



## League of Women Voters of Minnesota Records

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TO: Financing State Government Committee

FROM: Karen Anderson

SUBJECT Telephone Survey Results

HB  
LEAGUE OF WOMEN VOTERS OF MINNESOTA

555 WABASHA

ST. PAUL, MINNESOTA 55102

PHONE: 224-5445

DATE May 10, 1976

Enclosed are results of telephone survey. Survey results in terms of numbers will be released to local leagues in May, but no statements or general conclusions will be is-ued until committee reviews them. If you have any comments on this format, call me or leave message with state office.

Also enclosed, minutes of May 5 committee meeting -- contains dates and deadlines which will be given to local leagues in Outlook.

LWVMN 5/7/76

Financing State Government Committee

Minutes of May 5, 1976 meeting

Present: Anderson, Hasbargen, Buffington, Strouse, McGuire, Bloyer, D. Stone,  
and two New Brighton observers

Research for publications collected from everyone; property tax section coming from Sid Moss within next week.

Telephone survey results: due to breakdown of Xerox, results will be mailed to committee next week with minutes of this meeting. Committee asked to respond with possible conclusions we may draw from results.

Uses of survey results:

Plug into various sections of publications to add interest and show effects on people.

By local Leagues - in bulletins; survey given at local units or community meetings to see how results compare with state-wide results.

In grant proposal - committee will determine conclusions to be added to numbers shown.

Press release - committee decided to hold off until closer to time of publication release in hopes of adding interest in publications.

Dottie Stone asked committee about target audiences for various parts of grant proposal. Agreed that: publications and TV presentation are directed to two different audiences. Publications are resource pieces, aimed toward a limited audience including Leaguers, schools, community groups or organizations, those with specific interests in state and local gov't. affairs. TV presentation is aimed at larger audience - taxes affect everyone - educational piece to inform people about taxes and spending in MN, done in interesting fashion with emphasis on the impact on people who live in the state. Some discussion of type of TV presentation; must be quality, show things happening rather than a review of charts and graphs, prepared for 1st half of April showing -- income tax time -- why are you paying these taxes and what happens to them? Agreed that we need to "pick brains" of the people who know about technical limitations and needs and for cost estimates.

Timetable for Outlook for local Leagues:

Oct. 1 - two tax publications available

Nov or Dec. - unit or general meeting on tax structure; necessity if they haven't done anything on taxes this year, optional if they have already covered taxes.

March, 1st week, 1977 - two expenditure publications available.

consensus ~~and~~ questions and guide available.

(decision made to complete consensus in Spring '77 to avoid re-education of new members in fall of '77 and to ease convention processes in '77)

April 1-15, 1977 - TV presentation, may be able to coordinate with local meeting.

April or May 1977 - unit meeting on expenditures with general, short, simple consensus on taxes and expenditures.

June 30, 1977 - consensus due in state office

Committee business: McGuire and Anderson will put publications together within 10 days; then will go to editor. Committee members may be telephoned with questions about their sections. Will be able to advise development committee in 2 weeks as to size, looks, layout of publications.

Committee will not meet formally until Sept.; any business will be conducted by phone in the meantime. Sept. meeting will be a morning, but not Wed., will decide then about subsequent meetings.

send  
special  
notice to LLs

Financing State Government, Karen Anderson, chr.

### Statewide Telephone Survey Results

In March, 1976, 52 local LWV's conducted a statewide telephone survey on people's attitudes and knowledge of governmental financing in MN.

244 people, chosen by random sample by the state committee, were surveyed by members of local LWV's.

The results, along with conclusive statements, will be issued for general release in the fall. In the meantime, you may use the raw numbers if you'd like:

- print in your bulletin
- if your membership has already done the survey for fun, you may want to compare your results with statewide results
- use the survey now, with your membership and in the community, and compare results with statewide results.

Please use raw numbers only; don't draw any conclusions, even if they seem obvious!

Although 244 people were surveyed, totals may be different; not all people answered all questions.

1. Of the three major taxes in MN, the individual income tax, the property tax, and the sales tax, which do you feel is the most fair?  
individual income-74, property-31, sales-125  
Which do you feel is the least fair?  
individual income-84, property-101, sales-40
2. Of all the taxes collected by state and local governments, do you happen to know which raises the most money?  
individual income-87, property-36, sales-28, not sure-86
3. 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? yes-108, no-92, uncertain-42
4. Do you happen to know on which of the following items you pay a sales tax? food-17, automobiles-205, drugs and medicines-41, household appliances-203, fur coats-150
5. Many people feel the income tax forms are too complicated, too hard to understand and fill out; do you pay someone to help you fill out your income tax forms? yes-150, no-67, not sure-5
6. Do you know whether any of your state income tax moneys are used to help run your local city or county government? yes-146, no-30, not sure-65
7. Do businesses in MN pay more of the total income tax than individuals? yes-62, no-106, not sure-73
8. Does state government levy general property taxes? yes-68, no-101, not sure-73
9. By state law, assessors are required to assess property at its full market value. How do you feel most property in your community is assessed in relation to its actual market value? higher-51, lower-88, about the same-60, no opinion-41.
10. If the assessment of a piece of property is raised, will the tax on that property automatically be raised? yes-146, no-20, not necessarily-45, not sure-30
11. Do you happen to know, on the average what portion of the local property tax goes to finance local schools? 1/4-42, 1/2-58, 3/4-25, not sure-117
12. Of all the money that will be spent on public assistance (welfare) programs in MN, do you happen to know how much comes from local tax sources? 8%-34, 29%-50, 57%-22, not sure-133



p. 2, statewide telephone survey results

13. Do the taxes you pay have an influence on who you vote for?

yes-80, no-148, not sure-14

14. Are there any government services you'd like to see improved even if it would mean increasing taxes? "nothing" or "none" was mentioned most (66 times); others mentioned often were: local law enforcement, health and hospitals, education, highway bld. and maintenance; other answers mentioned at least once covered the entire scope of governmental services.

Are there any services you'd like to see cut back? "nothing" or "none" mentioned 64 times; welfare and highways were also mentioned (although many welfare responses were categorized as welfare "reform"); many of the responses referred to administrative costs or bureaucratic excesses in many different areas of governmental services.

Correct answers:

2. Property taxes 31.8%

Individual income tax 25.6%

Sales and use taxes 13.8%

Corporate income tax 6.2%

All 1975 estimated figures from  
MN Dept. of Revenue

4. yes -- household appliances, fur coats (usually)

although automobiles are exempt from the MN Sales Tax, they are  
subject to a 4% motor vehicle excise tax

6. yes -- state supplements local government revenues from the property tax via local government aids (aids to counties, municipalities, townships, special districts, and aids to school districts).

7. no -- of total income taxes collected in 1973, 16.5% came from corporation tax.

8. no -- local governments levy property taxes; counties collect and administer them.

10. not necessarily -- the amount of tax is determined by the mill rates of the government units in the county. If all assessments were raised equally, the mill rate could be lowered and taxes remain the same.

11. 1/2 -- statewide average is 54%

12. 8% -- the major portion comes from federal sources.

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TO: Financing State Government  
Committee

FROM: Karen Anderson

SUBJECT Progress Report

**LEAGUE OF WOMEN VOTERS OF MINNESOTA**

555 WABASHA

ST. PAUL, MINNESOTA 55102

PHONE: 224-5445

DATE June 22, 1976

The tax publications are being edited and will be returned to me this week. If there are questions concerning any section you worked on, I'll call you. The publications will then go to state Board readers before going to outside readers (Wallace Dahl, Arley Waldo and Irma Sletton).

Enclosed are copies of the current committee roster and the Financing State Government section of the OUTLOOK (used by local LWV Boards for planning their calendar for next year). Our committee will work toward those promised deadlines.

Our next committee meeting will be in September; you'll be notified. Thank you to the new committee volunteers!

6/22/76 LWVMN

Financing State Government Committee

Committee Roster

State Board Members

Karen Anderson, chairperson, 935-2445  
16917 Clear Spring Terrace, Minnetonka 55343, LWV, MEPH Area  
Carolyn Cushing, 612-633-0602  
3031 Simpson, St. Paul 55113, LWV Roseville  
Mary Poppleton, 612-890-4486  
11009 London Drive, Burnsville 55378, LWV West Dakota County  
Jean Reeves, 507-645-6161  
Rt. 3, Northfield 55057, LWV Northfield  
Helene Borg, 612-472-2674  
P.O. Box 5, Mound 55364, LWV Westonka Area  
Jerry Jenkins (ex-officio) 612-645-1452  
2252 Folwell, St. Paul 55108, LWV Falcon Heights

Off-Board Members

Mary Mantis, 612-644-1156  
2352 Buford Ave., St. Paul 55108, LWV St. Paul  
Sid Moss, 612-544-1875  
5705 Westbrook Rd., Minneapolis 55422, LWV Golden Valley  
Erica Buffington, 612-929-8168  
3845 Lynn Ave. S., St. Louis Park, 55416, LWV St. Louis Park  
Judy McGuire, 612-927-6825  
4048 Zenith Ave. S., Minneapolis 55410, LWV Minneapolis  
Ernie Hasbargen, 612-636-4825  
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Barbara Namie, 507-387-5049  
345 Ramsey St., Mankato 56001, LWV Mankato  
J.W. Miller, 612-489-9696  
373 W. Nebraska, St. Paul 55117, LWV St. Paul  
Kathy Gilder, 612-774-2947  
1288 Hazelwood, #705, St. Paul 55106, LWV St. Paul

to those who voted *no* would be appropriate.  
yes - Bergland, Fraser, Nolan, Oberstar  
no - Frenzel, Hagedorn, Karth, Ouie

## COUNTERPART COMMUNIQUE -- Financing State Government

Karen Anderson (612) 935-2445

We're beginning the second year of the current state study of Financing State Government. The state Resource Committee has been busy researching, writing and planning for next year. We're presenting the plans to you in calendar form to aid in your planning at the local level:

- Oct. 1, 1976 - two tax publications ready for distribution. These will be Facts and Issues-type publications helpful for every member. The first is a Primer of Minnesota Taxation and the second explains specific taxes in Minnesota. Costs of these will not be known until we have more information on outside funding.
- Nov. or Dec. 1976 - you will want to have a unit or general meeting on the tax structure in Minnesota based on the publications. Some LWVs covered taxes adequately this past year. If you think your general membership is already informed, you may decide not to have this meeting; if you had poor attendance at your previous meeting or your membership has changed, you will want to have another in Nov. or Dec. There is too much material to cover to expect to deal with taxation and expenditures in one meeting.
- Mar. 7, 1977 - two publications on expenditures ready for distribution. These will also be Facts and Issues-type publications planned for every member.
- Mar. 11, 1977 - committee guide and consensus questions sent to local Leagues. This is a change in plans from what you heard at state Council. The committee was concerned with membership turnover and Convention program procedures if the consensus were scheduled for the fall.
- Apr. 1-15, 1977 - we're still hoping for a statewide TV presentation sometime during these two weeks. It would cover both taxes and expenditures. You may want to gather your members to watch this together and discuss, but that's optional.
- Apr. or May 1977 - you will want to have a unit meeting one of these months based on the two expenditure publications and to do the consensus. (Note: Education unit meeting will also have to be scheduled.)
- June 30, 1977 - consensus due in state office. (Note: Education consensus also due.)

The state Financing State Government Committee will begin meeting in September to work on the expenditure publications, consensus questions, committee guide and TV presentation. We are hoping for the addition of other committee members who have an interest or ability in any of these areas. Please contact the state office.

## COUNTERPART COMMUNIQUE -- International Relations

Mary Davies (218) 233-2175

Relations between developed and developing nations will come to the fore in our International Relations focus this year. Economic issues, whether at the United Nations, in trade, or development aid, will demand our attention.

IR in the League.....

If you're new to the IR portfolio this year, be sure you get all of the materials your predecessor or local files may have. Skim this to get an overall picture of what League has done. Check the League publications catalog and order what ever looks helpful to you. Get a jump on the year by recruiting committee members now. An inactive member might be willing to clip pertinent articles, or how about someone who's gone into retirement but may have been the guiding light in IR for years? Meet with this committee to get



9/15/96

Memo to: FSG committee

From: Karen Anderson

Re: meeting notice and Misc.

Enclosed are: revised committee list and minutes of Sept. 9 meeting

Please review the minutes carefully. On Sept. 22 the outline sub-committee will be meeting at Judy McGuire's at 10 a.m. to complete the outline for the expenditure publications. If you have any additions, corrections, ~~exan~~ suggestions, please related them to Anderson, McGuire or Buffington before then.

Wed., Sept. 29, 12:30 p.m., State Office, entire committee will meet. You will not receive another notice of this meeting. Have in mind what areas of the outline you are most interested in researching. We'll have a better idea of information sources at that time so that researchers will have definite starting places. If you aren't able to attend, please call me or state office to ~~put~~ state your preferences - we don't want to assign an area you abhor.

The first committee meeting was so exciting and encouraging that I'm still on a high over what I once considered a "dry" subject. Thank you!



LWVMN 9/13/76

## Financing State Government

Minutes of Committee, September 9, 1976

The meeting began at 9:45 with a discussion of future meeting schedule. Since dates will revolve on deadline schedules for expenditure publications, we decided to set dates as we go along, but to try Wednesday afternoons, 12:30 to 2:30 as ~~the~~ days to meet. These may be first Wed. of month or adjusted as deadlines permit. Specific dates: Wed., Sept. 29, 12:30 to 2:30, state office, whole committee meeting; Wed., Sept 22, 10a.m., at Judy McGuire's, sub-committee on publication outline (Anderson, McGuire, Buffington and anyone else who can make it).

Present: Anderson, Buffington, Gilder, Hasbargen, McGuire, Cushing, Sletten, Moss, and Brown visiting from Crystal-New Hope.

Tax Publications: discussed printing schedule; still striving for Oct. 1 deadline. As yet have no funding; if none comes, they will cost under \$.75 for both.

TV presentation: state board authorized hiring of state Development/ Public Relations person. If this person does not materialize in 6 weeks, about Oct. 21, will have to cancel "big dream".

Expenditure Publications: we will be breaking material into two Facts and Issues, 6 to 12 pages each (about 45 type-written). Deadline schedule is roughly:

Sept. 22 - outline committee meets

Sept. 29 - final outline ready; whole committee meets to make assignments, discuss sources.

Nov. 3 - 1st draft due

Nov. 19 - 2nd draft due

Nov. 24 - to editor

Dec. 3 - returned from editor and back to researchers for completions

Dec. 17 - re-writes due

Dec. 24 - sent to on-board readers

Jan. 3 - due back from on-board readers

Jan. 10 - sent to outside readers (suggestions were League of MN Municipalities  
Citizens League, Dept of Finance or Econ. Devel.)

Jan. 25 - due back from outside readers

Feb. 1 - to printer

Feb. 18 - mailed with monthly board mailing

Discussed possible outline for publications. The following is in draft form and will be expanded, refined, etc. by outline committee Sept. 22.

Section	Possible information sources	Researchers (tentative)
I. Introduction - set focus for whole subject; refer to concerns of people, expenditures reflecting changing values of people, changes in political theory		Anderson Gilder McGuire
II. History - trends in expenditures in MN. following focus on people's concerns	1973 Tax Study Comm. staff papers Dept. of Econ. Devel.	
III. State Fiscal Procedures		
A. Budget Making	MN Dept. of Finance	Anderson
B. Budget Adoption		
C. Collection and Disbursement procedures.		
D. Audit functions		
E. "How a Budget Becomes a Spending Program" (also used separately as Citizen Information piece?)		

