. average		Rank (among 50 states and D.C.)	
	1973	1974	1973	1974	1973	1974
U.S. average	719.18	784.80	100.0	100.0	—	—
Minnesota	832.05	900.71	115.7	114.8	7	6
Wisconsin	812.57	859.03	113.0	109.5	10	12
North Dakota	680.64	803.61	94.6	102.4	23	19
Iowa	667.36	750.59	92.8	95.6	25	23
South Dakota	643.02	685.82	89.4	87.4	29	34



People's attitudes toward taxes and services color their comparisons of one state's taxes with another's, and are important political considerations as well. But people seldom base their attitudes on statistical knowledge. The LWVMN telephone survey showed that people do not know how the Minnesota tax system works, but they have definite ideas, nevertheless, about what is "fair" or "unfair" about the system. More than half the respondents said the sales tax, which is actually a regressive tax, is the "most fair" tax, even though many did not know which items are taxed and which are not. And of those who said the property tax was the "most unfair," many did not know how property values are assessed, or how property taxes are computed.

The charts show that Minnesotans are taxed more than residents in most states, but that Minnesota also spends a great deal per capita on services to its citizens. One reason for those high levels of taxation and public expenditure is the high proportion of Minnesotans under 18 and over 65,

two population groups who cost more to care for. In 1974, for example, 40.2% of state and local expenditures — four out of every ten tax dollars collected — went for education. Another reason is Minnesota's size in relation to where Minnesotans live and what our weather is like; Minnesota spends much more than most states do on highway building and maintenance, and on snow removal. Minnesotans traditionally have demanded a high level of services, and get them, yet only half the people in the LWVMN survey thought they were getting their money's worth, and many couldn't decide on an answer to this question.

In the final analysis, comparisons rely on each person's values and priorities of what is fair about government taxation and spending. The purpose of this "Facts and Issues" and others in the Financing State Government series is to present information, so that attitudes and values of those involved in decision-making processes may be based on fact.

Chart C

Per Capita General Expenditures of state and local governments, fiscal 1973 & 1974

State	Amount (dollars)		As a % of U.S. average		Rank (among 50 states and D.C.)	
	1973	1974	1973	1974	1973	1974
U.S. average	862.93	939.58	100.0	100.0	—	—
Minnesota	965.62	1,041.69	111.9	110.9	11	13
Wisconsin	888.88	978.56	103.0	104.1	17	16
North Dakota	804.84	889.18	93.3	94.6	25	24
South Dakota	818.44	867.42	94.8	92.3	23	26
Iowa	735.36	850.63	85.2	90.5	35	27

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Research for this publication done by Karen Anderson, Margaret Bloyer, Erica Buffington, Ervie Hasbargen, Judy McGuire, Sid Moss, and Joan Strouse. Edited by Rhoda Lewin.



# FACTS and ISSUES #3

## FINANCING STATE GOVERNMENT

League of Women Voters of Minnesota

March 1977

### Funding a "Quality Life"

This "Facts and Issues" is the third in a four-part series on financing government in Minnesota. It contains explanations for the increase in state spending, a history of spending trends, a review of state fiscal procedures, and some legislative concerns about expenditures in Minnesota. Because it is easy to confuse the terms used, the reader should keep two definitions in mind. One is "appropriation," which is an amount voted by the state Legislature for spending for a two-year period. The other is "direct general expenditures," which is the amount paid out by government and includes funds received from federal as well as state and local sources.

The history of appropriations and expenditures in Minnesota is a history of continual expansion. Appropriations during Minnesota's first state budget, 1858-59, were just under \$147,000, and there were only 131 separate line expenditures, ranging from \$2,500 for the Governor's salary down to \$17.50 for candles and wood for the Auditor's office. Such figures seem almost unreal compared, for example, to 1935-37's omnibus appropriation bill of \$37,600,000, or the 1975-77 biennium's \$3,300,000,000. And these figures do not reflect total spending by state and local units of government, whose direct general expenditures doubled between 1968 and 1975 to a total of more than \$4,500,000,000. What are some of the reasons for this increase in government spending?

Primary causes of the increase in expenditures include demographic trends like population growth, the general shift from being a predominantly rural farm state to an urban industrial state, and the technological changes, especially in transportation, that accompanied this shift. Almost 11% of today's expenditures, for example, are spent on highway construction and maintenance.

Such trends, of course, are nationwide, but in Minnesota their effect on taxes is magnified by administrative and legislative concern with adequate funding for education and health and welfare services, and on creating a "quality life" for all. For example, the state has financed a steadily increasing share of the costs of health and welfare programs, and in effect has provided more money by seeing to it that local governments could provide adequate welfare funds regardless of their ability to raise

the funds themselves. This trend began during the depression of the 1930's when local governments found themselves unable to provide these benefits because their property tax base was shrinking and tax delinquencies were growing. The state has continued to provide such funds, which have become increasingly necessary as benefits and programs expanded.

Another major factor in increasing government expenditures is inflation and the general upward trend in salaries, wages, and standards of living. The price of goods and services purchased by state and local governments has greatly increased, going up even faster (68.8% between 1968 and 1975) than the prices of goods and services purchased by consumers (64.4% for the same period).

Another reason sometimes given for increasing expenditures is the public's demand for more and more services. This explanation may be valid, but it is difficult to document. The public may learn to rely on a particular service and expect an increase to keep pace with population growth and inflation, but government administrators, legislators, officials and/or employees responsible for preparing and passing government budgets are the ones who translate "felt" or "perceived" public needs into new or expanded programs. Today's budgets, for example, include appropriations for the State Planning Agency, the Pollution Control Agency, the Metropolitan Council, and the Environmental Quality Council, and for grants to local governments or private agencies for things like reduction of solid waste. All these were unheard of ten or twenty years ago, but it is hard to prove that they were created because of public demand.

The stress both government and the public place on "quality of life" is an item of particular importance to Minnesota expenditures. In 1931, H.L. Mencken wrote a series of articles on "The Worst American State." Minnesota placed 42nd in Mencken's satirical competition (the first place being "worst") and has consistently ranked among the best, and usually among the top 10, since then. In the past five years, for example, Minnesota has been praised for its "quality of life" or described as "a good place to live" in Neal Peirce's book, *THE GREAT PLAINS STATES OF AMERICA*, and in a number of national magazines, including *TIME*, *NATIONAL GEOGRAPHIC*, *HARPERS*



and FORTUNE. However, there is an inevitable correlation between quality of life and taxation, and a recent Minnesota Department of Economic Development investigation showed that the public couldn't have one without the other. Minnesota ranked 9th among the states in per capita tax revenues, 4th in tax revenues per \$1,000 personal income, and 4th in the study's composite "quality of life" measurement, indicating that Minnesotans do pay comparatively high taxes, but that the state's level of expenditures is indeed providing Minnesotans with a high quality of life. A dissenting note on this point was voiced in a 1976 League of Women Voters of Minnesota (LWVMN) poll designed to test the public's perception of the relationship between state taxes, expenditures, and quality of life. When the question was asked, "Do you feel the services you receive from state and local governments are adequate in relation to the taxes you pay; that is, do you think you're getting your money's worth?" 108 said "yes," but 92 said "no," and 42 were uncertain.

**DIRECT GENERAL EXPENDITURE\*  
OF STATE AND LOCAL GOVERNMENTS  
IN MINNESOTA, SELECTED YEARS 1967-75,  
in millions of dollars,  
from the U.S. Bureau of the Census**

YEAR	STATE	LOCAL	TOTAL
1967-68	694,000,000	1,387,200,000	2,081,100,000
1969-70	846,900,000	1,923,400,000	2,770,400,000
1971-72	1,054,700,000	2,473,600,000	3,528,300,000
1974-75	1,541,800,000	3,165,600,000	4,707,400,000

\*Direct general expenditures include all money paid out by a government other than for retirement of debt, investment in securities, extension of credit, or as agency transactions.

Besides quality of life, or perhaps because of it, both government and the public have stressed *equality* — equalization of opportunity and equalization of tax burden. This attempt to achieve equality has resulted in a growing tendency to collect revenues statewide and then channel them back to local governments according to population or need. A locality may receive funds based on how many miles of highway it has, or on the number of school children, or the number of "poor," and so on. This has made it possible for all areas of the state, regardless of the local tax base, to provide such necessary services as education and health, and to provide them on an equal basis. Whether equal spending truly provides equal opportunity is an issue currently being debated in educational, health and other areas, but the principle of equalization seems well established, for several reasons.

One of the benefits that accrues from equalization of the tax burden is that it eases the pressure on individual localities to develop and industrialize in order to increase their tax base. Thus lands that properly should be used as farm acreage or preserved as wilderness areas may be kept for such purposes without penalizing the local government and its schools and other services. Another benefit of equalization is that senior citizens and lower income groups can have property tax relief and special services that local governments might not otherwise be able to provide because of the concentration of these groups in certain localities.

**OMNIBUS APPROPRIATION BILLS,  
STATE OF MINNESOTA  
Selected Legislative Sessions 1935-76**

BIENNIUM	AMOUNT (Other than Highways)	HIGHWAYS	TOTAL
1935-37	37,650,740		37,650,740
1945-47	99,569,177		99,569,177
1949-51	224,172,257		224,172,257
1961-63	566,938,926	18,741,695	585,680,621
1969-71	1,279,073,887	42,746,853	1,321,820,740
1975-77	3,094,230,284	249,110,000	3,343,340,284

Additional factors in the growth of government expenditures were cited in a January, 1977, Minneapolis TRIBUNE series of articles by staff writer Bernie Shellum. One is the nature of the progressive income tax, which automatically provides large, unlegislated increases in tax revenues as salaries and wages increase during periods of inflation. With more money coming in, the government spends more, and the high levels of expenditure tend to continue. Another factor Shellum cites is political pressure. As the number of people directly benefiting from government programs grows, the tendency to vote for politicians who support increased government programs also grows. Shellum also points out how difficult it is to trace political accountability for government growth. He writes, "As the complexity of government financing grows, so does the cost in time and money for the citizen who tries to understand what is happening."

**STATE FISCAL PROCEDURES**

The Minnesota Department of Finance was created in 1973 to consolidate the fiscal responsibilities which had previously been shared by the State Auditor, the State Treasurer and the Commissioner of Administration. The Commissioner of Finance now is in charge of the financial affairs of the state. His responsibilities include preparing a biennial budget and a ten-year cash receipts and disbursements projection, keeping records and accounting systems for all state revenue and expenditures, and financial supervision and control of all state departments and agencies.

**BUDGET MAKING**

Minnesota operates on a two-year budget basis. The steps involved in preparing this biennial budget have been established by the Legislature. The Commissioner of Finance is charged with preparing the budget subject to the approval of the Governor.

State statutes require that budget estimate forms be distributed to all state departments and agencies by September 1 of each even-numbered year. In actuality, this is done sooner. In 1976 budget forms were distributed along with guidelines from the Governor in July to give adequate preparation time because they must be returned to the Commissioner of Finance by October 1. Departments and agencies are expected to submit program-type budgets, clearly stating goals and objectives, in order to substantiate their requests for funds. Controllers from the Department of Finance assist in the preparation of the budget requests. During October and the first two weeks of November, the budget is evaluated and refined through hearings held by the Department of Finance with each department and agency. Budget requests must be forwarded by November 15 to the



Senate Committee on Finance and the House Appropriation Committee.

The Department of Finance then reviews the budget with the Governor and his staff. The result is the Governor's "budget message," which must be submitted by the Governor to the Legislature within three weeks after the first Monday in January in odd-numbered years, which is the first year of the biennium. The budget message must include recommendations for capital expenditures, and it must be in two parts, with the contents of each part specified by state law. The first part of the budget message contains a general budget summary with the Governor's recommendations for expenditures for the next two years and plans for raising revenue to support those expenditures. The second part contains detailed budget estimates of both expenditures and revenues and a report on state bonded indebtedness, including the present state of the debt and estimates of the use of debt for supporting the two-year proposals. Both parts of the budget also include corresponding figures for the last two fiscal years and the current year.

### **ADOPTING THE BUDGET**

Armed now with both the Department of Finance's estimated budget and the Governor's budget recommendations, the Legislature is ready to begin the lengthy process of budget adoption. The Legislature carries out this process by passing bills for raising revenue or authorizing the appropriation of funds; its responsibility is established by the Minnesota Constitution, which states that "No money shall be paid out of the treasury of this state except in pursuance of an appropriation by law."

Bills for raising revenue must originate in the House of Representatives, but bills calling for expenditures may originate in either the House or Senate. The committees hearing bills for appropriations are the Senate's Committee on Finance and the House's Committee on Appropriations, sometimes called the "money committees." State statutes specify eight major appropriation bills which must be reported out of committee — that is, sent to the floor of the House and Senate for consideration and passage — at least twenty days prior to adjournment. These eight bills cover 1) administrative and judicial expenses of state government for two years; 2) public welfare, health and corrections; 3) education; 4) payment of claims against the state; 5) semi-state activities — those activities only partially state-funded, such as the Minnesota Historical Society; 6) issuance of bonds for public building construction; 7) appropriations for public building maintenance or construction; and 8) highway department. All other appropriations must be in separate bills and can be reported out of the two money committees at any time up to the end of the session.

The Senate Finance and House Appropriations Committees meet first as subcommittees to hear specific parts of bills before they are put together in the full committee as an "omnibus" appropriations bill. For example, a bill calling for an expenditure by a penal institution would be heard first by the Welfare-Corrections subcommittee of Senate Finance and the Health, Welfare and Corrections subcommittee of House Appropriations. If passed, it is heard by the full committee before becoming part of a larger omnibus welfare, corrections and health bill. It then goes through the same process as other bills, facing a hearing on the floor of each house. If passed by both

bodies, it is considered by a conference committee of five Senate and five House members who resolve differences in the two bills before it is returned in identical form for both houses to consider. If passed again, it then goes to the Governor for his signature or veto.

Even though each Senator and Representative has the opportunity to express his or her constituents' point of view through a vote on each appropriation bill, it is acknowledged that most decisions on state expenditures are made in subcommittee and committee. A legislator objecting to one part of an omnibus bill will usually vote in favor rather than jeopardize the parts of the bill he/she agrees with. All subcommittee, full committee and conference committee meetings are now open to the public, so that other legislators, the news media and the general public may be aware of the decisions involved in formation of appropriation bills.

### **COLLECTION AND DISBURSEMENT PROCEDURES**

While the Commissioner of Administration is the ex-officio state budget director and purchasing agent, and the Commissioner of Revenue is responsible for the assessment and collection of most state taxes, it is the Commissioner of Finance who controls state funds and is responsible for the accounting system. The accounting system keeps a detailed account of state money showing funds available, funds already spent, and cash balances of all state departments and agencies. All departments and agencies are required to participate in this statewide accounting system except the judicial and legislative branches, which have internal accounting systems.

### **AUDIT FUNCTIONS**

Two types of financial audits are desirable in state government. The pre-audit is a review of transactions before they are made. The post-audit is a review of transactions after they are completed, to learn if and how the money appropriated by the Legislature is being spent.

In Minnesota, audit responsibilities are divided. The Department of Finance does the pre-audit. The State Auditor, an official elected to a four-year term, is responsible for the post-audit of all local governments in the state, including counties, cities, townships, school districts and special districts. The post-audit of all state departments, agencies, boards and commissions is done by the Legislative Auditor. He is appointed by the Legislative Audit Commission for a six-year term and acts as the executive secretary of the Commission. The Legislative Audit Commission, which is composed of sixteen House and Senate members representing both major political parties, is ultimately responsible for the post-audit of state departments and agencies.

### **INVESTMENT PROCEDURES**

The State Board of Investment, composed of the Governor, Secretary of State, State Treasurer, State Auditor and Attorney General, sets policies for the investment of state funds. Although the Board is composed of elected officials, it appoints an executive secretary to administer investment policies and the purchase and sale of securities for the permanent school fund, various state retirement funds, highway funds and other funds which are available for investment as provided by law. Investment income for the 1975-77 biennium will be an estimated \$60,280,992 to be credited to the General Fund.

## STATE BORROWING

The State Constitution provides for the sale of general obligation bonds and certificates of indebtedness to finance major state building construction, land acquisition, highway building and maintenance, and other specific activities.

Certificates of indebtedness are issued for short periods during a biennium in anticipation of revenue. Bonds are issued based on a 20-year maturity date. The Constitution limits trunk highway bonds to a 5% interest rate and an unpaid maximum of \$150,000,000. A three-fifths vote of each house of the Legislature is required to authorize debt contracted for acquisition of land and capital building programs.

During the 1975-77 legislative biennium, the issuance and sale of \$135,809,000 in bonds was authorized for things like building programs at the University of Minnesota, other state universities and Metropolitan Community College, and for regional open spaces, water pollution control, and the student loan program. An additional \$25,000,000 bond issue was authorized for construction and repair of bridges throughout the state.

At the end of fiscal 1976, Minnesota's outstanding debt totaled \$817,455,000.

## LEGISLATIVE CONCERNS

Many suggestions have been made for coping with the growth in governmental expenditures. Some states have adopted sunset laws, which write an expiration date into laws which relate to an agency or program. Sunset laws can apply to new programs or to all existing programs; as the expiration date approaches, the program is reviewed to see if it should be continued or allowed to expire. Zero-based budgeting is another concept used in some form in several states. Under zero-based budgeting, department and agency budgets must include justification for all activities, not just new or expanded ones. Another suggestion is indexing of the individual income tax to reduce or eliminate the unlegislated increase in income tax revenues during periods of inflation — an increase in income which encourages government spending. Indexing would adjust rates to compensate for the rate of inflation.

*Biennial Report # 18 to the Governor and Legislature*, Minnesota Department of Revenue

*Big Government: Can We Regain Control?* Minneapolis Tribune series by Bernie Shellum, beginning January 9, 1977

*Comparison Omnibus Appropriation Bills — Legislative Sessions 1935 through 1976*, prepared by: Senate Finance Committee, October 7, 1976

Constitution of the State of Minnesota, as amended November 5, 1974

*Decision Making in Government*, a speech by Gerald W. Christenson for Minnesota Horizons: A Legislative Symposium, January, 1975

*Governmental Finances in 1974-75*, GF 75, No. 5, U.S. Bureau of the Census, September, 1976

*It's Your Business: Local and State Finance*, L. Laszlo Ecker-Racz, National Municipal League, 1976

*The Minnesota Legislative Manual 1973-74*, compiled by Arlen I. Erdahl, Secretary of State

*The Minnesota Legislative Manual 1975-76*, compiled by Joan A. Growe, Secretary of State

Dedicated highway funds are another legislative concern. The State Constitution dedicates gasoline tax revenues to highway building. Because of the need for other transportation funds, such as mass transit, the 1975 Legislature approved a proposed amendment to the Constitution which would have allowed some of the future increases in these revenues to be put into the state's general fund. The amendment was placed on the November, 1976, ballot but failed to pass, possibly because of wording which made the intent unclear. There probably will be further attempts to change the dedicated nature of highway funds.

Recognizing the public concern about increasing taxation and government expenditures in Minnesota, LWVMN members conducting their regular legislative interviews in 1976 asked state Senators and Representatives how the budget-making process could be improved. The most common suggestions favored some form of zero-based budgeting and some method for holding expenditures to revenue rather than raising revenue levels to meet increases in expenditures. Some mentioned adopting a sunset law or indexing the individual income tax. Several suggested a legislative budget review committee to oversee and coordinate revenue and appropriation bills, and a few suggested that all major committees should be involved in appropriation procedures for items of that committee's interest.

Legislators were also asked to name the primary influences on setting their spending priorities. Those who responded said that priorities are set by subcommittees and committees, and that a legislator has limited input to a committee other than his or her own. However, many cited the voters in their district as a primary influence on their final votes. Other influences named were personal priorities, social conscience, "just plain common sense," testimony from citizens at hearings, legislative staff reports and recommendations, other legislators and lobbyists. Thus it would seem that, when changes are needed in fiscal procedures or when priorities are being set for state expenditures, the public's voice is important. If the public is concerned about the tax burden, or the level of expenditures for education, highways, or other programs, the public can make its voice heard.