## Outline (cont.)

Section	Possible information sources	Researchers (tentative)
IV. Governmental Expenditures in the State of MN		
A. Lead-In - combined effect of federal, state local funds being spent on state and local levels	Appropriate MN Depts. Senate Research (author of Fiscal Review of the '75 Legis. Session)	
B. State expenditures		McGuire Buffington
1. Education		
2. Transportation		
3. Public Welfare		
4. health care	Metro Council and Econ. Devel. (regional health boards)	
5. justice and corrections		
6. natural resources (inclu. land use) and energy	PCA, DNR	
7. housing		Gilder
8. others		
a. unique background		
b. amount fiscal year ending June '76		
c. amount spent here and amount passed to other level		
C. Local Expenditures		
1. Counties		
a. definition, how many, population ranges, responsibilities		
2. Cities		
3. Townships	State Auditor's Dept. U of M Dept. of Agricul and Applied Econ. (Arley Waldo and John Helmberger)	
4. School Districts		
5. Special Districts		
D. Summary - combined effects explained and shown by chart(s)		
V. Trends		
total summary; related to general focus on people; citizen participation	Dept. of Econ. Devel. MN Commission on Futures (Neil Gustafson)	

Committee Guide and Consensus Questions: discussed the inter-relatedness of the two. Committee Guide needs to be comprehensive and exact if we wish to do the consensus via broad questions. Consensus to determine LWV values on Taxes (using criteria) and Expenditures (using priorities). Aim toward 3 questions on each.

Tentative deadlines:

Nov. 19 - board memo mailing; tax questions done in draft form and sent as sample discussion questions for those Leagues doing tax units in Dec.

Jan. 3 to 17 - massive writing effort with good committee input; Cushing and McGuire especially concerned in this area

Jan. 17 - sent to LWV "screeners"

Jan. 28 - due back from screeners

Feb. 8 - consensus questions approved by state board

Feb. 18 - mailed with monthly board mailing

Meeting adjourned 11:45.

Submitted by Karen Anderson, chairperson

6/22/76 LWVMN

Financing State Government Committee

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373 W. Nebraska, St. Paul 55117, LWV St. Paul  
Kathy Gilder, 612-774-2947  
1288 Hazelwood, #205, St. Paul 55106, LWV St. Paul  
Irma Sletten, 612-544-6264  
7245 Green Valley Rd., Golden Valley 55427, LWV Golden Valley

M TO: All Boarders

E FROM: Karen Anderson

M  
O SUBJECT Editing

**LEAGUE OF WOMEN VOTERS OF MINNESOTA**

555 WABASHA

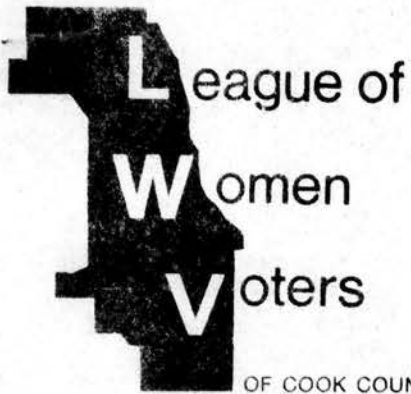
ST. PAUL, MINNESOTA 55102

PHONE: 224-5445

DATE September 29, 1976

I recently received an enthusiastic "yes" from Rhoda Lewin to edit the two FSG expenditure publications (and it has to be ready in December!)





OF COOK COUNTY

67 EAST MADISON STREET / CHICAGO, ILLINOIS 60603 / CENTRAL 6-0315

PL✓  
HB✓  
KAV✓

Testimony  
on  
Proposed Changes in Assessment Levels  
in  
Cook County

by  
Shirley Keller, President  
September 9, 1976

The property tax is the primary source of revenue for units of local government and, statewide, provides nearly half of total school revenues. In suburban Cook County the percentage of local support for the schools is much higher and therefore, even more critical. As prices have risen during this period of inflation, both the costs of local government and of operating the schools, and the value of property have increased. In a properly functioning revenue system, the increased cost of property would result in higher assessed valuations for tax purposes so that the total revenue from the property tax would increase to meet the needs of government and the schools. If assessments are not increased to reflect their actual market value, as required by the statutes, the only recourse for a taxing district is to increase tax rates. Because of statutory limitations and/or the requirement to seek approval for the increase by referendum, taxing districts have little flexibility to use this means to balance costs with revenue.

It is both illogical and unrealistic not to expect that property owners should pay increased taxes to support the units of government and the schools that serve them. While lowering assessment levels may be appealing to taxpayers, they may not realize that it carries the potential of curtailing desirable local services.

Yes Gods!  
Should we  
let them  
know that  
that isn't  
what we  
say?

This may just  
force the issue  
there, Not to worry; their  
position, p. 2 1st para.  
is similar to ours - but  
beyond, they're merely saying  
that state should fund  
what they mandate, or locals  
should be able to compensate.



The League's School Finance position does call for reduced reliance on the property tax, but clearly states that compensating funds should come from the resources of state government. The proposed action in Cook County will decrease school revenue without providing a compensating alternative. The schools are already in serious financial conditions due to the failure of the state to meet its obligations.

The League of Women Voters of Illinois supports a system of school finance which provides greater equity for both student and taxpayer while retaining local control of educational programs and budgetary management. We are concerned about the proposal by Cook County Assessor Thomas Tully, to appraise class 2 properties at sixteen percent of their fair market value instead of at the current level of twenty-two percent. Mr. Tully sees this as a necessary move to save the taxpayer from increased taxes which he sees as resulting from increased assessments. We point out that the rate of taxation is set by the County Clerk based on a budget submitted by the local school board. If the assessed valuation of a school district should increase greatly, the tax rate could be reduced rather than increased. It is not the role, it seems to us, of the assessor to enter into the relationship between the taxpayer and the local taxing body. If a taxpayer is dissatisfied with the budget submitted by his school board, he has recourse directly to the local body.

We are also concerned about the issue of taxpayer equity in this proposal since it would put an increased burden on other assessment classifications. At the same time it would penalize those areas which have little or no commerce and industry and which must rely on single family homes for their assessed valuation.

# # # # #

# Minneapolis Tribune



Established 1867

Charles W. Bailey Editor  
Wallace Allen Managing Editor  
Leonard Inskip Editorial Editor

20A

Sunday, October 3, 1976

## An immovable tax system? Not really

We were impressed by two points in a recent Minnesota Taxpayers Association newsletter. One is familiar: Few states offer more public services than this one does. In 1975 Minnesota ranked seventh highest in combined state and local taxes to provide those services. That is a move up the scale from ninth the preceding three years, but it is not necessarily a trend; Minnesota also ranked seventh in 1968.

The comparison might seem to suggest an inertia in taxation which prevents any great change. That this is not the case is evident in the other set of comparative figures provided by the taxpayers association.

They deal with sources of taxes, and here the change over the past decade has been astonishing. In 1967 Minnesota ranked fifth in per-capita property-tax collections; in 1974, 22nd; in 1975, 30th. Another comparison that confirms the shift in emphasis away from property taxes is the extent to which Minnesota municipalities have relied on

them. In 1969, local property taxes made up 37 percent of city budgets; in 1975, 27 percent.

That change has been less evident to taxpayers because their property-tax bills in most cases have risen rather than declined. But the cost of government has risen, too, as have incomes and property values and everything else. Property taxes would have risen far faster had not there been a determined — and successful — effort to offset them with various forms of tax relief and with state and federal grants to local governments. Increased state aid — which now accounts for 26 percent of the state's general-fund expenditures — was made possible by increased revenue from other sources, primarily income and sales taxes.

Tax systems are often considered too cumbersome to change significantly in a few years' time. Recent Minnesota experience shows how wrong that assumption is.

LEAGUE OF WOMEN VOTERS OF MINNESOTA

TO: FSG Committee

Borg

FROM: Karen Anderson.

SUBJECT: Miscellaneous

DATE: October 8, 1976



555 WABASHA • ST. PAUL, MINNESOTA 55102

PHONE: (612) 224-5445

MEMO

Enclosed are copies of:

September 29th committee minutes  
Minneapolis TRIBUNE editorial  
MONEY MAGAZINE article

For those with writing assignments:

You don't need to keep background notes on 3 x 5 cards, but you do need to keep them on something for our own reference. Also, we will need a complete list of your resources for bibliography -- both people and written sources.

Next committee meeting - November 3rd (see September 29th minutes)

LWVMN 10/4/76

Financing State Government  
Minutes of Sept. 29 meeting

Present: Anderson, Hasbargen, McGuire, Bloyer, Buffington

Business: the tax publications are to be delivered by printer Oct. 4. Prices will not be established until after Oct. 4 funding proposal to H B. Fuller Community Affairs Council. Bloyer suggested another printer for next 2 pubs. for more favorable price.

Time forms: Researchers are to keep track of time spent researching, writing, travelling, etc. for the purposed of haveing a record of this when going for grants.

77/78 budget suggestions: State Board budget requests for next year are due at next Board meeting. Some discussion on whether committee should be involved with publications distribution (development committee suggested FSG committee train local League personnell to give presentation along with publication distribution). Committee agreed that this was not a proper function -- that publications/PR preceed as they wish with guidance only from FSG chairperson. Budget for FSG will be figurred on basis of support position only -- observing and lobbying on consensus position reached next June.

Legislators' questionnaire: local Leagues regularly question legislators elected in Nov. election. Committee wanted questions dealing with expenditures; hopefully we'll get some data/opinions that can be used in publications. Suggestions: How do you arrive at your spending priorities; name your primary influences. What could be improved in the budget-making and adoption procedures? These will be refined and turned in to Action committee Oct. 5.

Editting: Rhoda Lewin, while no longer serving on state board, has agreed to edit the expenditures publications.

Guest: Mr Ted Miller, Fiscal Analyst with the Senate Committee on Finance, came to the committee meeting to help identify sources of information for the expenditure publications and to help categorize areas of state spending to correspond with the available figures.

Mr. Miller is the author of Fiscal Review of the 1975 Legislative Session and recent '76 update of that piece. Some of the points he made:

Fiscal Review of the 1976 Legislative Session must be used in conjunction with the '75 version; it contains supplementary information.

While the General Fund is usually used to describe state spending, there are many other funds to take into account, including federal fund monies. Expenditure pub. will cover all funds, with just a brief mention of federal.

Two kinds of state moneys: those consitutionally dedicated, and those legislatively dedicated. Some of the dedicated funds go through the general fund before distribution.

Appropriations:

- A. 5 Omnibus appropriation bills
  - 1. a. education (state aids)
    - b. all other education
  - 2. welfare, corrections and health
  - 3. state depts.
  - 4. semi-state ~~dep~~ activities (quasi-state activities) those not funded entirely by state (like historical society)



Omnibus appropriation bills

5. two building appropriations; capitol outlay, by constitution, must be time limited bonding bills
- B. misc. appropriations; are usually single bills for a particular purpose. include those that aren't a part of omnibus bills. 3 categories:
  1. recurring -- claims bills; usually 1 heard during interim and 1 during session
  2. non-recurring -- one-shot deals like road to new zoo or sewer assessment for a state college
  3. new activities. something like the fresh water biological institute or nutrition program for the elderly. These may later be on-going and be added to future omnibus bills.
- C. Open and Standing appropriations
  1. standing -- an amount appropriated and specifically designated, like the reimbursement of the trunk hiway fund for the use of the highway building -- the amount is specified in the bill and remains the same
  2. open -- authority to collect, disburse, etc. contained in law but no specific dollar amounts. eg. the homestead credit -- state authorizes reimbursement to county auditors for money they haven't received. also includes aid to local gov'ts.

All of these appropriations include categories that may fall under our own categories in expenditures outline. Since these have already been gathered together for Fiscal Review we will follow general categories as shown on page 33 of '75 Fiscal Review

History resources: previous to 1930 -- old state Auditors biennial reports; should be found in legislative reference library, Hill reference library or Mpls. municipal library.

Resource people for specific categories: senate and house committees; the administrative assistants or aids (known as A.A.'s)

Budget procedures resources: primary source is Chapter 16 of '74 state Statutes; this calls for principle budget officer (Dept. of Finance) and a 2-part budget (governor's budget and 5-year plan). sets receipt date and presentation date. all agencies must submit budget requests by Oct. 4; Dept. of Finance holds hearings, evaluates and refines. Nov/Dec discussions with governor and staff. end of Dec., Governor and Dept of Finance devise "budget message" which contains 2 years of requests (6 mos. actual spending and 18 mos. projected). "budget message" is accompanied by supplementary data for each specific fund. Then goes through committee process in each house. Sub-committees, back to full committees for omnibus bills, then to full Senate and House, then to conference committee with 5 members of House and Senate; "very seldom come out a compromise, usually higher than either houses version"

Mr. Miller will remain primary resource for this section.

NEXT COMMITTEE MEETING: Wed. Nov. 3 at state office. First drafts are due at that time. There will be no full committee meeting; individuals will come to go over their sections individually. Schedule--9:20 Buffington and McGuire; 10:30 Bloyer; 12:30 Hasbargen. Others to be scheduled before 2 p.m.



# Minneapolis Tribune



Established 1867

Charles W. Bailey Editor  
Wallace Allen Managing Editor  
Leonard Inskip Editorial Editor

20A .

Sunday, October 3, 1976

## An immovable tax system? Not really

We were impressed by two points in a recent Minnesota Taxpayers Association newsletter. One is familiar: Few states offer more public services than this one does. In 1975 Minnesota ranked seventh highest in combined state and local taxes to provide those services. That is a move up the scale from ninth the preceding three years, but it is not necessarily a trend; Minnesota also ranked seventh in 1968.

The comparison might seem to suggest an inertia in taxation which prevents any great change. That this is not the case is evident in the other set of comparative figures provided by the taxpayers association.

They deal with sources of taxes, and here the change over the past decade has been astonishing. In 1967 Minnesota ranked fifth in per-capita property-tax collections; in 1974, 22nd; in 1975, 30th. Another comparison that confirms the shift in emphasis away from property taxes is the extent to which Minnesota municipalities have relied on

them. In 1969, local property taxes made up 37 percent of city budgets; in 1975, 27 percent.

That change has been less evident to taxpayers because their property-tax bills in most cases have risen rather than declined. But the cost of government has risen, too, as have incomes and property values and everything else. Property taxes would have risen far faster had not there been a determined — and successful — effort to offset them with various forms of tax relief and with state and federal grants to local governments. Increased state aid — which now accounts for 26 percent of the state's general-fund expenditures — was made possible by increased revenue from other sources, primarily income and sales taxes.

Tax systems are often considered too cumbersome to change significantly in a few years' time. Recent Minnesota experience shows how wrong that assumption is.

# Good News About Taxes

**Whether Ford or Carter wins,  
the years of runaway tax increases  
are probably over for now.**

*by Jeremy Main*

When you add up all your taxes—and they do add up—they become the largest and fastest growing part of your budget. The tables at the right show some typical family tax bills, in various parts of the country and at various income levels. They include only taxes the families pay directly. If it were possible to apportion indirect taxes, such as the corporate tax built into the price of a new TV set, the total would be higher. All told, we now spend more than \$1 of every \$3 we earn in taxes, direct and indirect, federal, state and local.

Between 1953 and 1975, the average American family income grew from \$5,000 to \$14,000; the portion spent on taxes nearly doubled from 11.8% to 22.7%. (Even so, real after-tax income—allowing for inflation—rose about 60% during those years.) Social Security taxes rose from 1.1% to 5.9% of average family income, property taxes from 2.2% to 4%, state and local income taxes from .3% to 1.9% and sales taxes from .6% to 1.3%. Federal income tax, which grew from 7.6% to 9.6%, was—and still is—the biggest single tax, but it grew less proportionately than any of the others.

The burden of higher taxes has not fallen on everyone equally. Taxes for people with the same incomes can be very different depending on where they live. Rising taxes have hit lower- and middle-income Americans much harder than upper-income Americans. The taxes paid by individuals have grown more than the taxes paid by corporations.

## Not fatal yet

One of the innocent misconceptions about taxes is that most people can't pay any more. Another is that taxes just can't go any higher. Both have been proved wrong time and again. In the U.S., taxes had climbed by last year to 36% of the gross national product with results that have been merely painful, not fatal. In Denmark, the Netherlands, Norway and Sweden, taxes have already reached about 50% of the GNP. Perhaps that is the lethal level that will throttle the financial and even the intellectual life of these countries. Ingmar Bergman, the Swedish movie director, has had enough. Earlier this year he left his homeland, which he called "the best in the world," because he felt so harassed by tax collectors.

In the U.S., however, rather than rising inexorably, the level of taxes may be held about where it is now. For one thing, many Americans, from the presidential can-

## A tax tale of three cities

### \$14,000 annual income

TAXES	NEW YORK CITY	MADISON	DALLAS
Federal income	\$1,281	\$1,319	\$1,386
Social Security	819	819	819
State income	351	369	—
City income	117	—	—
Property	665	778	768
Sales	346	169	176
	(8%)	(4%)	(5%)
Gasoline	85	78	64
Cigarette	113	88	97
Motor vehicle	32	18	22
Unemployment	31	—	—
Telephone, utilities	18	11	30
<b>TOTAL</b>	<b>\$3,858</b>	<b>\$3,649</b>	<b>\$3,362</b>

### \$30,000 annual income

TAXES	NEW YORK CITY	MADISON	DALLAS
Federal income	\$4,371	\$4,610	\$5,106
Social Security	1,357	1,357	1,357
State income	1,773	1,423	—
City income	452	—	—
Property	1,246	1,460	1,440
Sales	508	253	260
Gasoline	114	104	85
Cigarette	113	88	97
Motor vehicle	51	36	34
Unemployment	31	—	—
Telephone, utilities	22	13	36
<b>TOTAL</b>	<b>\$10,038</b>	<b>\$9,344</b>	<b>\$8,415</b>

### \$50,000 annual income

TAXES	NEW YORK CITY	MADISON	DALLAS
Federal income	\$9,246	\$10,002	\$11,598
Social Security	1,650	1,650	1,650
State income	4,359	3,286	—
City income	1,002	—	—
Property	1,781	2,085	2,058
Sales	678	337	347
Gasoline	140	128	105
Cigarette	113	88	97
Motor vehicle	62	36	42
Unemployment	31	—	—
Telephone, utilities	25	16	42
<b>TOTAL</b>	<b>\$19,087</b>	<b>\$17,628</b>	<b>\$15,939</b>

To a great extent, your tax burden depends on your locale. Depressingly, the place in our tables with the highest living costs—New York—leaves our three representative families with the least after-tax income to live on. Each hypothetical couple above has two jobs, two children and owns a house. The \$14,000-a-year couple has a \$28,000 house, the \$30,000 couple a \$52,500 house, and the \$50,000 couple a \$75,000 house. We made other uniform assumptions—each couple smokes a pack a day, for instance. In real life the taxes could vary considerably. Tax assessment of property in New York City, for example, is notoriously inconsistent; the New York property taxes might be much more—or less—than our estimates. The New York and Wisconsin families pay less federal income tax than the Texans because they deduct state and local income taxes on their federal returns.



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League of Women Voters of Minnesota, 555 Wabasha, St. Paul, MN 55102 - October 1976

FINANCING STATE GOVERNMENT, FACTS AND ISSUES ORDER FORM

Facts and Issues #1, Primer of Minnesota Taxes

Facts and Issues #2, Minnesota's Multi-Tax System

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# FACTS and ISSUES FINANCING STATE GOVERNMENT

League of Women Voters of Minnesota

October 1976

## *Primer of Minnesota Taxes*

This *Primer* is the first of four "Facts and Issues" prepared by the League of Women Voters of Minnesota to explain how government is financed in Minnesota. It contains a history of legislative trends in taxation, an explanation of criteria used in evaluating taxes, and a glossary of terms used in explaining both taxation and government expenditures in Minnesota.

The League of Women Voters of Minnesota (LWVMN) has been observing government tax policy and expenditures since 1965. In March 1976, LWV members throughout the state conducted a survey to find out what Minnesotans knew about government financing in Minnesota and how they felt about it. Results of the survey are included with the glossary and are used throughout these four "Facts and Issues" in discussing specific taxes and public expenditures.

The other three "Facts and Issues" will explain Minnesota's basic tax structure, legislative trends in spending, and how the state spends most of its money.

### **HISTORY**

Taxation in Minnesota formally began with statehood in 1858. The new State Constitution provided for a property tax, on real and personal property, which would finance almost all the needs of state and local governments. Since then, tax legislation has occurred in piecemeal fashion, with little regard for overall structure, long-range planning, or clear-cut goals. Two trends are clear, though. One, of course, is the great increase in taxes as the government has needed more and more revenue to serve a growing population, to keep pace with urbanization, industrialization, and technology, and to fund the growing government support of education and health and welfare services. Another trend is the legislature's desire to broaden the tax base, relying on many different segments of society to provide revenue, and to depend less on regressive taxes, like the property tax, and more on progressive taxes like the income tax.

While local governments still rely heavily on property taxes for their revenue needs, state government began an

early move toward more diversified sources of revenue by assessing a gross earnings tax, instead of a property tax, against railroads, insurance company premiums, telephone, telegraph, railroad car and express companies. The tax was based on varying rates until 1887, when a uniform gross earnings tax was enacted for railroads, and by 1903 these gross earnings taxes were producing more revenue for the state government than property taxes. Meanwhile, though, the legislature was still concentrating much of its efforts on improving the administration of the property tax.

Then, in 1906, a constitutional amendment, called the "wide-open" amendment, was ratified, greatly enlarging the legislature's taxing powers. An inheritance tax and mortgage registry tax soon followed, and in 1913 the legislature worked out a "classified" property tax, allowing for four classes of property taxed at different rates. In 1920, special taxes and royalties on iron ore mining were introduced.

From 1920 to 1957, major changes in Minnesota tax policy reflected national economic and social conditions — the advent of the automobile, the Depression and World War II. The automobile brought a constitutional amendment in 1920 authorizing the financing of highways by motor vehicle and gasoline taxes. These were the state's first direct "use" taxes and were so lucrative that by 1932 they would be providing more than half the \$44,000,000 in tax revenue collected by the state.

The "Great Depression" of the 1930's brought the state income tax, passed in 1933. As the depression worsened, people's incomes dropped and state and local tax revenues decreased, too, as property taxes, which were levied by the state and local government units, became increasingly difficult to collect. Assessed values declined as prices fell. Meanwhile, costs of such government responsibilities as education stayed nearly constant, and general relief expenditures mounted rapidly as unemployment increased. The repeal of Prohibition made possible new taxes on alcoholic beverages and their manufacture, but this was not enough. Faced with the conflicting demands for both property tax relief and additional revenues, the legislature responded with the Income Tax Act of 1933. There had



been attempts to enact an income tax before, but the way was finally made clear when the Attorney General ruled that the income tax could be introduced without a constitutional amendment. Some favored the new graduated income tax as a desirable alternative to the property tax, others saw it as a means of establishing a progressive, more equitable tax system. Those opposed to the tax were concerned mostly with how its revenue would be distributed. Today, the income tax is the backbone of the state's tax structure, with the property tax the primary source of local government tax revenue.

World War II eased or eliminated much of the financial stress of the 1930's. Tax revenues rose sharply and relief expenditures went down as employment and farm incomes increased and industries went into wartime production. Moreover, many government spending projects had to be curtailed because workers and materials were unavailable. A big backlog of maintenance, replacement, and expansion of public facilities built up. In the postwar period, spending for such projects soon outran the income from existing taxes and tax rates and used up the surpluses built up during the war. Moreover, high postwar birthrates meant new schools had to be built, and postwar inflation widened the gap between the government costs and the revenue potential of the existing tax structure.

The 1947 legislature responded by looking for ways to increase state revenues and to help local governments collect property taxes more effectively. A new tax was imposed on cigarettes, and taxes on liquor, iron ore, and mining royalties were increased. County boards of commissioners were required to appoint either county

assessors or assessment supervisors, thus attempting to professionalize assessment personnel and to make their procedures more businesslike and more uniform.

By 1955, however, Minnesota was in financial trouble again. Legislative appropriations voted during the regular session greatly exceeded potential revenue, and the state's revenue balance was too small to cover the deficit for fiscal 1956-58. The legislature met for a one-day extra session and passed an "omnibus" tax bill which added a 5% surtax on individual income taxes, a 1% surtax on corporate income taxes, and a 15% surtax on iron ore occupation and royalty taxes.

It was obvious that new ways of financing state government had to be found, and in 1956 Governor Orville Freeman appointed a Tax Study Committee to review the state's entire tax structure. This "blue-ribbon" committee included twenty members representing business, finance, industry, labor, farm and university interests. The committee recommended simplification and consistency in the property tax — there were 2700 different assessment officers at that time — by having a county assessment system rather than a local one and by valuing all property at 100% of its market value — values were typically assessed far below market values. It also recommended reduction or elimination of personal property assessments. It urged an additional 1% surtax on corporate income taxes and a gross earnings tax, which would be set aside for property tax relief. Other committee recommendations were aimed mostly at making taxes easier to understand and to levy.

The only one of these recommendations enacted into law by the next legislature was the removal of the state tax on household goods, with county boards directed to phase out this tax by 1968. Few of the committee's other recommendations have ever been implemented. There was, in fact, very little tax activity in the legislatures of 1959, 1961 and 1963. Existing tax rates were increased, but the basic structure stayed almost the same. Meanwhile, though, the need for new revenues continued to increase. The state government's share of local expenditures grew steadily as proportions of the very young and the very old in the population increased, requiring an increase in education and social welfare spending. With local government units allowed to tax only property, the burden on property owners became so great that the 1963 legislature responded by funding a commission to study the property tax. The study's findings resulted in the Tax Reform and Relief Act of 1967. It eliminated the state's portion of property tax revenue and the personal property tax on farm machinery and livestock, and permitted manufacturers to be taxed on the value of their inventories or their tools and machinery. It gave some property tax relief to older persons and renters and created the property tax relief fund and a county assessor system. To cover the loss in property tax revenues to local government units, a state sales tax was enacted. Part of the revenue from this highly controversial tax was designated for property tax relief through the homestead credit, and to increased state aid to schools and localities. In the next two years, however, local governments greatly increased their spending, and property taxes rose about 40% in Minnesota; there was increased public pressure, particularly from senior citizens, for lower property taxes.

The 1971 legislature tried to do what the 1967 legislature had tried but failed to do. This time, though, the legislature was determined that property tax relief would be permanent. It imposed tax levy limitations on all units of local government, then went to work to find the money to make up the local governments' revenue losses. Rates were in-

creased for individual, corporate, and bank income taxes, certain excise taxes, and the sales tax. Corporations and banks were no longer allowed to deduct federal taxes from their state taxes which, in effect, doubled their state income taxes. Most of the increase in revenue was channeled into property tax relief through increased state aid to local governments and school districts.

The 1973 legislature went still further by increasing the homestead credit and enacting a property tax "freeze" for citizens over 65 which would refund the difference between the current property tax and that paid in the year the property-owner reached age 65. The 1975 legislature added an income-adjusted property tax credit for every taxpaying property owner, and offset the lost tax revenue for counties and municipalities by enacting new state aids for welfare and general municipal expenditures. It also enacted an income tax forgiveness and relief program for low income workers. Overall, it continued the trend away from the property tax and toward the income tax and the sales tax as major sources of revenue.

The Tax Revenue Sources table illustrates trends in state government financing over the past 55 years. Note that the property tax in 1922 was only slightly less important as a percentage of total tax revenues than the income tax is today. Note also the decline in importance of the gross earnings and motor vehicle taxes, although these sources of revenue have greatly increased in dollars since 1922. Their decline in importance indicates the tremendous increase in total state tax revenues, from \$29,400,000 in 1922 to over \$2,000,000,000 in 1975. (This table does not include the revenues of local government units. Thus there is no property tax revenue shown in the last two columns, because the state property tax was eliminated in 1967.)

The General Revenue Sources table shows the importance of revenue other than taxes for financing state and local governments. Federal aid has become an increasing source of revenue, rising at a faster rate in the past 15 years than revenue from state and local sources.

## TAX REVENUE SOURCES OF STATE GOVERNMENT IN MINNESOTA BY PERCENT OF TOTAL STATE REVENUE

SELECTED FISCAL YEARS, 1922-1975

Source of Tax Revenue	1922	1932	1949	1954	1962	1969	1975
Property Tax	34.9%	22.7%	5.2%	5.3%	6.0%	—	—
Individual Income	—	—	20.3%	21.3%	31.1%	33.3%	40.4%
Sales and Use	—	—	—	—	—	19.0%	19.0%
Corporate Income	—	—	10.4%	5.3%	7.6%	8.1%	8.9%
Bank Excise	—	—	0.7%	0.8%	1.3%	0.9%	0.8%
Gross Earnings	28.1%	13.6%	9.9%	8.0%	5.5%	3.3%	2.7%
Insurance Premiums	3.6%	4.3%	2.8%	2.7%	2.7%	2.0%	1.7%
Inheritance and Gift	3.0%	4.2%	1.4%	1.7%	2.3%	2.3%	2.1%
Iron Ore Occupation	—	3.2%	7.5%	12.6%	3.7%	1.6%	1.6%
Iron Ore Royalty	—	1.4%	1.3%	1.5%	0.6%	0.2%	0.2%
Alcoholic Beverages	—	—	8.6%	5.8%	5.0%	3.1%	2.4%
Tobacco Products	—	—	5.6%	4.7%	6.4%	3.7%	3.9%
Gasoline	—	26.8%	16.5%	17.9%	15.1%	12.7%	7.1%
Motor Vehicle	29.7%	23.6%	9.5%	12.0%	11.0%	6.9%	6.7%
Other	0.7%	0.2%	0.3%	0.4%	1.7%	2.9%	2.9%
<b>Total Tax Revenue</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

SOURCE: 1922-1962: Report of the Governor's Minnesota Tax Study Committee, 1962

1969: Minnesota State Tax Collections: Prepared by Minnesota Dept. of Taxation, Research & Planning Div.

1975: Minnesota State Tax Collections: Prepared by Minnesota Dept. of Revenue, Research & Planning Div.

## GENERAL REVENUE SOURCES OF STATE and LOCAL GOVERNMENTS IN MINNESOTA

FISCAL 1960, 1967 and 1974

SOURCE	1960 million dollars	1967 million dollars	1974 million dollars
<b>All sources:</b>			
From Federal Government	143.4	314.3	820.9
From Own Sources	926.6	1,626.9	3,528.1
<b>TOTAL</b>	<b>1,070.0</b>	<b>1,941.2</b>	<b>4,349.0</b>
<b>STATE and LOCAL SOURCES</b>			
Taxes	743.4	1,278.8	2,725.6
Charges & Misc.	183.2	348.2	802.4
	926.6	1,626.9	3,528.1



## CRITERIA

What makes a tax good or bad, fair or unfair? How can we judge the effects of a widely diversified tax system, such as we have in Minnesota, on individuals — on people? Are taxes a burden on the majority of people? On a minority? Are the people getting their "money's worth"?

Over the years, various criteria, or standards of testing, have been applied to individual taxes as well as to the total tax system. Beginning with Adam Smith's statement that a tax should be "simple, certain and convenient," and his expansion of these objectives in his 1776 "canons of taxation" from *The Wealth of Nations*, criteria for evaluating taxes have been expanded and refined. Some are useful for individual taxpayers in evaluating taxes, others are important to government.

Whether a tax is *equitable*, or fair, is probably the most important criterion. It is most important to the people, and it is also important to government, inasmuch as elected officials try to please their constituencies. The concept of equity assumes that a tax should affect people in similar economic situations the same, and includes such guidelines as ability to pay, benefits received, and widespread participation in paying the tax. Equity is probably the most difficult quality to measure.

In using *ability to pay* as a criterion for evaluating the equity of a tax, we need to know three definitions: 1) A tax is *progressive* when it takes a bigger percentage of a large income than a small one (state and federal income taxes are generally *progressive* taxes). 2) A tax is *proportional* if it takes the same percentage from everybody. 3) A tax is *regressive* if it takes a bigger percentage of a small income than a large one (a general sales tax with no exemptions is *regressive*).