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LWVMN interview, Harold T. Miller, Legislative Fiscal Analyst, Senate Committee on Finance, September, 1976

Research for this publication done by Karen Anderson and Margaret Bloyer. Edited by Rhoda Lewin.

Prepared by the League of Women Voters of Minnesota  
Published by the League of Women Voters Education Fund





# FACTS AND ISSUES #4 FINANCING STATE GOVERNMENT

League of Women Voters of Minnesota

March 1977

## Governmental Expenditures in Minnesota

This, the last of four Facts and Issues, is about government spending. It covers primarily state government appropriations and expenditures but also covers expenditures made at local levels of government. The reader should keep in mind that while the major portion of revenue is collected by the state, over two-thirds of all governmental expenditures in the state are made at the local level. This is possible because the state passes on revenue to local governments in the form of state aids, grants and shared taxes. Another important fact to remember is the increasing reliance on federal funds. In fiscal 1975 state and local governments in Minnesota received \$961,700,000

from the federal government.

State government expenditures are explained here by function — that is, they are divided into major categories of spending used by the federal government in tabulating spending figures for all the states. Direct expenditures are funds paid directly by the state to perform a function or service; intergovernmental expenditures (sometimes listed on budget charts as "state aids") are those spent by local units of government but received from state or federal sources. Expenditure figures are for the fiscal year July 1, 1974, to June 30, 1975. These are the most current figures available from the U.S. Bureau of the Census.

### **DIRECT GENERAL EXPENDITURE OF STATE AND LOCAL GOVERNMENTS IN MINNESOTA BY FUNCTION, BY LEVEL OF GOVERNMENT: 1974-75 (In Millions of Dollars)**

FUNCTION	STATE GOVT.	LOCAL GOVTS.	TOTAL MN.
Total	\$1,541.8	\$3,165.6	\$4,707.4
other than capital outlay	1,275.2	2,524.3	3,799.5
Education Total	576.5	1,363.6	1,940.1
other than capital outlay	502.1	1,186.2	1,688.3
Local Schools	—	1,363.6	1,363.6
other than capital outlay	—	1,186.2	1,186.2
Institutions of Higher Education	510.3	—	510.3
Other Education	66.2	—	66.2
Highways Total	258.0	278.5	536.5
other than capital outlay	91.0	150.2	241.3
Public Welfare	224.3	386.0	610.3
Health and Hospitals Total	164.9	158.4	323.3
other than capital outlay	161.0	137.1	298.0
Police Protection	12.8	98.3	111.1
Fire Protection	—	42.1	42.1
Sewerage Total	—	124.8	124.8
other than capital outlay	—	37.4	37.4
Sanitation other than sewerage	—	20.7	20.7
Local Parks and Recreation	—	84.7	84.7
Financial Administration	25.2	39.2	64.4
General Control	25.1	72.0	97.1
Interest on General Debt	40.9	137.7	178.5
All other general expenditure	214.2	359.7	573.9



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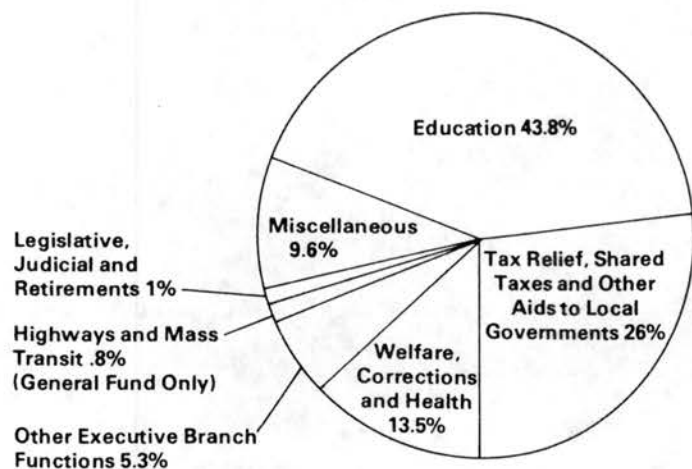


Federal data on expenditures are used here because they are often used for comparisons between states. These figures include all expenditures, both for capital outlay and general operating expenses. However, government spending in Minnesota has increased since fiscal 1975, so appropriations made during the 1975-77 legislative biennium are included to give some indication of current spending. These appropriations are for two years of state operations, from July 1, 1975, to June 30, 1977, rather than for the single fiscal year covered by the Direct General Expenditures figures, and also differ from the federal figures in that the state's budget categories are sometimes quite different from federal categories.

Most appropriations are passed during the first year of the legislative biennium, but the 1975-77 Legislature passed several major appropriation bills in 1976. There are three kinds of state appropriation bills — omnibus, miscellaneous, and open and standing — and each functional area, such as education, may receive funds from several different appropriation bills. Omnibus appropriation bills are the two-year appropriations worked out for the legislative biennium and are divided into five areas of functions: education, welfare (which includes corrections and health), state departments, semi-state activities (which are only partially funded by the state), and buildings. Miscellaneous appropriations are usually single bills for a particular purpose. There are three types: 1) recurring, such as bills for claims against the state which are put together into one bill heard each year of the session; 2) non-recurring, or single-purpose, which are for onetime projects like the road to the new state zoo; and 3) new activities appropriations for experimental programs like the Freshwater Biological Institute, which may warrant a single-purpose bill at its inception but later become on-going and therefore part of an omnibus bill. The terms "open" and "standing" are also used in describing appropriation bills and refer to dollar amounts. Open appropriation bills provide authority to collect or disburse funds but contain no specific dollar amounts; standing appropriations provide a specific dollar

amount which cannot be changed without a change in the law authorizing the appropriation.

GENERAL FUND EXPENDITURES, 1975-77 BIENNIUM  
ESTIMATED TOTAL: \$5,027,849,069



## STATE APPROPRIATIONS

An indication of the relative size of each functional area of state government is shown by the General Fund Expenditures Chart. The trend toward state sharing of revenue with local governments is seen by the large portion allocated as aids to education and local governments. Property tax relief, shared taxes, and aids to local units of government, in a variety of forms, accounted for over 60% of total disbursements of the state during the 1975-77 biennium. This is a dramatic increase compared to the 1965-67 biennium figure of 45%. The chart shows only a small portion of the general fund being used for highways. Actually, the state spends a larger portion for transportation, but the money comes from constitutionally dedicated funds rather than from the general fund. In 1975 highways accounted for about 11% of spending by all governments in Minnesota; the state spent about half of this percentage.

## EDUCATION

Since its earliest days, Minnesota has demonstrated its concern for education. In 1849 a territorial law provided for common schools open "to all persons between the ages of four and twenty-one free," and by 1878 the principle of state aid for high schools had been established. The state has also demonstrated its concern for education through generous funding; for the 1975-77 biennium the Legislature appropriated over \$2.2 billion, or 40.6% of its total

appropriations, for education.

The Education Appropriations table shows the growing magnitude of state aid to schools. However, it is interesting to note that although the amount appropriated for education has increased dramatically, it has declined as a percentage of total state spending. This is because there have been even greater increases in other areas of state spending.

### EDUCATION APPROPRIATIONS, SELECTED YEARS

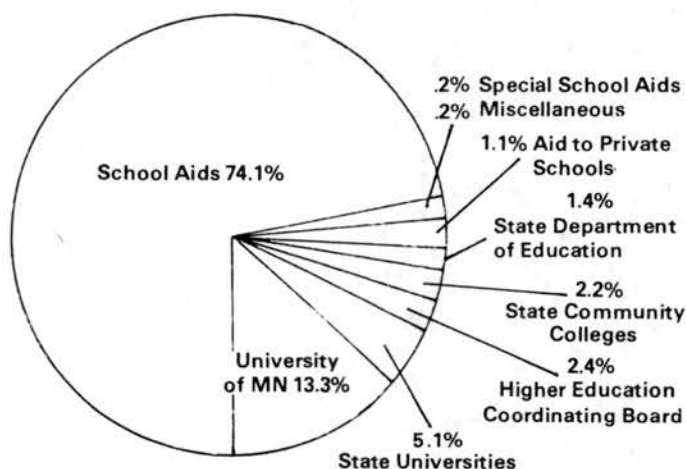
BIENNIUM	TOTAL STATE APPROPRIATION FOR EDUCATION	EDUCATION APPROPRIATIONS AS A PER CENT OF TOTAL STATE SPENDING	PERCENTAGE INCREASE
1959-61	\$ 335,576,572	63.6	
1961-63	404,502,803	63.5	20.5
1963-65	455,988,185	63.8	12.8
1965-67	546,816,570	54.3	20.0
1967-69	717,374,019	52.2	31.2
1969-71	1,057,766,539	41.9	47.4
1971-73	1,678,394,875	51.0	58.6
1973-75	1,756,025,750	44.2	4.6
1975-77	2,269,090,121	40.6	29.2

The Legislature uses all three kinds of appropriation bills in authorizing spending for education. Each biennium it passes an omnibus education bill which contains the bulk of appropriations for education, including foundation aid for elementary and secondary schools, funds for post-secondary education, and money to operate the State Department of Education. It also makes open appropriations for education. In the 1975-77 biennium these included funding for a work-study program at the state universities and community colleges and for tuition reciprocity agreements with North Dakota, South Dakota, and Wisconsin. The Legislature also makes special appropriations for education. In the 1975-77 biennium, these included aid for districts experiencing fluctuating enrollment and aid to non-public schools.

The \$2,269,090,121 which the 1975 and 1976 Legislatures appropriated for education, an increase of almost 30% over the 1973-75 biennium, still does not represent the total education budget for the state. It does not include \$203,891,342 in federal funds made available to the schools, nor does it include \$164,111,709 received by the University of Minnesota, state universities and community colleges in the form of tuition and course fees, or \$83,285,525 in University Hospital receipts. All of this money, over \$450 million, was or is being spent on education in Minnesota.