If we use *benefits received* as a measurement of equity, we are asking whether people who benefit from a government program should pay for it. This was a fairly workable idea in the days when government was primarily concerned with serving the property owners who paid most of the taxes. Today, however, a great deal of government money is spent on welfare and education, and those who benefit can hardly be taxed to pay the costs of these programs. Current examples of application of the benefits received principle find government using excise taxes on motor fuels to pay for highways, selling game and fish licenses to help finance the state's Department of Natural Resources, and charging tuition at state universities.

Philosophically, the criterion of *widespread participation*, which requires a broad segment of the population to pay a tax, assumes that people's interest in and awareness of government increases with the level of taxes they pay, and considers this a good thing. However, the Minnesota 4% retail sales tax, while allowing for widespread participation and therefore by definition being equitable, is also regressive, because it takes a larger proportion of income from the poor, who spend all their income and do not have any surplus, such as wealthier people do, for savings, investment, charity, and so on. Minnesota has tried

to make its sales tax less regressive by exempting food and clothing and prescription drugs.

So far, we've been talking about people-oriented criteria. The government also has criteria for evaluating taxes. An important one is the concept of revenue yield, which includes such factors as *adequacy, productivity, reliability, stability, flexibility* and *elasticity*. The Minnesota income tax, for example, takes all these factors into consideration. It is adequate and productive, because it provides enough revenue to pay for the needs for which it was adopted. It is reliable and stable, because it gives government a predictable source of revenue and gives people some certainty of the amounts they are expected to pay. Yet it is also flexible and elastic, because it is a progressive tax, and thus mirrors changing economic conditions. As incomes rise, the total tax yield increases more than total taxable income, because more people move into higher income brackets, which are taxed at higher rates. This flexibility makes the government happy, and it's also good for the taxpayer, because it imposes a lower tax rate when incomes drop. In times of inflation, however, the taxpayers whose incomes rise only to keep pace with inflation will find themselves in a higher income bracket, and their real income will be reduced.

It is also important that people who pay taxes and people who collect them are able to understand and easily obey the tax laws. If a tax is administered equitably, efficiently and economically by the government, and if it is easy, convenient, and predictable for the taxpayer, everybody will benefit. Economical, efficient tax-collecting leaves more funds to provide public services for people; a tax which is simple (easily understood by people) and convenient (easily paid) enables government to enforce compliance with the tax law and reduce tax evasion. Withholding taxes on wages and salaries, and collecting retail sales tax at time of purchase, are examples of making taxes convenient for people to pay, although the items exempted from the sales tax to make it less regressive have confused some and made it harder for retailers to compute and pay their sales taxes. A similar complication may arise from the 1975 Income-Adjusted Homestead Credit, which was first applied in 1976. It was designed to make the property tax less regressive by considering each property owner's income, but property owners and even tax experts have found it extremely complicated to compute, and administrative and compliance costs may be unjustifiably high in relation to the benefits of adding this "ability to pay" factor to the property tax.

Attention to the whole picture also should include an understanding of a comparatively new development — government manipulation of general economic conditions through taxing, spending and borrowing. The old assumption was that a tax should be "economically neutral", should not work to the hardship or advantage of any specific group in the community. Today, some taxes are

levied precisely because they are not economically neutral, because they influence individual or business behavior. Revenue policy is used primarily at the federal level to affect economic growth, distribution of income, and use of resources. In Minnesota, the state gives income tax credits for pollution control devices. This is one way of using tax policy to influence business decisions.

A final important factor in determining the economic impact of a tax is its *incidence* — that is, who eventually pays it. The *impact* of a tax falls on the first person or business paying it. But if that person or business can shift the tax to someone else, it becomes an *indirect tax* whose *incidence*, or final resting place, is always on people, even though the original tax may have been on business or property. An example is the corporate income tax, which in the final analysis is paid by consumers in higher prices, workers in lower wages, or stockholders in smaller dividends. Another example is the shifting of property taxes to renters; this can be compensated for by giving tenants'

The following terms refer to both taxation and expenditures in public financing and will be used in all four "Facts and Issues." They will not be fully defined each time they are used in the texts. Most of the terms are used universally in the field of public finance; those referring only to Minnesota are so indicated.

**ability to pay:** the principle that a tax should be levied on individual taxpayers in accordance with their ability to pay, rather than in proportion to benefits they receive or how much it costs the state for services rendered.

**apportioned tax:** a tax collected by one political unit but distributed among several.

**assessment:** (1) a value placed on property for the purpose of taxing it; (2) amount exacted as a tax.

**assessed value:** in Minnesota, the actual market value of property is reduced by a specified percentage set by the government; the resulting "assessed value" is the valuation used in computing taxes on the property.

**benefits-received principle of taxation:** the principle that taxpayers should pay taxes in proportion to the benefits they receive.

**capital outlay expenditure:** direct expense of construction and/or purchase of equipment, land, and buildings used to produce income.

**circuit-breaker:** in Minnesota, refers to the income-adjusted homestead credit — a property tax credit based on income and amount of property taxes paid.

rent credits, either as an income tax credit or refund, or as a cash payment.

When applying criteria to taxes, it is important to remember that some criteria are compatible, some are direct opposites. No tax can meet all criteria. *Who* does the evaluating is also important, for personal values and self-interest can influence the relative importance of criteria to different people. Taxes also must be evaluated in the context of the total tax and expenditure structure, which includes federal, state, and local taxes, both direct and indirect. And still another factor making application of criteria difficult is that a multi-tax system like Minnesota's dilutes the inequities of any one tax, since the inequities of each tax may fall on a different group. It also may make for lower tax rates in some areas, since there are so many different sources of tax revenue.

In the pamphlet describing specific taxes in Minnesota, appropriate criteria will be applied to each tax in an effort to help the reader evaluate them.

## GLOSSARY

**classified property tax:** a tax system in which property is classified according to its nature and purpose, so that different tax rates can be applied against each class; some classes may be exempted from taxation.

**compensatory principle of taxation:** see benefits-received, above.

**consumption tax:** a tax levied on some phase of the production or distribution of goods and services, and sometimes applied to customs duties; see excise tax, below.

**current operation expenditure:** money spent for wages and salaries, and for supplies, materials and contractual services, excepting capital outlay.

**delinquent tax:** a tax that remains unpaid after the date due.

**discriminatory taxation:** (1) taxation designed to favor certain industries; (2) any tax exemption or allowance which seems to favor one taxpayer at the expense of another; (3) regressive taxes which put a heavier burden on low-income persons than on high-income persons.

**EARC ratio:** in Minnesota, the percentage relationship between the assessor's market value and the state-determined market value of property.

**EARC values:** in Minnesota, actual market value of a tax district's property as determined by the Equalization Aid Review Committee (EARC); made by comparing selling price of properties with the market values at which the properties were assessed.



**equalization:** adjustment of locally-determined market values in each assessment district, such as county, so that the valuations in each district represent the same percentage of actual market value.

**estate tax:** tax levied on estate of a deceased person before the estate is divided among the heirs.

**excise tax:** a selective sales tax; see consumption tax, above.

**expenditure:** money paid out by government, excepting debt payments, investments, loans, and transactions between government agencies.

**foundation aids:** in Minnesota, state aids provided to school districts on the basis of pupil units; supplements local property taxes.

**franchise tax:** tax levied on some special privilege extended by government to a private enterprise.

**general expenditure:** all government expenditures except those necessary to operate public utilities, liquor stores, and insurance trust funds.

**general revenue:** all revenue of a government except revenue from operation of public utilities, liquor stores, and insurance trust funds.

**general revenue sharing:** money received by state and local governments from the federal government under the State and Local Fiscal Assistance Act of 1972.

**gift tax:** a tax imposed on property transferred from one person to another as a gift.

**hidden tax:** an indirect tax which is part of the price of goods and services; the taxpayer doesn't know he or she is paying it.

**homestead:** in Minnesota, a residence occupied by its owner; a property owner may have only one homestead.

**incidence of taxation:** who really pays a tax irrespective of how or against whom it is levied (for example, a sales tax is almost always paid by the consumer although the seller is the one formally taxed; thus the incidence is on the consumer).

**income tax:** federal, state or local tax on corporate or individual income, which includes wages, rents, interest, dividends, royalties, profits, commissions, etc.

**indirect tax:** a tax which can be easily passed on to someone else by the person required to pay the tax; see incidence of taxation, above.

**inheritance tax:** tax paid by an individual who receives property from the estate of a deceased person.

**intergovernmental expenditure:** payments from one unit of government to another as grants-in-aid, shared revenue, payments in lieu of taxes, or reimbursements for services.

**joint return:** for tax purposes, combined report of income of husband and wife.

**levy limits:** amount local governments are permitted to levy against their property tax base for certain services.

**license tax:** see occupation tax.

**limited market value:** in Minnesota, properties reassessed at more than 10% above former value, or 1/4th of the increase in valuation, must be increased in increments; the old value plus the incremental increase constitute the limited market value, which is then used for computing the tax on the property.

**local government aids:** in Minnesota, state aids to counties, cities, towns and special taxing districts, based on population, mill rate and sales ratio.

**luxury tax:** a tax imposed on articles not considered essential to a normal standard of living.

**market value:** what the assessor says a property is worth, and supposedly what the property would be worth if it were sold; however, market value varies in Minnesota sometimes 20-30% from actual value.

**mill:** a unit of value used to determine taxes on Minnesota property and payrolls; if one mill is levied by local government, the taxpayer pays \$1 on every \$1,000 of assessed value, a two mill levy would mean \$2 on every \$1,000, etc.

**miscellaneous general revenue:** money government receives from charges for public services, special assessments against property owners, interest earnings (excluding interest earned on insurance trust funds), and any other money taken in except taxes and intergovernmental revenue.

**occupation tax:** (1) fee charged for license issued by the government for certain occupations and professions; (2) generally, a tax levied on a particular occupation or profession, also known as a privilege tax or a license fee.

**payroll tax:** tax levied against an employer, based on wages and salaries he pays to his employees.

**personal property tax:** see property tax.

**privilege tax:** see occupation tax.

**proceeds:** money a tax yields after collection costs are deducted.

**progressive taxation:** a tax which takes a larger percentage of income as income increases.

**property tax:** a tax levied on any kind of property, including land and buildings (real property) and stocks and bonds or home furnishings (personal property).

**proportional taxation:** a tax which takes the same percentage of income from all income levels.

**public revenue:** government income from taxes and all other sources.

**real estate tax:** see property tax.

**regressive taxation:** a tax system which takes a larger percentage of low income than of higher income.

**revenue:** all money received by a government, except that received from borrowing, liquidation of investments, and agency and private trust transactions.

**sales ratio:** in Minnesota, the comparison between the assessor's estimated market value and the actual selling price of property as determined by the EARC.

**sales tax:** tax levied on sale of goods and services.

**severance tax:** tax levied on value of natural resources taken from land or water.

**shifting of taxation:** see incidence.

**special aids:** in Minnesota, school aids for specific purposes such as transportation, education of the handicapped, etc.; see foundation aids.

**special levies:** in Minnesota, levies which are not covered by the levy limitation law, principally welfare and bonded debt levies.

**surtax:** (1) an extra tax on an amount which has already been taxed; (2) additional tax calculated as a percentage of a tax already levied.

## Statewide Survey Results

In March, 1976, members of 52 Leagues of Women Voters conducted a statewide telephone survey on people's attitudes and knowledge of government financing in Minnesota. 244 people, chosen by random sample, were surveyed. The questions and responses are shown here. Although 244 people were surveyed, totals may be different since not all people answered all questions.

1. *Of the three major taxes in Minnesota, the individual income tax, the property tax, and the sales tax, which do you feel is the most fair?* individual income - 74, property - 31, sales - 125  
*Which do you feel is the least fair?* individual income - 84, property - 101, sales - 40
2. *Of all the taxes collected by state and local governments, do you happen to know which raises the most money?* individual income - 87, property - 36, sales - 28, not sure - 86
3. *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 money's worth?* yes - 108, no - 92, uncertain - 42
4. *Do you happen to know on which of the following items you pay a sales tax?* food - 17, automobiles - 205, drugs and medicines - 41, household appliances - 203, fur coats - 150

**tax base:** a unit of value, privilege or object used as a base for calculating a tax to be levied; it may be property, income, an estate, a corporate franchise, an occupation, or the volume, number, quality, or other characteristic of certain articles. To this the rates are applied: base times rate equals tax.

**tax exempt:** persons, property, or goods not subject to taxation.

**tax limit:** constitutional or legislative limitation on kind of tax and maximum rate.

**tax revenue:** all revenue a government gets from taxes it imposes, including interest and penalties.

**tax sharing:** a tax levied and collected by one jurisdiction and shared with others; see general revenue sharing.

**use tax:** tax designed to reach taxable persons who have not paid the sales tax.

**value added tax:** a tax on all levels of manufacturing, processing and distribution based on the amount each operation adds to the price.

5. *Many people feel the income tax forms are too complicated, too hard to understand and fill out; do you pay someone to help you fill out your income tax forms?* yes - 150, no - 67, not sure - 5
6. *Do you know whether any of your state income tax moneys are used to help run your local city or county government?* yes - 146, no - 30, not sure - 65
7. *Do businesses in MN pay more of the total income tax than individuals?* yes - 62, no - 106, not sure - 73
8. *Does state government levy general property taxes?* yes - 68, no - 101, not sure - 73
9. *By state law, assessors are required to assess property at its full market value. How do you feel most property in your community is assessed in relation to its actual market value?* higher - 51, lower - 88, about the same - 60, no opinion - 41
10. *If the assessment of a piece of property is raised, will the tax on that property automatically be raised?* yes - 146, no - 20, not necessarily - 45, not sure - 30
11. *Do you happen to know, on the average, what portion of the local property tax goes to finance local schools?* 1/4 - 42, 1/2 - 58, 3/4 - 25, not sure - 117
12. *Of all the money that will be spent on public assistance (welfare) programs in MN, do you happen to know how much comes from local tax sources?* 8% - 34, 29% - 50, 57% - 22, not sure - 133

13. *Do the taxes you pay have an influence on who you vote for?* yes - 80, no - 148, not sure - 14
14. *Are there any government services you'd like to see improved even if it would mean increasing taxes?* "nothing" or "none" was mentioned most (66 times); others mentioned often were: local law enforcement, health and hospitals, education, highway building and maintenance; other answers mentioned at least once covered the entire scope of governmental services.

*Are there any services you'd like to see cut back?* "nothing" or "none" mentioned 65 times; welfare and highways were also mentioned (although many welfare responses were categorized as welfare "reform"); many of the responses referred to administrative costs or bureaucratic excesses in many different areas of governmental services.

#### Correct Answers:

2. *Property taxes 31.8%*  
*Individual income tax 25.6%*  
*Sales and use taxes 13.8%*  
*Corporate income tax 6.2%* All 1975  
estimated figures from  
MN Dept. of Revenue
4. *yes — household appliances, fur coats (usually) although automobiles are exempt from the MN Sales Tax, they are subject to a 4% motor vehicle tax.*
6. *yes — state supplements local government revenues from the property tax via local government aids (aids to counties, municipalities, townships, special districts, and aids to school districts).*
7. *no — of total income taxes collected in 1973, 16.5% came from corporation tax.*
8. *no — local governments levy property taxes; counties collect and administer them.*
10. *not necessarily — the amount of tax is determined by the mill rates of the government units in the county. If all assessments were raised equally, the mill rate could be lowered and taxes remain the same.*
11. *1/2 — statewide average is 54%.*
12. *8% — the major portion comes from federal sources.*

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# FACTS and ISSUES FINANCING STATE GOVERNMENT

League of Women Voters of Minnesota

October 1976

## *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-

## 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

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.

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,

## 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

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.

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 ½ 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. Un-refunded 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 revenues from aviation and special fuels are credited to the aviation fuel tax fund.

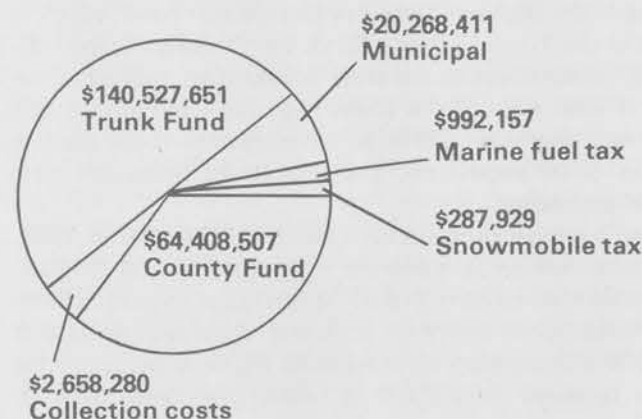
#### Motor Vehicle Licenses (Registration Tax for License Plates)

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 was \$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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# Good News About Taxes

Whether Ford or Carter wins,  
the years of runaway tax increases  
are probably over for now.

by Jeremy Main

When you add up all your taxes—and they do add up—they become the largest and fastest growing part of your budget. The tables at the right show some typical family tax bills, in various parts of the country and at various income levels. They include only taxes the families pay directly. If it were possible to apportion indirect taxes, such as the corporate tax built into the price of a new TV set, the total would be higher. All told, we now spend more than \$1 of every \$3 we earn in taxes, direct and indirect, federal, state and local.

Between 1953 and 1975, the average American family income grew from \$5,000 to \$14,000; the portion spent on taxes nearly doubled from 11.8% to 22.7%. (Even so, real after-tax income—allowing for inflation—rose about 60% during those years.) Social Security taxes rose from 1.1% to 5.9% of average family income, property taxes from 2.2% to 4%, state and local income taxes from .3% to 1.9% and sales taxes from .6% to 1.3%. Federal income tax, which grew from 7.6% to 9.6%, was—and still is—the biggest single tax, but it grew less proportionately than any of the others.

The burden of higher taxes has not fallen on everyone equally. Taxes for people with the same incomes can be very different depending on where they live. Rising taxes have hit lower- and middle-income Americans much harder than upper-income Americans. The taxes paid by individuals have grown more than the taxes paid by corporations.

## Not fatal yet

One of the innocent misconceptions about taxes is that most people can't pay any more. Another is that taxes just can't go any higher. Both have been proved wrong time and again. In the U.S., taxes had climbed by last year to 36% of the gross national product with results that have been merely painful, not fatal. In Denmark, the Netherlands, Norway and Sweden, taxes have already reached about 50% of the GNP. Perhaps that is the lethal level that will throttle the financial and even the intellectual life of these countries. Ingmar Bergman, the Swedish movie director, has had enough. Earlier this year he left his homeland, which he called "the best in the world," because he felt so harassed by tax collectors.

In the U.S., however, rather than rising inexorably, the level of taxes may be held about where it is now. For one thing, many Americans, from the presidential can-

## A tax tale of three cities

### \$14,000 annual income

TAXES	NEW YORK CITY	MADISON	DALLAS
Federal income	\$1,281	\$1,319	\$1,386
Social Security	819	819	819
State income	351	369	—
City income	117	—	—
Property	665	778	768
Sales	346	169	176
	(8%)	(4%)	(5%)
Gasoline	85	78	64
Cigarette	113	88	97
Motor vehicle	32	18	22
Unemployment	31	—	—
Telephone, utilities	18	11	30
<b>TOTAL</b>	<b>\$3,858</b>	<b>\$3,649</b>	<b>\$3,362</b>

### \$30,000 annual income

TAXES	NEW YORK CITY	MADISON	DALLAS
Federal income	\$4,371	\$4,610	\$5,106
Social Security	1,357	1,357	1,357
State income	1,773	1,423	—
City income	452	—	—
Property	1,246	1,460	1,440
Sales	508	253	260
Gasoline	114	104	85
Cigarette	113	88	97
Motor vehicle	51	36	34
Unemployment	31	—	—
Telephone, utilities	22	13	36
<b>TOTAL</b>	<b>\$10,038</b>	<b>\$9,344</b>	<b>\$8,415</b>

### \$50,000 annual income

TAXES	NEW YORK CITY	MADISON	DALLAS
Federal income	\$9,246	\$10,002	\$11,598
Social Security	1,650	1,650	1,650
State income	4,359	3,286	—
City income	1,002	—	—
Property	1,781	2,085	2,058
Sales	678	337	347
Gasoline	140	128	105
Cigarette	113	88	97
Motor vehicle	62	36	42
Unemployment	31	—	—
Telephone, utilities	25	16	42
<b>TOTAL</b>	<b>\$19,087</b>	<b>\$17,628</b>	<b>\$15,939</b>

To a great extent, your tax burden depends on your locale. Depressingly, the place in our tables with the highest living costs—New York—leaves our three representative families with the least after-tax income to live on. Each hypothetical couple above has two jobs, two children and owns a house. The \$14,000-a-year couple has a \$28,000 house, the \$30,000 couple a \$52,500 house, and the \$50,000 couple a \$75,000 house. We made other uniform assumptions—each couple smokes a pack a day, for instance. In real life the taxes could vary considerably. Tax assessment of property in New York City, for example, is notoriously inconsistent; the New York property taxes might be much more—or less—than our estimates. The New York and Wisconsin families pay less federal income tax than the Texans because they deduct state and local income taxes on their federal returns.



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EXCERPTS FROM IT'S YOUR BUSINESS

Financing State Government

Minnesota is not the only state which has seen a dramatic increase in state expenditures in the past few years. This is true throughout the country and has been reflected in rising taxes. The processes involved in this cycle of rising revenues and expenditures are discussed by L. Laszlo Ecker-Racz, noted economist and expert in public finance, in his book, *IT'S YOUR BUSINESS: LOCAL AND STATE FINANCE*. He directs his comments to you, the citizen and voter. The following ideas are taken from his book:

Continued economic growth is as critical to government's ability to provide services as it is to improvement in living standards. The economic growth, both real and inflationary, has provided a source of new revenue without disturbing the established uses of money, both in public areas as well as private. When increased revenue from economic growth is available, the cost of new and better programs doesn't overburden the taxpayer.

The increase in demand for governmental services comes from several factors: (1) Population is increasing presently at the rate of two million people a year—people move about more and concentrate in urban areas where more costly services are required. (2) Services are increasing in number and scope: *education*—more children go to school at an earlier age and for more years which has tripled educational costs in the last ten years; *social services*—care of needy neighbors, the elderly, and the sick, formerly family and community responsibilities, have become increasingly government responsibilities; *recreation, personal safety, environmental control* are among programs not considered as general governmental responsibilities several years ago. (3) New programs are increasing while old programs expand. Politically, new programs catch the public's fancy. At the same time old programs continue to grow with the population using the services. Retreat from programs is never as popular politically as the new programs. More skillful lobbying for particular causes increases programs. Federal grants with matching provisions also push the activity of state and local governments ahead. (4) Costs are rising. Personal service is a large part of government budgets. Costs for these services cannot be absorbed through increased production or a higher selling price. Wages and salaries of public employees, helped by union activity, have caught up with those in private industry. (5) Economic fluctuations elevate governmental expenditures. In recessions social costs rise, then taxes rise. When the economy improves, tax revenue does also; and expenditures tend to rise to the level of revenue.

A growing economy can provide the revenue to support increased expenditures if the tax base is responsive to the economic changes. But when there is a recession tax revenues shrink, and the gap between resources and needs widens. When this gap reaches a politically unacceptable level, the state or local government is faced with the politically unpopular decision of cutting services or increasing taxes.

Ecker-Racz mentions some factors about the structure of our government and some of our basic concepts that bear upon government finance. He says our tenacious attachment to decentralized decision-making is at odds with the growing centralization in the economy and with the increasing interdependence of one area with another. This interdependence extends to the world at large. Economic life, once based on the small community, is now national and international. Education, unemployment, poverty, and environment are of concern to a much wider area—the nation—than they were formerly.

The reliance on the property tax, appropriate when most wealth was in property (real estate), now has serious problems: there are other major sources of wealth; the problems of equitable assessment have not been solved; uneven distribution of taxable property and a community's revenue-raising abilities lead to an inequity among political divisions; competition among cities for new business may increase this inequity, and it also tends to lead governments to use less than the full potential of its tax base.

Ecker-Racz also points out the difficulties of long range planning, an absolute essential to sound government finance. Politicians make the financial decisions, but political life, by its definition, is a short range business. Accountability to the citizens every two to four years means that short range goals are politically appealing. A politician to stay alive, has to deliver. And projects accomplished in a term say more to the general voter than projected plans over ten or twenty years. Despite these difficulties Ecker-Racz believes our governmental system does deliver and that it is a far more responsive institution today than ten or twenty years ago.

Financing State Government Committee

The following poem was written by Sharon Dlugosh, New Brighton LWV, and printed in their bulletin:

"Let's study about tax!  
Tax your property and your fun  
Tax most anything under the sun  
Plow your streets  
Tax your treats  
Build your schools  
Swim in your pools  
Buy your clothes  
No - don't tax those  
If you want to smoke  
Be taxed till you choke  
Pay the teachers, keep parks clear  
Want to drink? We'll tax your beer  
Build a hospital, treat the poor  
We'll tax your income, that's for sure!  
Care for the aged, handicapped too  
Build a civic center and a zoo  
Get rid of the waste  
Produce water fit to taste  
Catch the dogs  
And spray the bogs  
Protect us from fire  
Find policemen to hire  
What is equitable?  
What is effective?  
How can we make possible  
A tax structure that is objective?  
Well look for us  
(The Financing State Government Committee)  
We plan to make a fuss  
In the VOTER monthly  
So for all of our sakes  
Don't be lax  
Let's study  
About tax!

Financing State Government  
DISCUSSION QUESTIONS ON MINNESOTA TAXES

These are general discussion questions for use in unit meetings on Minnesota taxation. While they are not consensus questions, we would appreciate a general account of responses from those local Leagues using them.

1. One of the League of Women Voters Principles states: "That government should maintain an equitable and flexible system of taxation." In your opinion, what elements are necessary for an "equitable" tax system?

- progressivity (ability to pay)
- benefits received
- widespread participation

Which of the major taxes used in Minnesota best reflects each of these elements?  
Which of these elements is most important to you?

2. Government is concerned with a tax system which will provide:

- adequate yield
- reliability
- stability
- flexibility
- elasticity

How would you rank these criteria in order of importance?

3. One of Adam Smith's basic tenets for taxation was that a tax be certain, simple and convenient.

How important are these criteria to you?

Do you see a conflict between these and the elements of an "equitable" tax system? (e.g., the addition of the circuit-breaker to the property tax)  
How could these conflicts be resolved?

4. The present LWVMN position in support of property tax reform states:  
"The LWVMN supports property tax reform through equitable assessments, fewer classifications, and more restrictive criteria for determining exemptions.  
We also advocate less dependence on the property tax as a source of revenue."

Does this statement accurately reflect your views when considering the property tax as part of a multi-tax system?

Do you think the trend in Minnesota toward less reliance on the property tax has reached a "holding point," or would you like to see it continued/expanded?

M TO: FSG Committee

E FROM: Karen Anderson, Chairperson

M SUBJECT Discussion Questions on Taxation

**LEAGUE OF WOMEN VOTERS OF MINNESOTA**

555 WABASHA

ST. PAUL, MINNESOTA 55102

PHONE: 224-5445

O DATE November 9, 1976

Enclosed are sample discussion questions for those local Leagues having unit meetings on taxes in December. I'd appreciate your suggestions/comments on them by mail or phone by November 15th. I'll be in the state office from 9:30 to 12:00 on the 15th if you'd like to call me then. Thanks.



Financing State Government  
Discussion Questions on MN Taxes

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H. B.



LEAGUE OF WOMEN VOTERS OF MINNESOTA

555 WABASHA • ST. PAUL, MINNESOTA 55102

PHONE: (612) 224-5445

MEMO

TO: FSG Committee

FROM: Karen Anderson

SUBJECT: Committee Meeting, Wednesday,  
January 19, 1977, 12:30 - State Office

DATE: January 11, 1977

Agenda:

- 12:30 - Consensus Discussion - Sally Sawyer, Minneapolis LWV, will help us work/word consensus questions - rough outline enclosed.
- 1:45 - Committee Guide Discussion - attempt to complete outline today.
- 2:30 - Adjourn.

Enclosed:

Minutes of January 5 committee meeting

FSG section, January Board Memo, for your information; note Minneapolis TRIBUNE articles.

Rough Outline - consensus questions

LWVMN 1/10/77

FINANCING STATE GOVERNMENT

Committee Minutes - 1/5/77

Meeting was called to order at 12:30 p.m.

Present: Anderson, Gilder Namie, Buffington, Hasbargen and McGuire.

Reviewed publication schedule for FSG Facts and Issues #3 and #4. In order to meet March 1 deadline, we're asking state board to combine on-board and off-board reading time. Schedule as it now stands:

- Jan. 14 - returned from editor, Rhoda Lewin. Individual sections will be sent to each writer for re-writes.
- Jan. 19 - FSG committee meeting, 12:30 p.m.; re-writes due
- Jan. 21 - mailed to on and off-board readers
- Jan 31 - returned from readers
- Feb. 2 - FSG committee meeting, 12:30; Pubs in final form; Anderson will do this between 1/31 and 2/2 via phone with writers; this meeting will also finalize consensus questions with aid of any local Leaguers who show up
- Feb 4 to 9 - Pubs to printer; this date depends on amount of re-writes and re-typing by office staff. Will give printer 3 weeks to complete.

Discussed off-board readers; decided on: Ted Miller, fiscal analyst with Senate Finance Comm. (Gilder will contact); Rep. Jerry Knickerbocker, on House Appropriations Comm. (Anderson will contact); Arley Waldo, U of M (Hasbargen will contact); and someone from MN Dept. of Finance (Anderson later got agreement of Fred Post, Director of Economic Analysis, Dept. of Finance).

Discussed content and form of consensus questions.

Agreed that questions should be few and general, and in the case of open-ended questions would have a number of specific responses. Questions will be in two sections -- those dealing with taxation and expenditures.

Taxation: Ranking of criteria in relation to specific taxes.

Source(s) of future revenue - if increase needed, which tax should provide it?

Present tax and education positions - in light of new knowledge, do you agree with this or does it change your attitude?

Expenditures: Ranking of priorities in state expenditures -- giving specific function areas to rank; considered idea of presenting this question as a "game" with chits to disburse among various areas. Kathy Gilder will explore possibilities.

State Fiscal Procedures - reaction to specific changes in budget-making and adoption procedures, such as zero-based budgeting, sunset laws, legislative review committee, other review committee.

Sally Sawyer, Mpls. LWV asst. to president, will be asked to help with consensus questions at Jan. 19th committee meeting.

Committee Guide discussion: ideas on what a committee guide should do:

- contain further information than what's in publications, information to help members respond to consensus
- point out information members already have which will help in making a decision on consensus
- give a unit meeting timetable, in minutes, for presentation and discussion; we may need to give two timetables, for those using only one unit meeting and those using two units.
- include visual aids; this may be attained with "game" question

Special inclusions -- why we need all the data in the 4 Facts and Issues;



Special inclusions -- why we need all the data in the 4 Facts and Issues; we don't address the issue of people's values as reflected in government financing, it's not possible with present available data; we need to know values and priorities of LWV members; have provided present data and background on taxation and expenditures to determine what's important to members.

LWV principle stating need for "adequate financing" of government and current state and CMAL positions calling for adequate funding in specific areas -- keeping these in mind when making decisions on expenditure priorities. List those positions affected by funding decisions.