To get some idea of the size and complexity of education appropriations, it may be helpful to look at some of the items included in that \$2.2 billion legislative appropriation for 1975-77.

STATE EDUCATION APPROPRIATIONS, 1975-77 BIENNIUM:  
TOTAL: \$2,269,090,121



The Department of Education, which received \$32,669,616 in the 1975-77 biennium, sets requirements for and certifies teachers and administrators, designs curricula for elementary and secondary schools, and supervises the health and safety of students. The Department also supervises aid for libraries and school lunch programs, among other functions.

School aids, accounting for almost three-fourths of the 1975-77 appropriations, went mainly for foundation aids for elementary and secondary schools (see MINNESOTA VOTER, January, 1975). These so-called foundation aids, which are based on the number and grade level of students

in each school, accounted for almost \$1.2 billion of the money appropriated. Other large items include transportation, which received \$129,483,000; special education, \$89,275,600; post-secondary vocational schools, \$138,600,000 (combined foundation and other aids), and community education, \$2,800,000.

For the community colleges and state universities, the major appropriation went for maintenance and equipment, a budget category which covers operating costs and includes salaries. At the community colleges, maintenance and equipment was funded at \$48,622,527; at the state universities, \$107,527,466; and for the University of Minnesota, \$246,000,000. The University also received over \$10 million for its Agricultural Extension Service, over \$9 million for agricultural research, and smaller amounts for a host of other activities.

## TRANSPORTATION

There are more than 12,000 miles of state trunk highways in Minnesota and approximately 30,000 miles of county state aid highways, 15,000 miles of county roads, 56,000 miles of township roads, 12,000 miles of municipal streets, and 2,000 miles of Indian reservation roads and other federal roads. Taking care of them involves continual planning, construction and maintenance, financed by a combination of local, state and federal funds. The Department of Transportation (DOT) was formed in November, 1976, and includes the Highway Department, Aeronautics Department, and the transportation-related functions of the State Planning Agency and Public Service Commission.

Until 1961, sufficient funds were available from the Highway Users Tax Fund, established by Constitutional amendment in 1920 as a repository for funds generated by excise taxes on motor vehicle registrations and gasoline. In 1961, however, the Legislature found it necessary to appropriate an additional \$18,741,695 for costs associated with construction of the new Interstate highway system. By the 1973-75 biennium, the Highway Department had grown in size and scope to include a legal staff, a research and standards program, a planning and programming department, and a staff to administer state aids. The omnibus highway appropriation for the 1973-75 biennium totaled \$183,549,941.

The main reasons for the rapid growth in spending for transportation has been the continuing demand for adequate and up-to-date roads and the rising cost, nearly 40% from the 1975 to 1977 biennium, of building and maintaining roads. Another reason is environmental and ecological considerations like noise abatement, conservation of natural resources, highway beautification, and restoration of land from which highway materials are extracted.

The \$207,000,000 omnibus highway appropriations figure for 1975-77 does not tell the whole story of DOT expenditures, which are estimated at \$830,481,600 for the biennium. This expenditure figure includes \$575,500,000 from the Trunk Highway Fund, of which \$215,000,000 are federal funds and \$322,100,000 are estimated income from the motor vehicle registration fee and the gasoline excise tax, which the Legislature increased in 1975 from 7¢ to 9¢ per gallon. The state General Fund can also be drawn on

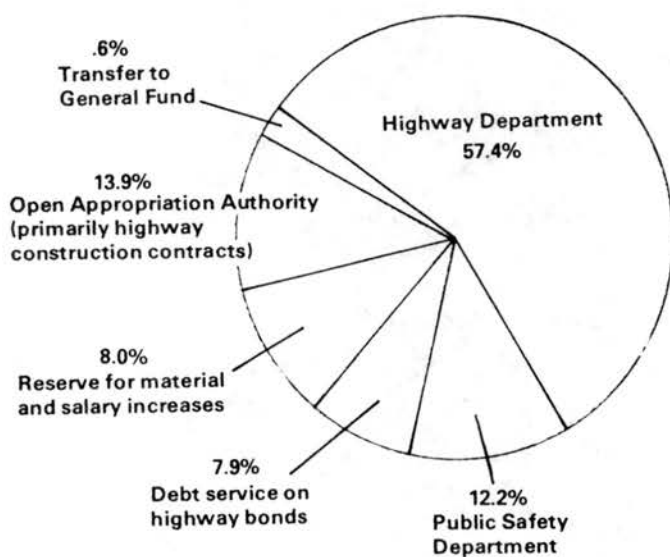


for highway dollars, and it was in 1976, when \$25,000,000 was transferred from the General Fund for bridge construction. There have also been single-purpose appropriations during the current biennium. \$28,100,000 was appropriated in 1975 to fund public transit, including a demonstration public transit program and a Metropolitan Council study of Interstate highway routing in Minnesota, and in 1976 extra funds were voted for an access road to the new zoo, for Interstate rest facilities, and for organization of the DOT.

Part of the income from the gasoline excise tax and motor vehicle registration tax is distributed to local governments as state aids. An estimated \$197,800,900 of these tax monies, plus an estimated \$10,000,000 in earned interest on investments, are being divided in the 1975-77 biennium between the County State Aid Highway Fund and the Municipal State Aid Street Fund, as provided in the state Constitution. Some \$157,100,000 will go to 87 counties, and another \$50,700,000 will go to 101 cities for highway and local street work outside the trunk highway and Interstate systems.

#### DISTRIBUTION OF TRUNK HIGHWAY FUNDS, 1975-77 BIENNIUM TOTAL: \$575,700,000

(The Trunk Highway Fund includes primarily revenue from the Highway User Tax Distribution Fund, Federal Funds and Driver's License Fees — see Facts & Issues #2, p. 7)



### WELFARE

The Department of Welfare supports a variety of programs. A combination of federal, state and county funds is used to finance welfare activities and services.

The 1975-77 omnibus appropriation bill for welfare was \$599,273,540. This figure was supplemented by an additional \$14,713,000 appropriation by the 1976 Legislature, bringing the state's total appropriation to \$613,986,540. When federal funding for state welfare expenditures, \$679,671,752, and estimated unreimbursed county appropriations of \$252,466,062 are added, the total budget for welfare in Minnesota for the 1975-77 biennium comes to \$1,646,124,354.

Three major program areas constitute 59.4% of the

1975-77 biennium welfare appropriations made by the state Legislature.

First are the three big public assistance programs which are Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and Medical Assistance (MA). AFDC is provided through counties to qualifying families who are eligible because of low or no income and a lack of other assets. The federal government pays about 57% of AFDC, the state pays half of the remainder, and the counties the other half through property tax levies. SSI is paid to Minnesota residents who are aged, blind or disabled and get welfare aid directly from the federal government. These supplements are financed 50% by the state and 50% by the county. Medical Assistance payments are made to medical vendors (nursing home operators, physicians, dentists, druggists) on behalf of welfare recipients and others who are eligible because they lack resources to pay for medical care. The federal government pays about 57% of MA, the state pays 90% of the remainder, and the county pays the rest.

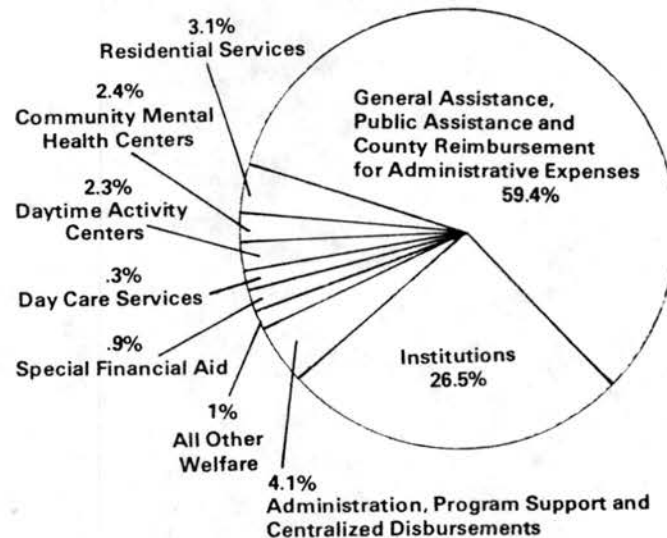
There are also two general assistance programs in operation. General Assistance Maintenance consists of cash payments to eligible poor persons who do not qualify for AFDC or SSI. This program is financed 50% from state funds and 50% from local funds. General Assistance Medical payments are made to medical vendors on behalf of medically indigent persons who do not qualify for federally assisted aid because they do not qualify as present or potential AFDC or SSI recipients. The state finances 90% of this program, and the counties finance 10%.

The state also reimburses counties for 50% of certain administrative expenses for public assistance programs.

Another large portion of the 1975-77 welfare appropriation (26.5%) goes to ten state hospital complexes, two special schools (Braille and Sight Saving School, and the School for the Deaf) and two state-operated nursing homes.

One of the main reasons for recent increases in the state welfare appropriations is that the state is taking over an increasing share of the welfare payments.

#### APPROPRIATIONS FOR WELFARE, 1975-77 BIENNIUM TOTAL: \$599,273,540



## HEALTH

State health services take another substantial cut of Minnesota's budget. This is due in part to the recognized need for more preventive health services, and in part to the rising costs of medical services in the private sector.

Appropriations to the State Board of Health and for health-related activities total \$20,950,300 for the 1975-77 biennium, more than double the approximately \$9,600,000 appropriated in 1973-75. The chart shows health appropriations by function.

### Appropriations by Function

Health Services (persons and preventive) . . . .	\$11,706,400
Health Systems and Quality Assurance. . . . .	2,016,600
Management, Planning and Information Services	2,374,000
Dental Health for Elderly . . . . .	142,500
Water Filtration and Purification System Grants .	2,500,000
Cystic Fibrosis — Adult . . . . .	80,000
Nutritional Program — Women and Children . . .	1,000,000
Health Related Boards . . . . .	1,130,800

The Department of Health also received additional state funds during the 1976 legislative session totaling \$3,393,128, as follows:

### Additional Appropriations — 1976

Comm. Health Education (subsidies and grants)	\$2,700,000
Administration of Community Health Services . . . .	50,000
MN Hospital Administration Act of 1976 . . . . .	125,000
Office of Health Facilities Complaints . . . . .	67,000
Preventive and Personal Health Service. . . . .	249,826
Health System Quality Assurance . . . . .	164,302
Board of Dentistry. . . . .	37,000

Several of these are new activity appropriations, like the nutritional program for mothers and children. If such programs are continued, they will be added to future omnibus bills.