Would like to devise committee guide outline on Jan. 19th, time permitting. Anderson will try to have something rough by then.

Meeting adjourned at 2:35.

K. Anderson

LWVMN 1/10/77

Jan Board Memo - FSG - Karen Anderson

The state LWV Financing State Government committee will be meeting Wednesday, Feb. 2, at 12:30 p.m. at the state office to discuss the final draft of the FSG consensus questions. All local leagues are invited to send someone to this meeting so that we may receive your input before the consensus. The committee is still planning to meet ~~the~~ the March 1 deadline for Facts and Issues #3 and #4 and also for the committee guide and consensus questions. WE have no firm funding as yet for the publications so we cannot speculate on prices. Watch for an order form in the next Board Memo.

"Big government: Can we regain control?" is a series of Minneapolis Tribune articles by staff writer Bernie Shellum which began in the Sunday, Jan. 9, 1977 edition. This is a superb series which directly addresses our FSG program. Please make every effort to read them and urge your members to do so too.

Last month the state PR staff sent out 317 press releases about the FSG tax publications (and copies of the pubs.) to weekly and daily newspapers throughout the state. We ~~ky~~ no longer subscribe to a clipping service, so if any of the newspapers in your area have had related articles, please send them to the state office.

FSG committee - Rough draft - consensus questions

Taxation

1. Which of the following criteria are most important to you in relation to each of the major taxes? Rank from 1 (least important) to 5 (most important) for each of the taxes listed

	Individual Income	Sales	Property	Other (specify)
Equity				
Ability to pay				
Progressive				
Proportional				
Benefits received				
Widespread participation				
Yield				
Adequate/productive				
Reliable/stable				
Flexible/elastic				
Simplicity				
easy to understand				
easy to pay				
easy to collect				
easy to administer				

2. In the event that the state should see a need for additional revenue, where would you prefer this revenue to come from?

	Qualifications	Other
<del>Individual income</del>		
sales	higher rates; fewer exemptions	
Individual income	Higher rates; more progressive rates; remove federal deductability	
property	remove levy limitations; reduce state aids	
other tax (es)		

- B. In the event that the state continues to have a substantial budget surplus, which tax would you prefer to be cut first?

Tax	Qualifications	Other
sales	lower rates; increased exemptions	
individual income	lower rates; tax refund; increased deductions; <i>built-in inflation factor</i>	
property	lower rates; increased state aid;	

3. The present LWVMN FSG position "supports property tax reform through equitable assessments, fewer classifications, and more restrictive criteria for determining exemptions. We also advocate less dependence on the property tax as a source of revenue." *(complete statement in committee guide)*

Do you support this position as it now stands? yes no partly

If not, what change(s) would you prefer?

Equitable assessments agree disagree (be specific)  
fewer classifications  
restrictive criteria for determining exemptions  
less dependence on property tax

- / B. The present LWVMN Education position ~~supports~~, in part, supports recognition of the proportion of property taxes used for municipal services, and partial financing by property tax to maintain local control?

Do you continue to support this position? yes no partly

If not, what change(s) would you prefer?



p. 2 rough draft consensus questions

3. B.

partial funding of local education by property tax to maintain local control.      Agree      Disagree (be specific)

#### Expenditures

1. Which of the following areas of state expenditure are most important to you? Rank each according to level of priority from 1 (least important) to 5 (most important).

Local education	Agriculture
Higher education	General state government
Transportation	governor and related agencies
Welfare	judicial
Health and hospitals	legislative
Corrections	public safety
Justice	public retirement benefits
Natural Resources	misc.
Land use	,aid to local governments
Energy	

(Kathy Gilder is working with this question for the 19th)

2. Which of the following state fiscal procedures would you like to see changed or investigated for possible change?

remain the same      investigated      changed (in what way)

budget preparation  
by departments

budget preparation by governor

committee procedures  
tax bills

appropriation bills  
legislative budget adoption

dept. of finance accounting  
and control procedures

other?

- suggestions for future changes
  - zero-base budgeting
  - sunset legislation
  - legislative budget review committee
  - involvement by more committees
  - set revenue limits prior to appropriating funds
  - set bonding limits
  - economic impact statements for all bills

Borg

# LEAGUE OF WOMEN VOTERS OF MINNESOTA

555 WABASHA • ST. PAUL, MINNESOTA 55102

PHONE: (612) 224-5445



## MEMO

TO: FSG Committee and Sally Sawyer

FROM: Karen Anderson

SUBJECT: Committee Meeting 2/2/77  
12:30 p.m., State Office

DATE: January 28, 1977

Agenda: Finalize consensus questions

Enclosed: Minutes from 1/19

Original consensus draft with inserted changes  
Consensus worksheet for 2/2 meeting

This is a drastically different version which came from an expansion of the original question #2. It attempts to include important parts of old 1, 3 and 4; will it work? Our mission: to incorporate old, new questions into something we can live with. Expenditure stimulation game can still be used as exercise for 1C and 2C.

Financing State Government - Committee Minutes of 1/19/77

Meeting was called to order at 12:40 p.m. Present: Anderson, McGuire, Buffington, Hasbargen, Gilder, Sawyer, Bloyer

Consensus discussion: Sally Sawyer brought Mpls. LWV consensus guidelines to be used in discussion. Kathy Gilder brought amplification of question 4.

Discussed each proposed question from work sheet. Noted suggestions for questions and also for committee guide in reference to each question.

Comments:

Should begin with clear statement to clarify intent and direction of consensus -- either on consensus sheet itself or in committee guide.

Question 1. Ranking Criteria. Basic question is: do we really need this question? If used, agreed to add specific yes/no response boxes in each category. Will be a very time-consuming question; will our results be usable except in limited circumstances? Delayed decision until Feb. 2 committee meeting. Committee guide -- would have to explain conflict of certain criteria, give examples ~~and~~ of ambiguous responses.

Question 2. A. where additional revenue should come from  
B. which taxes might be cut

General agreement with question as stated; it addresses specifics which are usable for action. Needs specific yes/no responses for each category. Committee Guide -- have references to FSG 1 and 2 for help in discussing.

Question 3. A. present FSG position  
B. present education position

Again a time-consuming question with limited usefulness. Does address the dilemma of what to do with old FSG position. Much discussion about education position -- what was the intent of original and might it confuse the issue to use it? Will leave until next meeting. Committee guide -- the entire position statement, amplification and history will have to be included; adequate information and background for each and pros and cons. Specifics are not covered in publications and would have to be covered here. For part B, would have to carefully explain what issue we are addressing.

Question 4. Expenditure Simulation Game

Much discussion: like game aspect; a valuable exercise for participants; use of specific numbers gives true group feelings. But does ~~not~~ Not address issue of priorities -- asks for weighting of each area, not value placed on each area. E.G. education certainly needs more dollars, but some may think judicial is more important. No agreement on how to solve dilemma.

Question 5. Fiscal Procedures

will include option for investigation or more information. This may give direction to committee rather than action position. Agreed that was all right. Committee guide -- contain references to FSG 3 and 4.

Anderson agreed to incorporate suggestions into work paper for next meeting, to be held Feb. 2, Wednesday, 12:30 at the state office.

LWVMN 1/28/77

FSG Consensus Question Worksheet for 2/2/77

Proposed new format for questions

1. In the event that the state should see a need for additional revenue, how would you prefer this revenue be obtained?

1. A. Increase taxation \_\_\_\_\_

Cut spending \_\_\_\_\_

A combination of these \_\_\_\_\_

*Proceed with all questions regardless of the answer given above.*

1. B. If taxation is increased to provide additional revenue, how would you prefer this be done? Through:

Sales Tax	yes _____	no _____
Higher rates	yes _____	no _____
Fewer exemptions	yes _____	no _____
Individual income tax	"	"
Higher rates		
Fewer exemptions		
More progressive rates		
Remove federal deductibility		
Corporate excise tax	yes _____	no _____
Higher % rate		
Progressive rate structure		
Property tax	yes _____	no _____
No levy limitations		
Reduce state aids		
Less exempt property		
Other tax(es) ; be specific		

---

1. C. If there is a decrease in state spending, how would you prefer these cuts be made?

Percentage cuts in all areas	yes _____	no _____
Decrease state aids to:		
counties	yes _____	no _____
cities	yes _____	no _____
local schools	yes _____	no _____
Decrease state spending	yes _____	no _____
Choose five categories from the following		
Higher education		
Transportation		
Welfare		
Health and hospitals		
Corrections		
Justice		
Natural resources		
Agriculture		
General state government		
Governor and related agencies		
Legislative		
Public safety		
Public retirement benefits		
Miscellaneous		
Other; be specific:		
Decrease spending in another way; be specific		

---



P. 2 consensus worksheet

2. In the event that the state should have a substantial budget surplus, what would you prefer to be done with the surplus?

- A. Decrease taxation \_\_\_\_\_  
 Increase spending \_\_\_\_\_  
 A combination of these \_\_\_\_\_

*Proceed with all question regardless of the answer given above*

2.B. If taxation is decreased, how would you prefer this be done? Through:

Sales tax	yes	no
lower rates		
more exemptions		
Abolish tax		
Individual income tax	yes	no
Lower rates		
Higher deductions		
More exemptions		
Simplification		
Tax refund		
Abolish tax		
Corporate Excise tax		
Lower % rate		
Abolish tax		
Property tax		
Increase state aids		
Abolish tax		
Other tax(es); be specific		

2.C. If state spending is increased, how would you prefer this be done?

Percentage increases in all areas                      yes      no

Increase state aids to:

- counties
- cities
- local school districts

Increase state spending

Choose five categories from the following  
 (list same as for question 1.c.)

3. Which of the following state fiscal procedures would you like to see changed or investigated for possible change?

	Remain the Same	Investigated	Changed (attach any specific suggestions)
Budget preparation			
by departments			
Budget preparation by Governor			
Committee procedures			
Tax bills			
Appropriation bills			
Legislative budget adoption			
Department of Finance accounting			
and control procedures			

3. B. Which of the following suggestions for future changes would you like to be adopted or investigated?

	Adopted	further information	not interested
Zero-based budgeting			
sunset legislation			
legislative budget review committee			

P. 3 consensus worksheet

3. B.

Involvement by more committees

set revenue limits prior to appropriating funds

set bonding limits

economic impact statements for all bills

other; be specific

H20212

LEAGUE OF WOMEN VOTERS OF MINNESOTA

TO: FSG Committee

555 WABASHA • ST. PAUL, MINNESOTA 55102

PHONE: (612) 224-5445

FROM: Karen Anderson

SUBJECT: Committee Meeting 2/16/77

DATE: February 4, 1977



MEMO

Please note next committee meeting, Wednesday, February 16, 12:30 p.m., state office. The agenda will be devoted to the committee guide.

Enclosed: Minutes of 2/2 committee meeting;  
FSG consensus questions as they are going to the Board 2/8 for approval.

If you have further comments on the questions, call me on Sunday or on Monday (after 4:00 p.m.).



LWVMN 2/4/77

Financing State Government

Committee minutes of 2/2/77 meeting

The meeting was called to order at 12:45. Present: Anderson, Bloyer, Buffington, Gilder, Hasbargen, McGuire, Hanson (N. Dak. Cty.), Kuehn (Arden Hills), Sawyer (Mpls.) and Berkwitz (Mpls.)

Brief discussion of publications #3 and 4. #3 will go to printer Monday morning (Feb. 7) and #4 by Wed. morning. Anderson will contact Buffington and Hasbargen over the weekend about final changes.

Committee guide: Anderson, McGuire and Alice Moorman (Mpls.) will try to meet before Feb. 16 to outline and begin writing. Committee meeting the 16th of Feb. will be devoted entirely to committee guide.

Balance of meeting was spent discussing final version of consensus questions for 2/8 board approval. Decided to use only two broad questions and not address old position at this time because it deals with the property tax, which is a local rather than state tax. Also decided to omit question on fiscal procedures; it can be put into committee guide for discussion and possible direction.

Adjourned 2:45 p.m.

Karen Anderson



# 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.

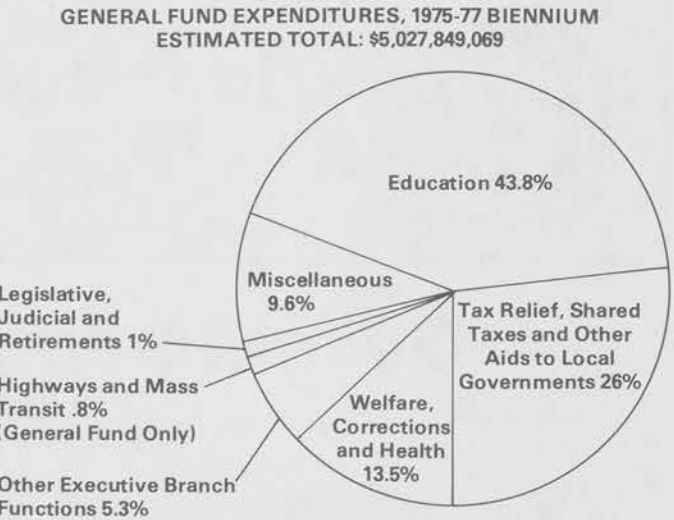
#### ***DIRECT GENERAL EXPENDITURE OF STATE AND LOCAL GOVERNMENTS IN MINNESOTA BY FUNCTION, BY LEVEL OF GOVERNMENT: 1974-75 (In Millions of Dollars)***

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

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.



### 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.

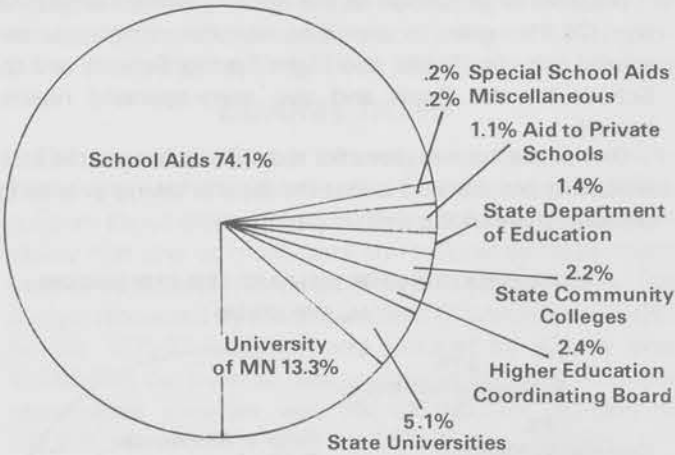
EDUCATION APPROPRIATIONS, SELECTED YEARS			
BIENNIUM	TOTAL STATE APPROPRIATION FOR EDUCATION	EDUCATION APPROPRIATIONS AS A PER CENT OF TOTAL STATE SPENDING	PERCENTAGE INCREASE
1959-61	\$ 335,576,572	63.6	
1961-63	404,502,803	63.5	20.5
1963-65	455,988,185	63.8	12.8
1965-67	546,816,570	54.3	20.0
1967-69	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

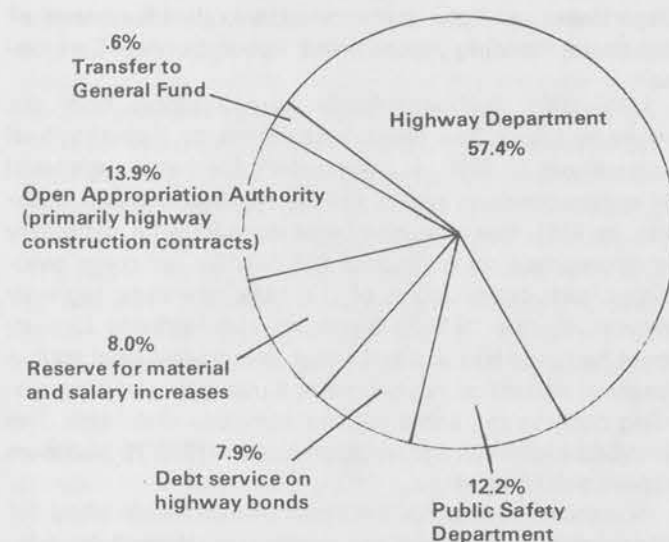


for highway dollars, and it was in 1976, when \$25,000,000 was transferred from the General Fund for bridge construction. There have also been single-purpose appropriations during the current biennium. \$28,100,000 was appropriated in 1975 to fund public transit, including a demonstration public transit 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.