## CORRECTIONS

The corrections field is currently an extremely controversial one, with the debate over determinate sentencing, concern about sentencing and parole policies, and the possibility that one or more state correctional facilities might have to be closed or undergo extensive rehabilitation. The budget requested by the Department of Corrections (DOC) for the 1975-77 biennium was reduced by slightly over \$2,000,000, but even so, the omnibus appropriation bill for correctional activities was \$64,496,045, an increase of \$18,273,348, or 39.5%, over the 1973-75 appropriation.

Of this total, \$38,844,300 was appropriated for operation of the Department's seven correctional facilities. Administrative costs accounted for \$10,000,000, an increase of slightly over 50% from the previous biennium, due to increased staff at the departmental offices and at institutions as well as cost of living pay increases. \$2,312,000 was allocated for health care of inmates in or outside correctional facilities, \$278,600 to the Corrections Ombudsman's office, \$425,000 to Community Corrections Centers, and \$7,369,900 was set aside for grants under the Corrections Subsidy Act for counties wishing to develop and operate community-based correctional systems. Five counties were participating by the end of 1976, and the DOC esti-

mated that 20 additional counties would be involved by the time the biennium ended on June 30, 1977.

In 1975 the Legislature authorized the Corrections Commissioner to utilize corrections facilities in what he feels is the most efficient and beneficial manner. This will allow the DOC to convert some juvenile facilities to adult use and make other program changes, but the law forbids closing the Minnesota State Prison at Stillwater or the St. Cloud Reformatory with legislative consent.

The 1976 Legislature appropriated additional monies for corrections, supplementing the Ombudsman's budget by \$10,000, and voting \$2,400,000 for repairs and improvements at correctional institutions.

## JUDICIAL

The judicial appropriation is one of the smallest in the entire state budget, totaling \$9,402,841 for the 1975-77 biennium, or .16% of state spending. This was augmented by \$103,310 from federal funds.

The Supreme Court appropriation for the biennium was \$2,836,264. The District Court appropriation was \$5,351,080, which went for basic salaries of the 72 District Court judges. In Hennepin, Ramsey and St. Louis Counties, each district judge receives an additional \$1,500 from county funds.

The remaining judicial appropriations for the 1975-77 biennium were distributed as follows:

State Public Defender . . . . .	\$579,500
State Law Library . . . . .	423,028
Commission on Judicial Standards . . . . .	73,704
Judicial Councils. . . . .	6,000
Tax Court . . . . .	133,264

## NATURAL RESOURCES

This department is concerned with land use and seven natural resources — air, sunshine, water, soil, forests, minerals and wildlife. As our population and degree of urbanization has increased, so have concerns over preservation of these natural resources.

The Department of Natural Resources (DNR) was reorganized in the past biennium in an attempt to reach the people of Minnesota more directly through regionalization and decentralization. Instead of a central office made up of a number of separate divisions, DNR now has a regional structure that divides the state into six geographical areas, each with a regional director responsible for all resources (parks, wild life, fisheries, recreation, forestry, water, etc.) in his or her area.

Leadership still comes from the state office through planning, research and administrative services. The planning and research division includes environmental planning and protection, enforcement, fish and wildlife, forestry parks and recreation, water, soils and minerals. Administrative services include engineering, field services, fiscal, license, management information systems, office services and personnel.

Three other major sections also operate out of the Commissioner's office. These are the Bureau of Land, the Bureau of Information and Education, and the Soil and Water Conservation Board. The Bureau of Land acquires land for state parks, state forests, wildlife preserves or other purposes. It also trades land with other government agencies or private owners and can sell or lease out state

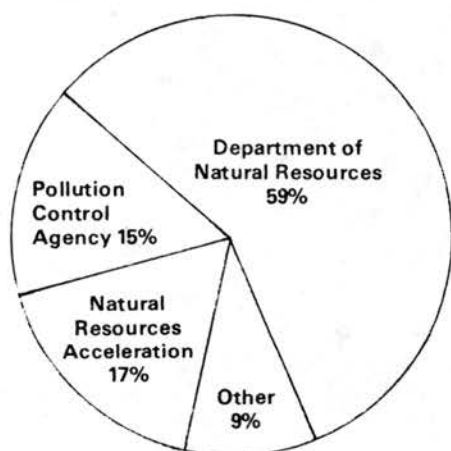


land. During the 1973-75 biennium, land transactions involved 12,065 acres valued at \$507,605. The Bureau of Information and Education plans, produces and distributes materials about Minnesota's natural resources and environment. The Soil and Water Board, an independent agency until 1971, when the Legislature made it part of the DNR, has statutory powers to provide administrative, coordinational, educational and financial assistance to the 92 soil and water conservation districts in the state. Unlike many departments, the DNR does not have its own legal department. Its legal matters are handled by a Deputy Attorney General and Assistants provided by the State Attorney General.

The Legislature appropriated \$121,444,579 for natural resources in 1975 and added another \$8,145,750 in 1976, to bring the total to \$129,590,329 for the 1975-77 biennium. This is 68.65% more than was appropriated for the 1973-75 biennium. This increase is due to public awareness and concern for preserving our many natural resources, which the Legislature translated into increased funding and new appropriations.

Funds provided for natural resources acceleration by the 1975-77 Legislature totaled \$23,133,650. This was for acquisition and development of state lands and trails, state forests and wildlife habitat, grants-in-aid for local recreation and natural areas, regional recreation and natural areas, and other specific acquisition and development projects. The Minnesota Pollution Control Agency was appropriated \$20,014,669 for the 1975-77 biennium, over half of which was for grants to cities and state agencies for water pollution control and sewer construction projects.

**APPROPRIATIONS FOR NATURAL RESOURCES, 1975-77 BIENNIUM**  
TOTAL: \$129,590,329



## AGRICULTURE

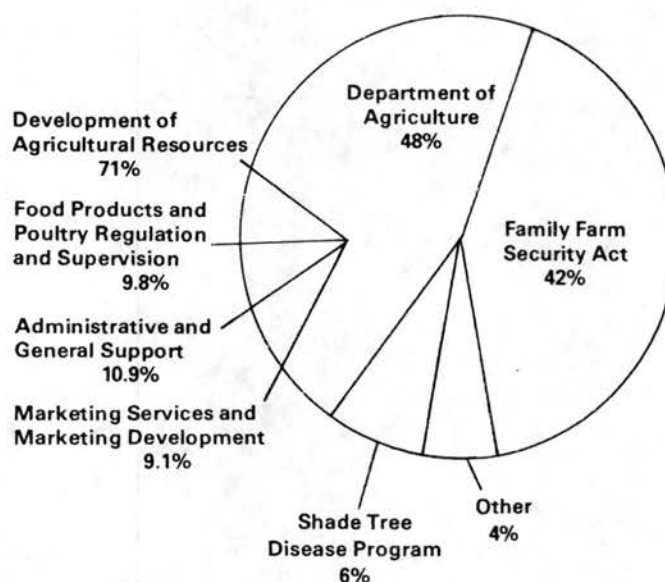
The Minnesota Department of Agriculture enforces laws which protect the public health and works to prevent fraud and deception in the manufacture and distribution of foods, animal feeds, fertilizers, pesticides, seed and other items. In addition to the regulatory powers assigned by law, the Commissioner of Agriculture has the power to

enact rules, definitions and standards to explain and clarify the laws, or to cope with changing conditions.

Prior to January 1, 1976, this Department was organized into four major program areas for budget purposes. It is now organized into three basic functional areas: farm production, food processing and staff. Each is headed by an Assistant Commissioner who reports directly to the Commissioner and who has both responsibility and authority for his area's activities.

The 1975-77 Legislature appropriated \$25,666,159 for agriculture, which included \$12,409,508 for the Department of Agriculture and \$10,874,300 for the 1976 Family Farm Security Act, to be used to guarantee loans for the purchase of land by beginning farmers. The Legislature also appropriated \$50,000 for a farm census and \$1,595,000 for shade tree disease control, which was for assisting local governments in expanding their programs.

**APPROPRIATIONS FOR AGRICULTURE, 1975-77 BIENNIUM**  
TOTAL: \$25,666,159



## GOVERNOR

The 1975-77 Legislature appropriated \$3,457,683 for the Governor. This appropriation covers staff and administrative activities of the office, security protection for the Governor and government buildings, and commissions the Legislature has directed the Governor to oversee. Some of these commission expenditures are contributions to interstate programs which include Minnesota; others are purely Minnesota expenditures, like the \$240,000 allocated to the Bicentennial Commission for grants to local projects.

The Governor's budget grew 57% between the 1973-75 and 1975-77 bienniums. Increases in staff and in salaries to keep pace with inflation account for a major part of this budget growth. A 1976 memorandum from the Governor to the Department of Finance promised no further increases in the Governor's staff during the next biennium.

## APPROPRIATIONS FOR THE GOVERNOR, 1975-77 BIENNIUM

TOTAL: \$3,457,683



## GENERAL STATE GOVERNMENT

Appropriations to General State Government are for state departments and agencies which do not have a separate classification in the budget, a carry-over based on the old Auditor's code. Appropriations in this category more than doubled between the 1973-75 and 1975-77 bienniums, to a total of \$157,880,333. Much of this increase funded new or expanded programs.

The Minnesota Housing Finance Agency (MHFA) accounted for the largest share of the General State Government appropriation. The MHFA was established in 1971, with a \$250,000 appropriation, to be a self-supporting agency financed by service fees and investment income. However, the MHFA received \$34,200,000 from the Legislature in 1975 to provide grants and low-interest loans for home rehabilitation and to develop housing delivery systems for low-income households, native Americans and the elderly.

The Department of Revenue received some \$34,000,000 to discharge its duties which include supervising the administration of all state taxes and aids to local governments, directing proceedings against tax law violators, collecting and distributing information on property assessments and revenues, and formulating legislation to improve the system of assessment and taxation in the state, such as the circuit breaker for property tax relief.

The Department of Finance budget grew 346% between the 1973-75 and 1975-77 bienniums, reflecting in part new budgetary and management responsibilities transferred to it from the Department of Administration. The Department of Finance also keeps general account books for the state and supervises the general accounting system used by all state agencies and departments.

The Department of Administration's 1976-77 budget increased 61% over the 1973-75 budget, even though some of its functions were transferred to the Department of Finance. Several new programs in the Department of Administration were funded in 1975-77, including programs for car pooling, energy surveys, and improve-

ments in government buildings. This Department also works to improve state programs and management of those programs and provides the general services and support services necessary for day-to-day operations of state government, such as procurement and purchasing of materials.

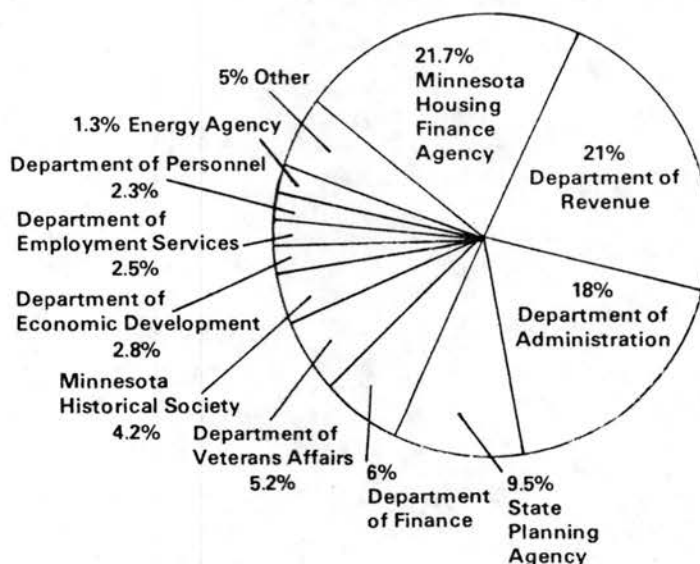
The Energy Agency, created in 1974, grew 432% during the 1973-75 and 1975-77 bienniums, from \$380,000 to \$2,023,423. This rise reflects the increase in the number and scope of energy programs. The Energy Agency promotes energy conservation in state buildings, disseminates energy conservation information to the public and works to develop alternative energy sources.

The State Planning Agency, created in 1965, has broad authority to engage in comprehensive state-wide planning, to harmonize activities at all levels of government and to render assistance to all government levels. Its budget grew 332% between the 1973-75 and 1975-77 bienniums, reflecting in part a 310% increase in the Environmental Quality Council budget, the addition of several new environmental planning activities, and a \$3,250,000 appropriation for railroad line rehabilitation. Most of the \$2,500,000 appropriated for land use planning and the \$75,000 for training of local public officials went to local governments in the form of grants, as did another \$2,062,000 for regional and local assistance.

Localities received \$800,000 through the Secretary of State's office to cover the costs of election-day voter registration.

## APPROPRIATIONS FOR GENERAL STATE GOVERNMENT 1975-77 BIENNIUM

TOTAL: \$157,880,333



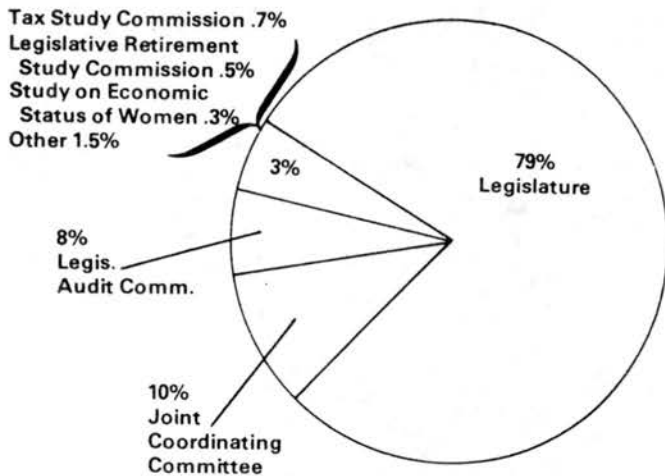
## LEGISLATIVE

Appropriations to finance the Legislature increased 36% during the 1973-75 and 1975-77 bienniums, to \$26,808,462. This reflects increased salaries and the addition of new activities during the 1975 and 1976 sessions, including the Legislative Audit Commission and a study of the economic status of women.

The Legislative Audit Commission was created to audit the finances of all state departments and agencies at least once a year and to evaluate state-funded activities and programs to determine how well they accomplish their goals and objectives.

Although 79% of the appropriations in this category went to the Legislature, only 16% of this total covered legislators' salaries and insurance benefits. The balance was for travel and per diem expenses of legislative members, staff salaries, printing of bills and journals, and miscellaneous expenses.

**APPROPRIATIONS FOR LEGISLATIVE ACTIVITIES, 1975-77 BIENNIUM**  
TOTAL: \$26,808,462



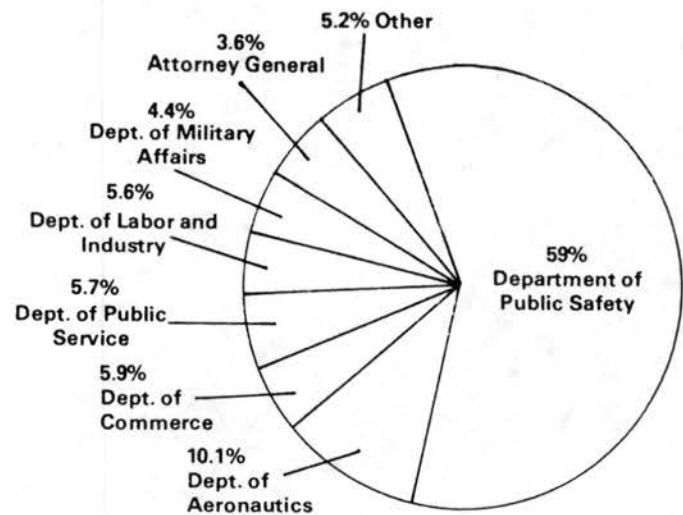
**PROTECTION TO PERSONS AND PROPERTY**

Appropriations to the state agencies and departments in this category during the 1975-77 biennium increased only 25% over the 1973-75 period, totaling \$119,365,269. Agencies and departments in this budget category include the Attorney General's Office and the Departments of Military Affairs, Labor and Aeronautics, and Public Safety. The Department of Public Safety received the largest single appropriation, some \$71,000,000, a 27% increase over the previous biennium; its major ongoing activities include motor vehicle inspection and licensing, the sheriffs' teletype network, and the Crime Victims Reparation Board. \$1,260,814 was also appropriated to this Department in 1976 for new programs including alcohol safety, bicycle registration and graphic design for license plates.

There was a 34% increase in the Department of Aeronautics budget. Half of this Department's budget went to the construction and improvement of Key Systems Airports (airports being used by or intended to be used by large, multi-engine and jet aircraft), a 115% increase over 1973-75.

Localities were granted \$3,289,293, including \$2,519,293 for a teletype communications network, \$700,000 for training peace officers, \$60,000 for air warning systems, and \$10,000 to the local airport at Orr.

**APPROPRIATIONS FOR PROTECTION TO PERSONS AND PROPERTY**  
1975-77 BIENNIUM TOTAL: \$119,365,269

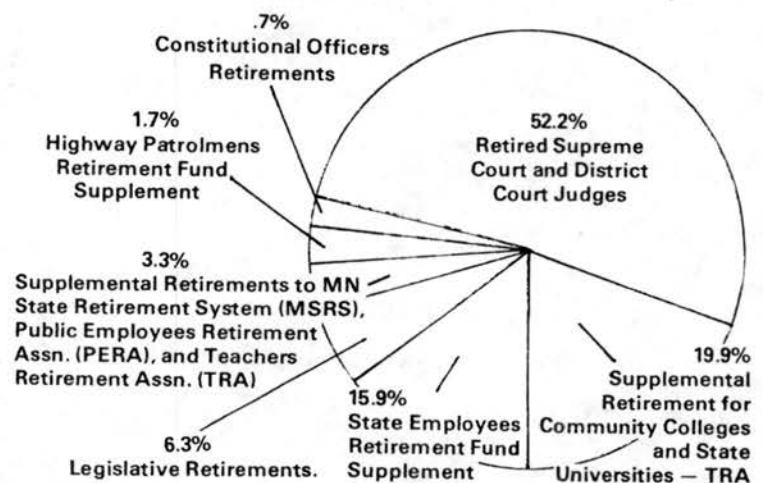


**RETIREMENT**

Pension funds were a "fringe benefit" developed after the World War II wage freeze to make public employment and public service more attractive and more competitive with higher salaried private sector jobs. However, the matching contributions made by employees and employers to pension funds have not been enough to finance retirement benefits, for several reasons. One is that the original programs required only a five-year investing period, so that early retirees collected far more than they contributed, and another is that benefits have been increased to counter inflation and to meet the demands of new public employee unions. Financing of public pension funds will become even more difficult as the pool of contributing employees shrinks relative to the large number of future retirees in the "baby boom" generation.

Supplemental appropriations are made by the Legislature to offset some of the accrued liability. Appropriations for supplements to state and local pension funds and to fund retirement programs for judges and legislators increased 156% between the 1973-75 and 1975-77 bienniums, from \$5,439,460 to \$13,918,436.