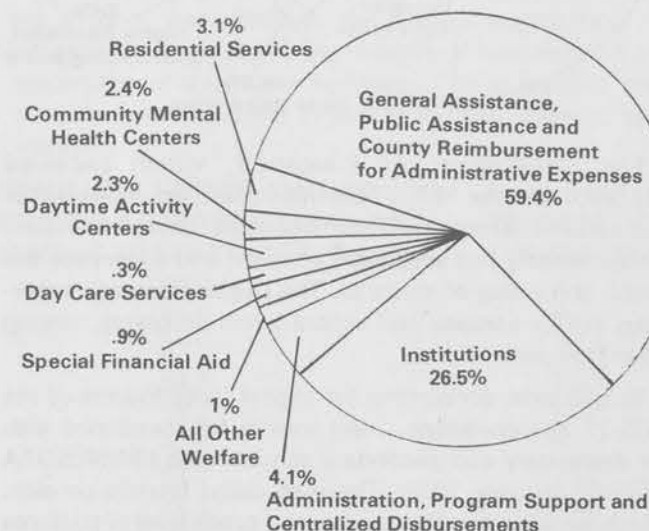
There are also two general assistance programs in operation. General Assistance Maintenance consists of cash payments to eligible poor persons who do not qualify for AFDC or SSI. This program is financed 50% from state funds and 50% from local funds. General Assistance Medical payments are made to medical 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

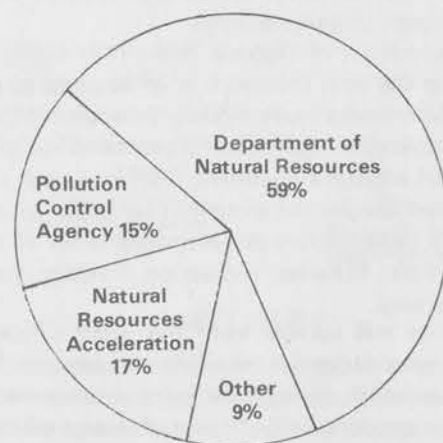


land. During the 1973-75 biennium, land transactions involved 12,065 acres valued at \$507,605. The Bureau of Information and Education plans, produces and distributes materials about Minnesota's natural resources and environment. The Soil and Water Board, an independent agency until 1971, when the Legislature 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

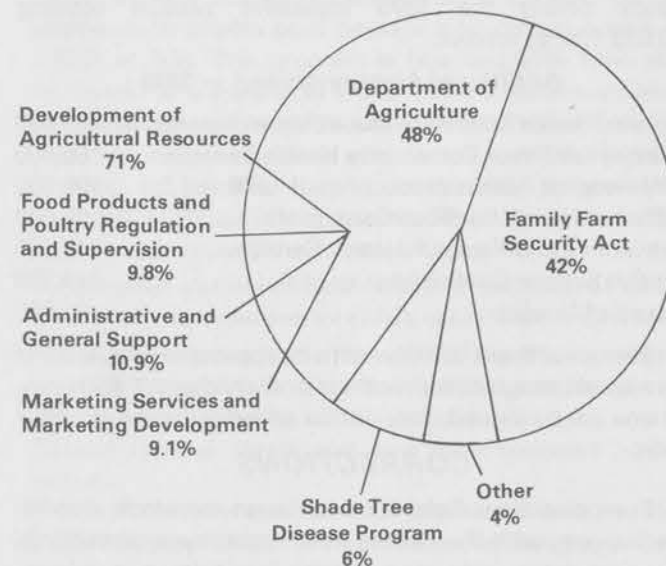
The Minnesota Department of Agriculture enforces laws which protect the public health and works to prevent fraud and deception in the manufacture and distribution of foods, animal feeds, fertilizers, pesticides, seed and other items. In addition to the regulatory powers assigned by law, the Commissioner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

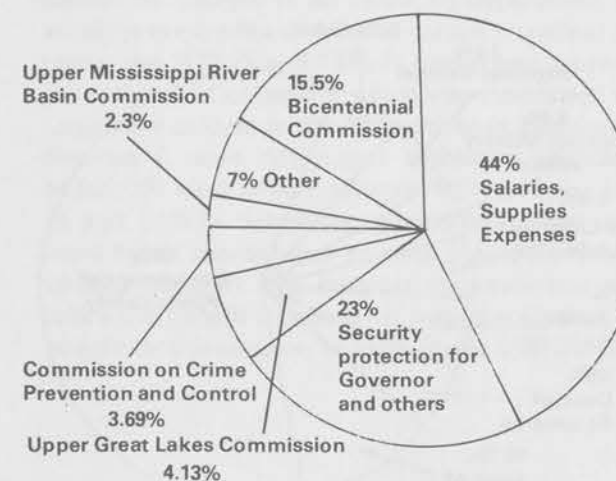


## GOVERNOR

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-

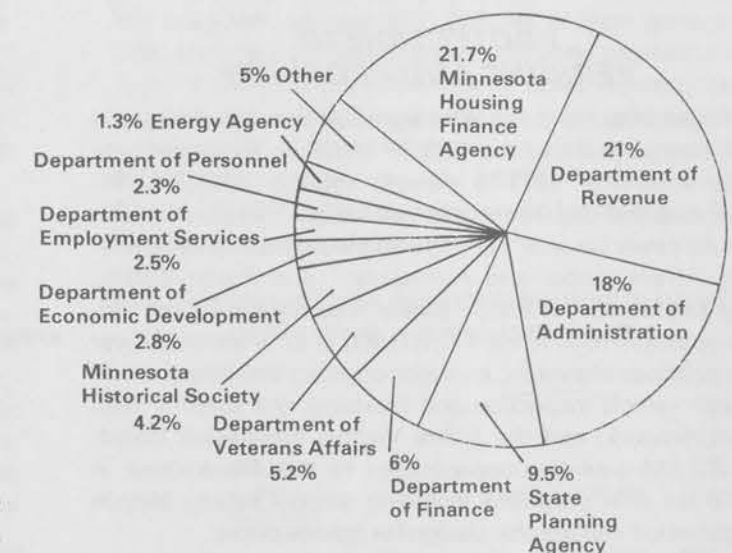
ments in government buildings. This Department also works to improve state programs and management of those programs and provides the general services and support services necessary for day-to-day operations of state government, such as procurement and purchasing of materials.

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

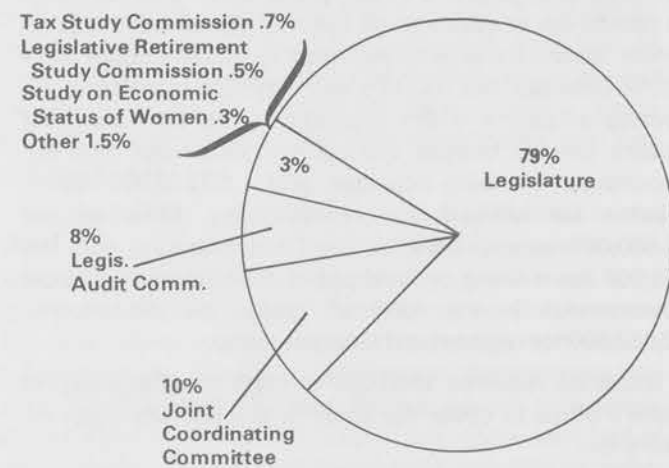
Appropriations to finance the Legislature increased 36% during the 1973-75 and 1975-77 bienniums, to \$26,808,462. This reflects increased salaries and the addition of new activities during the 1975 and 1976 sessions, including the Legislative Audit Commission and a study of the economic status of women.



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



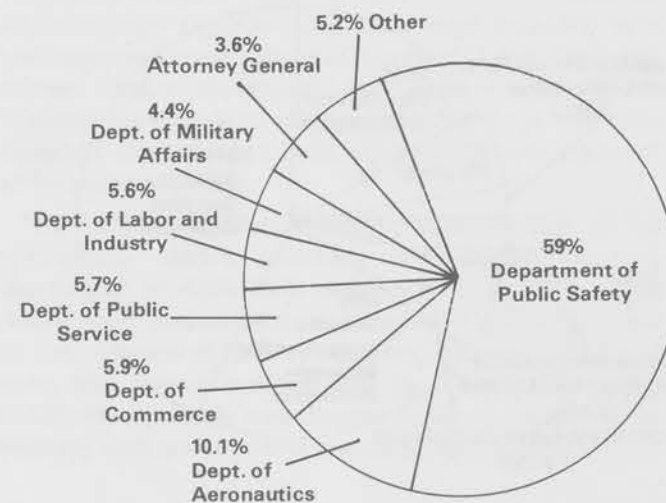
#### PROTECTION TO PERSONS AND PROPERTY

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

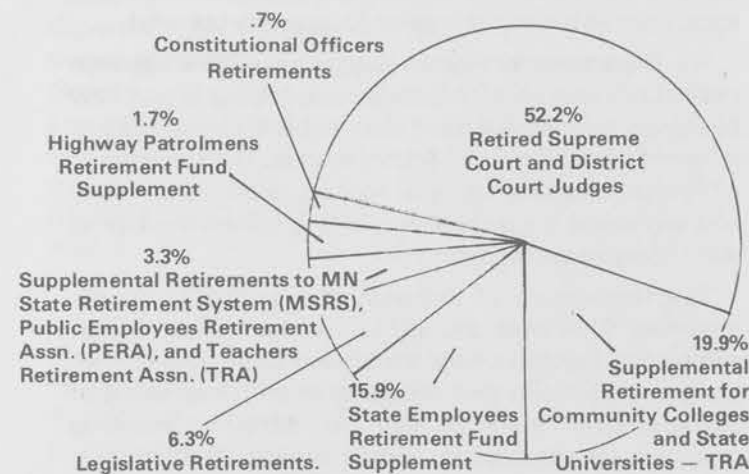


#### RETIREMENT

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.

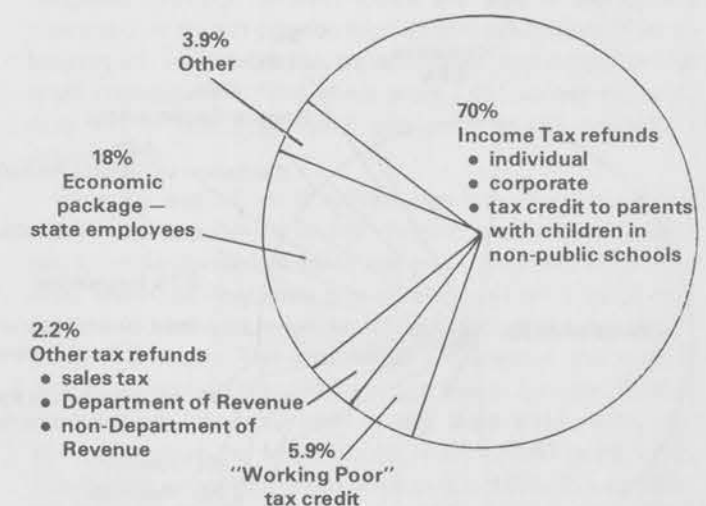
#### APPROPRIATIONS FOR RETIREMENT PROGRAMS AND PENSION FUNDS 1975-77 BIENNIUM TOTAL: \$13,918,436



#### 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

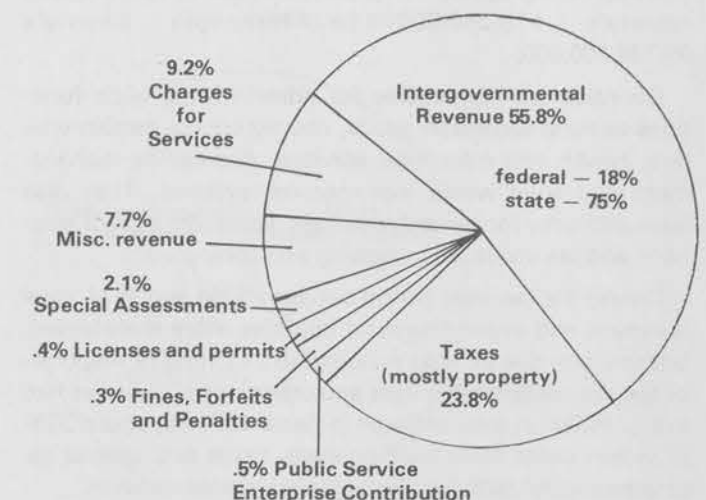
Minnesota had 3,388 local units of government in 1976, each an agent of the state and subject to varying degrees of control by the state. There are 87 counties, 855 cities, 1,798 townships, 436 school districts, and 211 miscellaneous special tax districts, such as the Metropolitan Council and the Mosquito 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.

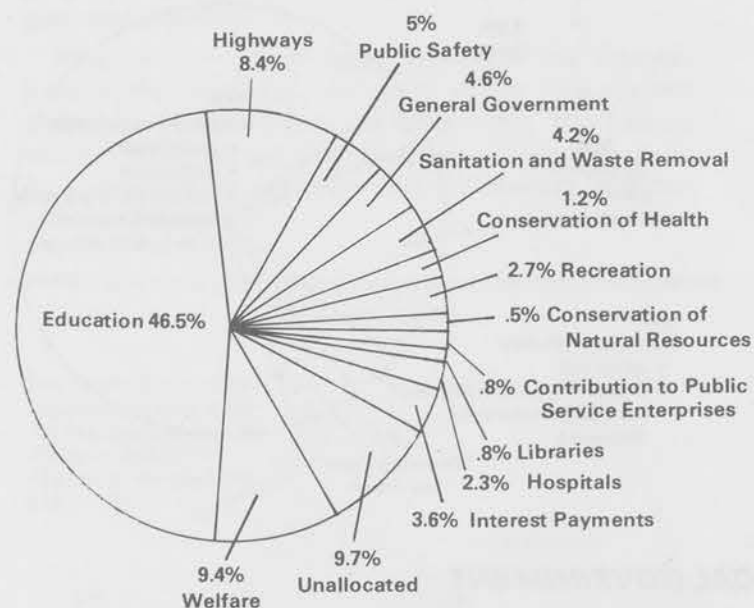
Another important piece of legislation in 1971 which changed the collection and distribution of tax monies was the local government aid law. This law, which has been amended several times, provides for regular quarterly payments to counties, cities, towns and special tax districts in accordance with 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.

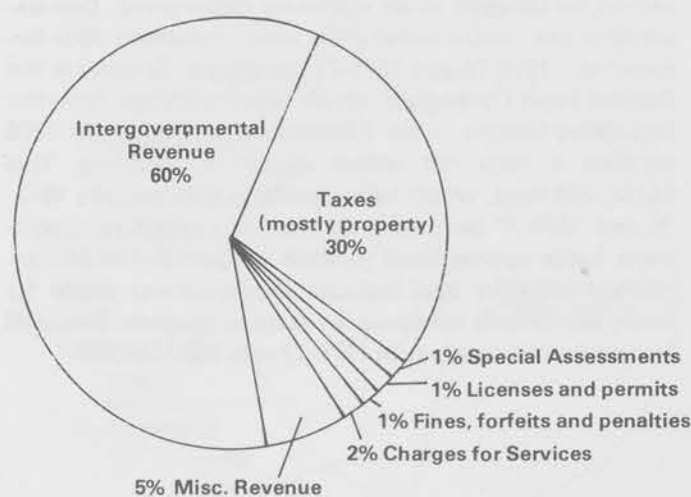
#### Counties

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.