**APPROPRIATIONS FOR RETIREMENT PROGRAMS AND PENSION FUNDS**  
1975-77 BIENNIUM TOTAL: \$13,918,436



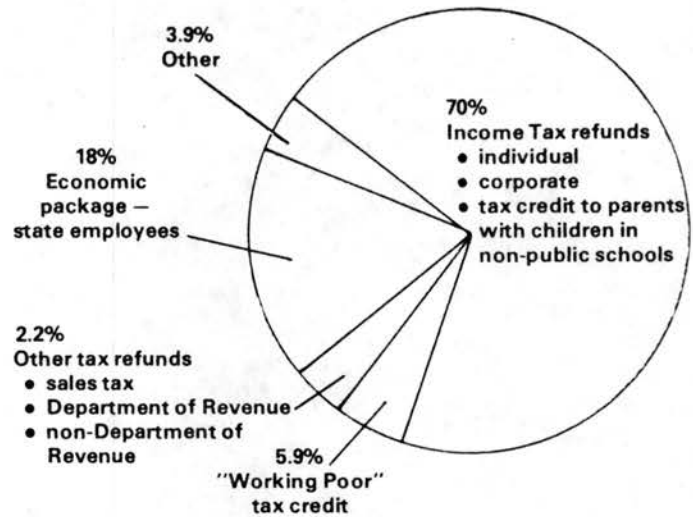


## MISCELLANEOUS

Items in this budget category are those which are not or cannot be charged to an operating department. One example is tax credits or refunds, which increased 30% between the 1973-75 and 1975-77 bienniums. Another is the General Fund Contingent, which was transferred from the Legislative budget to the Miscellaneous category in 1976 because it does not reflect legislative spending. This \$4,000,000 fund, which increased 86% between the 1973-75 and 1975-77 bienniums, is used as needed to supplement funds appropriated to state programs. The Miscellaneous category also includes appropriations made for salary and benefit increases for state employees. The total budget for this category in 1975-77 was \$530,394,506.

## APPROPRIATIONS FOR MISCELLANEOUS EXPENDITURES

1975-77 BIENNIUM TOTAL: \$530,394,506



## FINANCING LOCAL GOVERNMENT

Minnesota had 3,388 local units of government in 1976, each an agent of the state and subject to varying degrees of control by the state. There are 87 counties, 855 cities, 1,798 townships, 436 school districts, and 211 miscellaneous special tax districts, such as the Metropolitan Council and the Mosquito Control District. All are required by the state to provide certain services, and all have some taxing power, although the state imposes certain restrictions on raising of revenue and on the rates levied. Together, these units received revenue of \$3,870,779,772 in fiscal 1974-75, of which 20% went to counties, 17% to cities, 1% to townships, 37% to school districts, and 23.6% to other agencies (including metropolitan agencies, housing authorities, and the University of Minnesota).

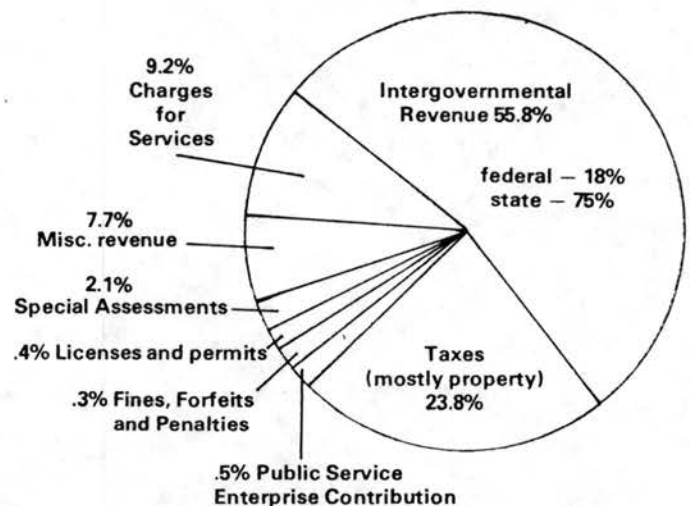
In recent years there has been a marked change in the relative importance of property taxes and intergovernmental revenues, which are revenues received from the state and federal government, in financing local government. In fiscal 1963-64, 67% of local revenues came from property taxes and only 15% came from intergovernmental revenue. Today the figures are almost reversed, as in fiscal 1974-75, when 23.8% came from property taxes and 55.8% from intergovernmental revenue. This decline in the importance of property taxes as a source of local revenue is a national trend.

The changing emphasis on who collects the tax money and who spends it stems from a number of causes. One was the need for property tax relief, which led the 1971 Legislature to, in effect, enact such tax relief by limiting the total dollar amount local governments might levy, although certain additional special levies and assessments outside the overall limit were allowed. This levy limitation law applies to all county governments, cities of 2,500 population or more, and towns of 2,500 population or more with statutory powers.

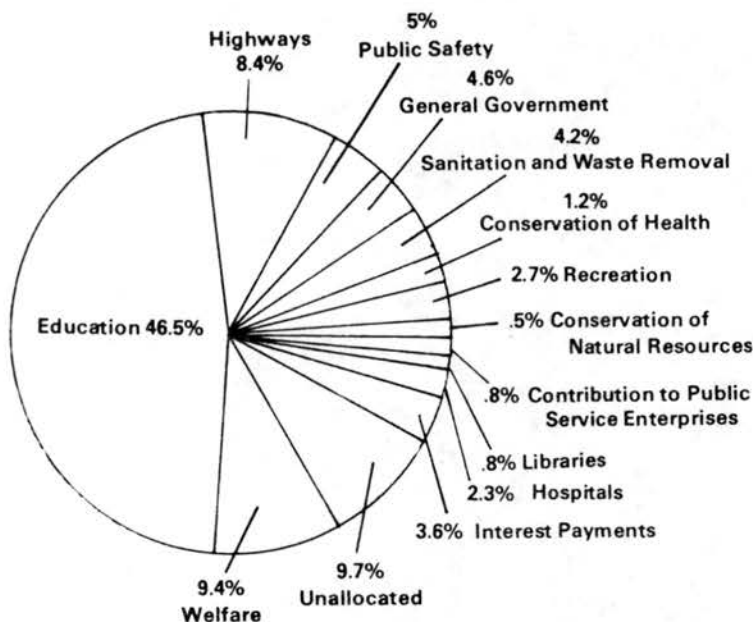
Another important piece of legislation in 1971 which changed the collection and distribution of tax monies was the local government aid law. This law, which has been amended several times, provides for regular quarterly payments to counties, cities, towns and special tax districts in accordance with a statutory formula. The formula takes into account population, average mill rate for the past three years, and the aggregate sales ratio. In fiscal 1976-77 the state will pay out \$171,258,145 in local government aids, and will also make intergovernmental payments in the form of property tax relief, shared taxes (inheritance and taconite and occupation taxes) and other grants and special aids. All of these bring the amount appropriated to local governments by the 1975-77 Legislature to \$1,342,140,288, a figure which would be far larger if it included aids to school districts.

## TOTAL REVENUE OF LOCAL GOVERNMENT UNITS IN MINNESOTA,

FISCAL 1974-75 TOTAL: \$3,870,779,772



**TOTAL EXPENDITURES OF LOCAL GOVERNMENT UNITS IN MINNESOTA,  
FISCAL 1974-75 TOTAL: \$3,863,976,294**



**Combined Expenditures of all  
Local Governmental Units**

Local governments collectively spend much more money than the state government does on its own operations. Total expenditures for fiscal 1974-75 for all local government units in Minnesota amounted to \$3,863,976,294, representing an increase over the preceding 10 years of 146%. The largest dollar increase in expenditures was for education, which accounted for 46.5% of total expenditures. Next in amount spent was welfare, which accounted for 9.4% of total expenditures; county governments today spend some 99% of all welfare funds.

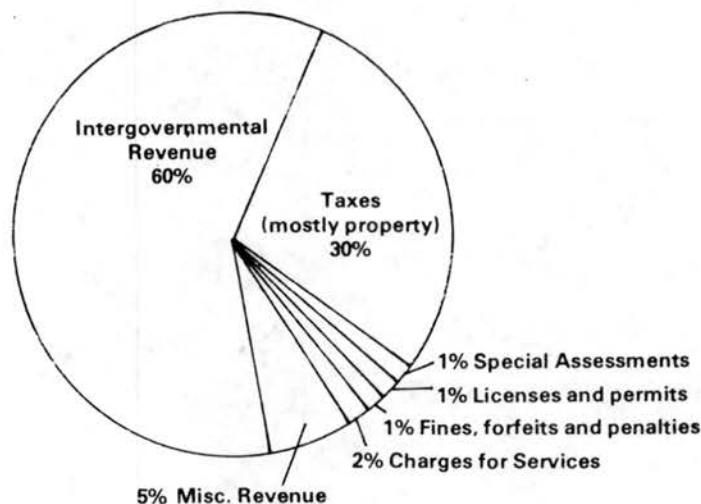
**Counties**

Minnesota's counties vary in size from Ramsey county's 160 square miles to St. Louis county's 6,281 square miles. Their populations range from 3,574 people in Cook county to 960,000 in Hennepin county. The 1974 total assessed valuation of property ranged from Lake of the Woods county's \$18,250,000 to Hennepin county's \$9,734,200,000.

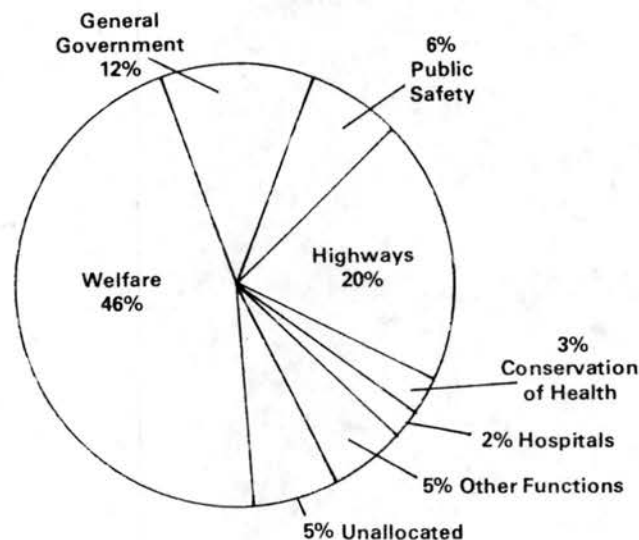
Counties are responsible for administering such functions as rural secondary roads, county courts, certain welfare, health and education services, shorelands management and solid waste management systems. They also have authority for law enforcement, administration of elections and tax levies, and planning and zoning.

During the ten-year period between 1964 and 1974, total revenues and expenditures of counties more than tripled, but this was due in large measure to a shifting of responsibilities for welfare payments and other items. Counties had \$785,734,980 in total revenue in fiscal 1974-75, about 30% of which came from local property taxes and special assessments and 60% from intergovernmental revenue.

**REVENUE OF COUNTIES IN MINNESOTA, FISCAL 1974-75  
TOTAL: \$785,734,980**



**EXPENDITURES OF COUNTIES IN MINNESOTA, FISCAL 1973-74  
TOTAL: \$791,417,163**



**Cities**

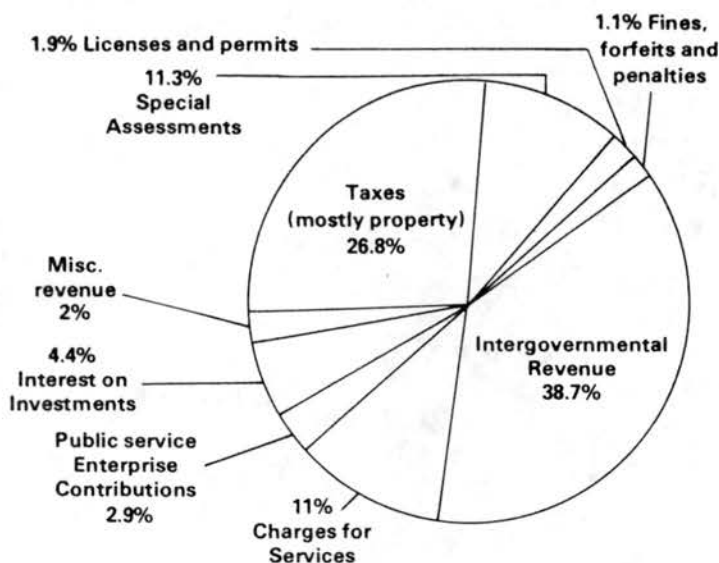
Minnesota's 855 cities range in population from more than 400,000 in Minneapolis to less than 100. Once they were called villages, boroughs or cities, but since January, 1974, they are all officially cities. The terms village and borough can no longer appear in state statutes or be used in legal proceedings, although they are still used informally out of habit or local custom.

Cities are subdivisions of the counties, although some cross county lines. Their residents vote for county officers, pay county taxes and benefit from county services. Cities are also part of school districts which may encompass a different area and maintain a separate governing body from the city. Thus residents of cities benefit from state aids to their city, as well as from state aids to their county and their school district.

Cities are responsible for such things as streets, sewers and sewage treatment plants, fire and police protection, public libraries, hospitals, waterworks, parks and general governmental administration.

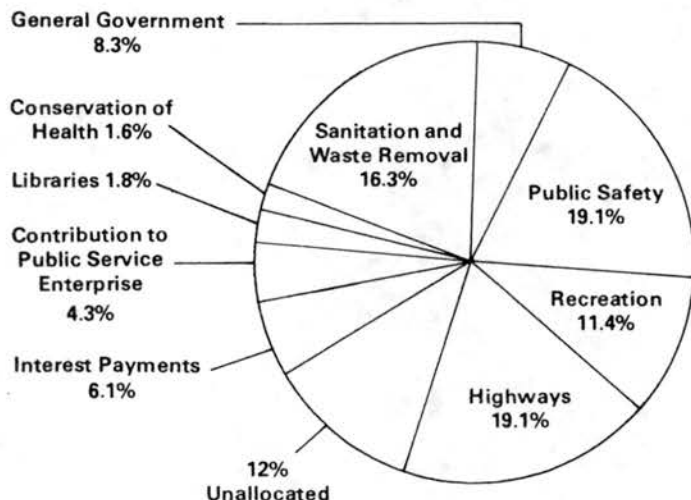
# REVENUE OF CITIES IN MINNESOTA, FISCAL 1974-75

TOTAL: \$670,363,200



# EXPENDITURES OF CITIES IN MINNESOTA, FISCAL 1974-75

TOTAL: \$745,235,017



## Townships

Minnesota is divided into townships, which are geographical areas usually six square miles in size. When the people living in a township organize a local government, it is called township or town government. Because of this, the word "town" should not be used in Minnesota to mean a village or small city. The unorganized townships — areas in which no town government has been organized — are found mostly in the less populated northern part of the state and are governed by the county in which they are situated. The prime responsibility of towns is maintenance of township roads and bridges. Some also provide fire protection and law enforcement.

In fiscal 1974-75, towns accounted for 1% of the state's total local government revenue and slightly more than 1% of total local government expenditure. 59% of total township revenue came from intergovernmental revenue and 33% from property taxes. 69% of total expenditure was for highways and 15% for general government.

## School Districts

Minnesota has 436 local school districts charged with providing educational services for students in grades kindergarten through twelve. There are also 4 elementary districts that do not provide high school education. Prior to large-scale school district consolidation mandated by the state Legislature in 1964, there were 1,515 school districts, only 481 of which provided education at the secondary school level.

Expenditures of local school districts depend on the number of *pupil units* in the district. In computing pupil units, kindergarten students are each counted as .5 of a unit, students in grades one through six as 1 pupil unit each, and students in grades seven through twelve as 1.4 pupil units each. The differential is based on the relative cost of educating the different age levels. For the 1974-75 school year, districts varied in size from Verdi, with only 164 pupil units, to Minneapolis, with 63,540 pupil units. The lowest expenditure per pupil unit in 1974-75 was \$935, the highest \$3,282. Total expenditures per pupil unit include all of the district's expenditure — salaries, supplies, transportation, food services, building maintenance and operation as well as capital and debt service expenditures.

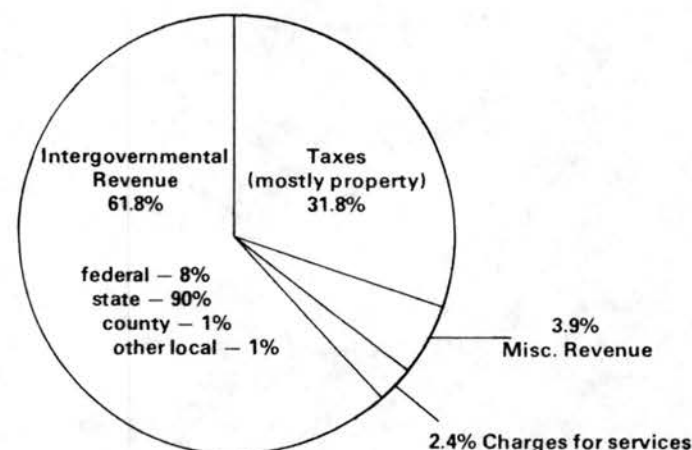
The school aid formula is explained in the January, 1975, LWVMN VOTER, "The Minnesota Miracle." The formula dictates how much income a local district will be allowed to receive in a given year as well as how much of that income will come from the state. The Legislature appropriated \$1,686,290,284 for elementary and secondary education in the 1975-77 biennium. This included school aids and special school aids for the two-year period.

However, the appropriation figures are not a reliable measure of local expenditures. The school aid formula dictates how much each school district may receive from state and local sources but does not require that each local district spend the entire amount it receives. A local district may put some of its receipts in a reserve account for spending in future years.

This is one reason why total expenditures by all local school districts in 1974-75 totaled \$1,515,717,689, or \$56,700,180 more than total revenues.

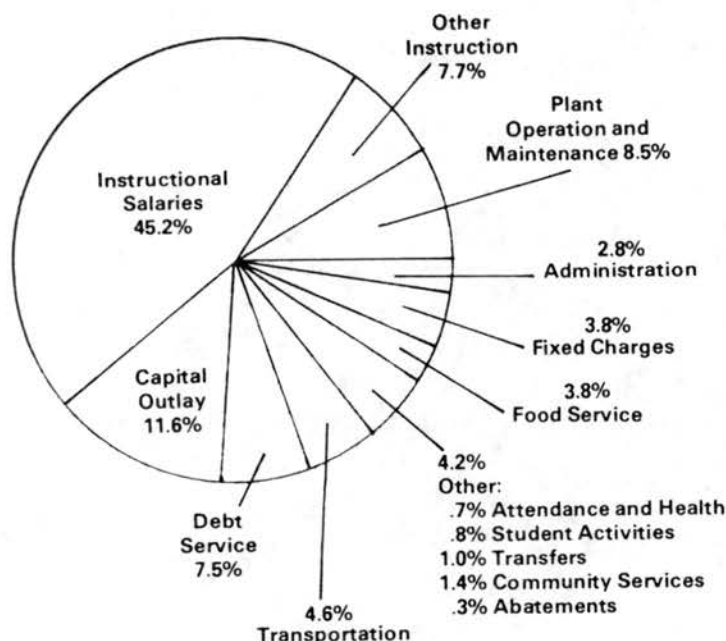
## TOTAL REVENUE OF SCHOOL DISTRICTS, FISCAL 1974-75

TOTAL: \$1,459,017,518





**TOTAL EXPENDITURES OF SCHOOL DISTRICTS, FISCAL 1974-75**  
(Individual districts may vary greatly from the average)



## CONCLUSION

This series of publications, designed to explain how government is financed in Minnesota, is a result of the continuing concern of members of the League of Women Voters of Minnesota to inform themselves and the public about governmental issues. How state government is financed has been of interest to the LWVMN since the early 1950's and is of particular interest in the 1970's when government costs are rising at a rapid rate. Minnesota is faced with hard decisions on sources and allocations of funds. These decisions affect all taxpayers and the services they receive from government. The wrong decisions may be costly, not only in money but in terms of human needs.

It is hoped that these Facts and Issues will help prepare citizens to help state legislators make these choices. Our democracy depends on the interest and informed participation of its citizens, a concept around which the League of Women Voters is organized. Financing state government is a complex subject, but it can be understood by those who want to. If everyone makes the effort, a "quality life" may prevail in Minnesota.

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