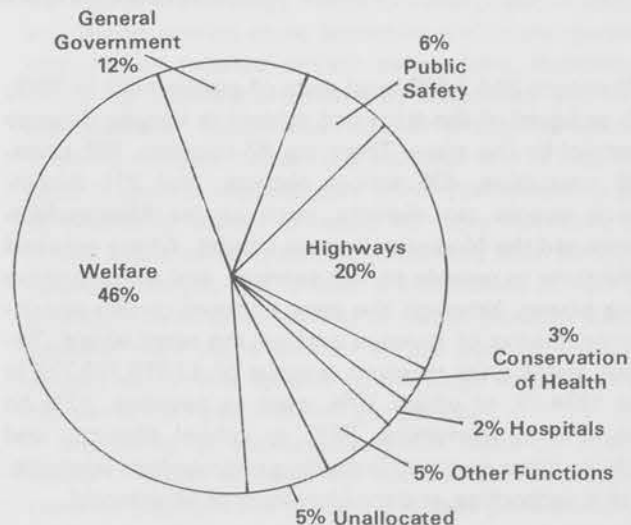
Counties are responsible for administering such functions as rural secondary roads, county courts, certain welfare, health and education services, shorelands management and solid waste management systems. They also have authority for law enforcement, administration of elections and tax levies, and planning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



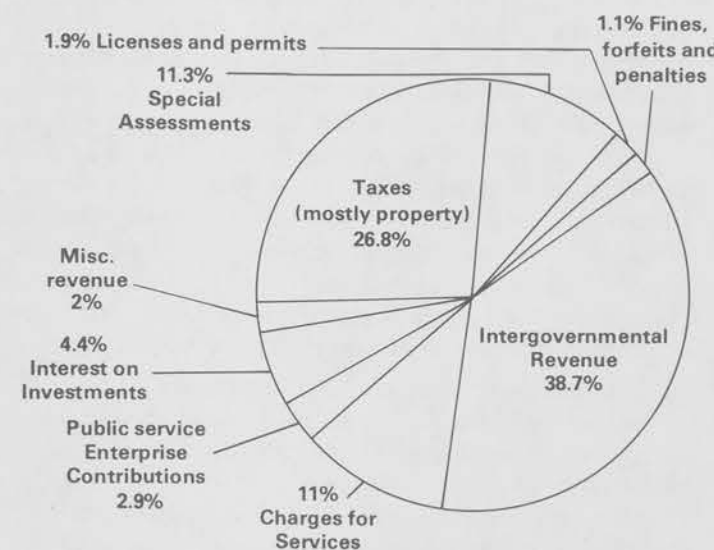
#### Cities

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.

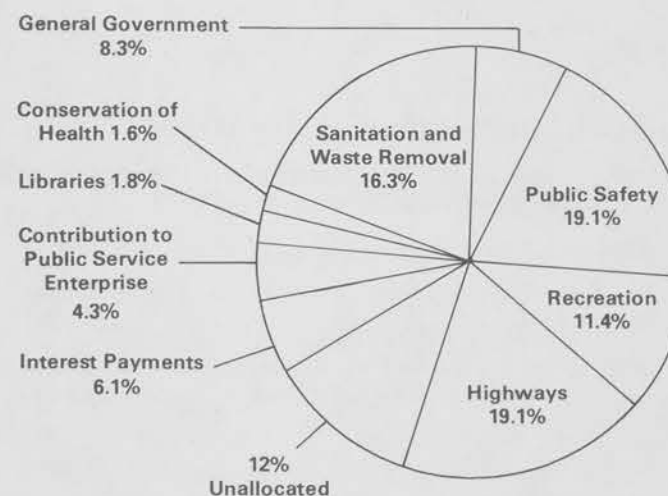
Cities are subdivisions of the counties, although some cross county lines. Their residents vote for county officers, pay county taxes and benefit from county services. Cities are also part of school districts which may encompass a different area and maintain a separate governing body from the city. Thus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

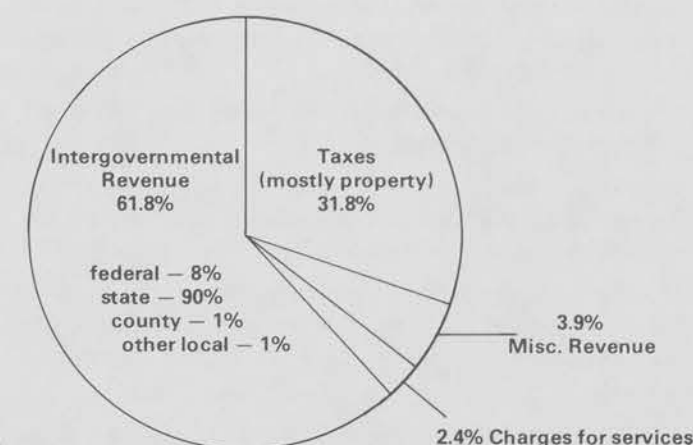
Expenditures of local school districts depend on the number of pupil units in the district. In computing pupil units, kindergarten students are each counted as .5 of a unit, students in grades one through six as 1 pupil unit each, and students in grades seven through twelve as 1.4 pupil units each. The 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.

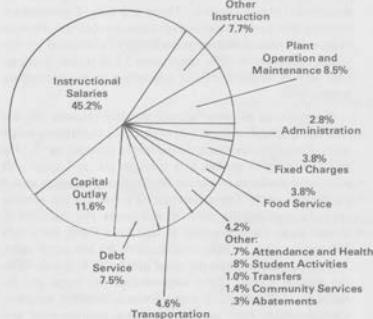
However, the appropriation figures are not a reliable measure of local expenditures. The school aid formula dictates how much each school district may receive from state and local sources but does not require that each local district spend the entire amount it receives. A local district may put some 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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Research for this publication done by Karen Anderson, Margaret Bloyer, Erica Buffington, Lorry Clugg, Kathy Gilder, Ernie Hasbargen, Judy McGuire, and Sid Moss. Edited by Rhoda Lewin

Prepared by the League of Women Voters of Minnesota;  
Published by the League of Women Voters Education 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.

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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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 #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.



**LEAGUE OF WOMEN VOTERS  
OF MINNESOTA**

PHONE (612) 224-5445

555 WABASHA • ST PAUL, MINNESOTA 55102

**FINANCING STATE GOVERNMENT  
COMMITTEE GUIDE**

March 1, 1977

To: Financing State Government Local League Chairpersons  
From: Karen Anderson, LWV-MN Chairperson

Attached are two sets of Consensus Questions - 1 to be returned to LWV-MN, 555 Wabasha, St. Paul, MN 55102, by June 30, 1977; the other for your files.

INTRODUCTION

The issue of Financing State Government (FSG) is one that has been of importance to League members for many years. Since the 1950's, we have studied the issue and formed consensus statements. In addition, other study items have touched upon the issue. For instance, phrases like "adequate funding of" or "financial support of" appear in LWV positions on Natural Resources, Judiciary, Equality of Opportunity, Education, and Organization of State Government. Member concern with setting priorities for state spending in all these areas led Leagues to ask for an up-dated study of FSG at the 1975 state convention.

PURPOSE

The present LWVMN position on FSG is: "The LWVMN supports property tax reform through equitable assessments, fewer classifications, and more restrictive criteria for determining exemptions. We also advocate less dependence on the property tax as a source of revenue." This position is on the property tax, which is a local government tax in Minnesota. Since our current study and consensus is concerned primarily with state taxation and expenditures, we anticipate that the position on property tax will remain as part of the total new consensus unless responses indicate strong opposition.

The Principles of the LWVUS state that "government should maintain an equitable and flexible system of taxation" and that "efficient and economical government requires competent personnel, the clear assignment of responsibility, adequate financing and coordination among the different agencies and levels of government." Therefore, our new consensus will reflect and attempt to refine these broad, general Principles.

While we already have these positions which apply to FSG, we have found them to be of little use in lobbying on specific legislation. The broad nature of the Principles are difficult to apply to proposed changes in taxation, and the limited nature of the property tax position does not recognize the effect proposed changes in the property tax would have on other taxation in the state.

Our purpose in expanding the FSG position is an attempt to address some of the specific issues of state taxation and expenditures. We seek member guidance as a basis for action on legislation concerning financing government.

SCOPE

The four Facts and Issues (F and I) on Financing State Government include background information and current data on taxation and expenditures in Minnesota. Members already have a great deal of experience in the subject due to dealing with it on a personal level: we all pay the sales tax and need our roads plowed. Members have also formed some judgments on the issue: we've had to fill out tax forms or perhaps have noticed a lack in some government service. The F and I are intended to provide solid data in making judg-



ments about government financing.

The F and I do not address the issue of the effects of taxes and expenditures on individuals or groups of people, nor do they express people's views on goals and priorities for state spending. Current available data is not sufficient to make or report such judgments. We're asking League members to call upon their own values and priorities when discussing the issue and answering consensus questions.

#### METHOD OF REACHING CONSENSUS

The consensus question form asks for the number of people answering "yes" or "no" to each question. This method of response has been used at all levels of LWV in reaching consensus and is necessary in this case in order to give us a specific position which may be applied to specific legislation. It is an attempt to respond to member appeals for consensus statements that truly reflect member agreement or disagreement.

Each unit response sheet should include the number of people answering "yes" or "no" to each question. The local FSG committee should then tabulate the reports and present to the local Board the total number from the local League responding "yes" or "no" to each question. After local Board approval, one composite report form, reflecting total numbers for each question, should be sent to the state office. They are due in the state office by June 30, 1977.

#### PLANNING THE UNIT MEETING

This committee guide is designed for those local Leagues taking consensus at one unit meeting. The suggested timing of the discussion is projected for a two-hour, ten-minute meeting. For those Leagues holding two unit meetings for consensus, we suggest using questions I.A, B, and C for the first meeting and questions II.A, B, and C for the second meeting. If members have received only F and I #1 and 2 before the first meeting, you will want to do questions I.A and B and II.A and B at the first meeting and I.C and II.C at the second meeting. When having two unit meetings, you will be able to expand the time allowed for each question. We have also included an additional discussion question for those having two unit meetings.

Discussion questions on taxes were sent to Leagues earlier in the year. If your League has already used them at a unit meeting, you may not wish to repeat them.

#### THE DISCUSSION

Begin by presenting the purpose and scope of the study and the method of arriving at consensus (explained above). Allow 10 minutes for this. Do not review or summarize the F and I; most of the members will have read them already.

*Proceed to the Expenditure Simulation Game (attached). Allow 20 minutes.*

Directions for playing the game are explained. You will need to gather some materials ahead of time for this. There is also a response form for the game. We would appreciate your returning the completed form even though it is not one of the consensus questions.

*Discuss consensus question I.A. Allow 10 minutes.*

This question requires a general response. It asks for initial group reaction. If subsequent answers indicate a change in the thinking of the group, you may want to come back to this question later.

*Discuss consensus question I.B. Allow 20 minutes.*

Refer to discussion of criteria for evaluating taxes in F and I #1 and to discussion of specific taxes in F and I #2.

Discussion Questions: These questions are not consensus questions. They are simply a device to stimulate discussion in the unit meeting and to help guide the discussion toward the issues addressed in the consensus questions. You may use one or more of the discussion questions, or you may prefer to make up your own.



1. What are the implications of progressive taxation in times of inflation? Consider all income levels in your discussion.
2. Can you foresee the consequences of adding progressivity to the sales tax?
3. Assuming the incidence of the corporate excise tax is on the individual who buys the goods and/or services of the corporation, discuss this tax in terms of its equity.
4. Evaluate the circuit breaker in terms of simplicity and benefits received.
5. How much credence do you give to the view that the MN income tax structure discourages upper middle income families from moving into the state? If this is an important factor, what solutions do you propose?
6. Are there other taxes you would like to see cut?

*Discuss consensus question I.C. Allow 20 minutes.*

Refer to F and I #4 for each specific area of state spending.

Discussion questions:

1. Are there any services which the state is currently providing which you believe could be better performed by the private sector? Which of these services might the state "contract out" with the private sector to cut costs?
2. What would be the implications of cutting aids to local education?
3. Discuss the levy limitations on local school funding in terms of providing equal education versus abridging a community's right to provide the highest quality of education it can afford.
4. Do you believe sunset legislation and/or zero-based budgeting would be helpful in restraining state spending?
5. Are there other areas where you would like to see state funding cut? Are there any state subsidy programs which might be regarded as "fringe benefits" that could be suspended when cuts in state spending must be made?

*Discuss consensus question II.A. Allow 10 minutes.*

This question requires a general response. Again, if subsequent answers indicate a change in the thinking of the group, you may want to come back to this question later.

*Discuss consensus question II.B. Allow 20 minutes.*

Refer to specific taxes in F and I #2.

Discussion questions:

1. Is there any tax which you think could be abolished?
2. What groups of people might benefit from a decrease in the employer's excise tax?
3. If individual income tax rates were lowered, how would this affect the various income groups?
4. How does altering the tax mix (such as eliminating the property tax or the sales tax) shift the tax burden?

*Discuss consensus question II.C. Allow 20 minutes.*

Refer to F and I #4 for specific areas of state spending.

Discussion questions:

1. Instead of increasing state spending for existing programs, would you like the state to initiate new programs? E.G.: increasing tuition support of state universities;

greater aid for development of mass transit; greater aid for local libraries; research grants for development of alternative energy sources.

2. What groups in MN have significant needs that are not being adequately met? Which of these needs do you think would be appropriately addressed by state government?  
E.G.: institutionalized mentally retarded; gifted children; the single-parent family.
3. Do you believe government aids to individuals should be made indirectly through the tax system (e.g. higher deductions or more exemptions) or directly, through the budget (e.g. higher welfare payments)?

*This ends the discussion questions relating to the consensus questions.*

For those holding two unit meetings and having extra time, we suggest using the following discussion questions. At the bottom of the Expenditure Simulation Game report form is space for you to indicate member reaction to these questions. We would appreciate direction from members.

1. Which of the following state fiscal procedures would you like to see changed or investigated for possible change?

Refer to F and I #3 for a description of each subject.

	Investigated	Changed (In what way)
Budget preparation by Governor		
Budget preparation by departments and agencies		
Committee procedures		
on tax bills		
on appropriation bills		
Legislative budget adoption		
Department of Finance accounting and control procedures		
2. On which of the following would you like further information?		
Zero-based budgeting		
Sunset legislation		
Legislative budget review committee		
Other		

# EXPENDITURE SIMULATION GAME

The Governor has asked you, as a group of budget-conscious Leaguers, to assist him in preparing the budget for the next biennium. He is particularly interested in your recommendations on expenditures for the next two years. The Governor has already promised Minnesotans that there will be no tax increases in the next biennium. Total state expenditures, therefore, must be kept under \$7 billion to have a balanced budget. He will include your expenditure suggestions in his budget message to the Legislature.

The budget categories you should consider are the following:

- . Local education
- . Higher education
- . Transportation
- . Welfare
- . Health and hospitals
- . Corrections
- . Justice
- . Natural resources
- . Agriculture
- . General state government
- . Governor and related agencies
- . Legislative
- . Public safety
- . Public retirement benefits
- . Miscellaneous

Descriptions of specific programs in each category, which were funded in the previous biennium, can be found in the Facts and Issues #4 publication. The General Fund Expenditures Chart on page 2 of F and I #4 will give you an indication of how state funds are currently being distributed.

The Governor has suggested a discussion strategy which might be an efficient method of registering expenditure priorities of group members:

- . Use a non-monetary unit to rank the budget categories from most important to least important. Let one non-monetary unit be called a "chit." Buttons or poker chips could be used as chits to help group members see the results of their decisions.
- . All budget categories should be allocated at least one chit. The Governor feels this is the minimum appropriation which should be made in each category. Use the following value scale to rank budget categories:
  - 5 chits = most important
  - 4 chits = very important
  - 3 chits = important
  - 2 chits = sort of important
  - 1 chit = least important
- . Let the Governor's \$7 billion budget ceiling equal 45 chits. As a group, discuss how you would allocate the 45 chits between the 15 budget categories. If poker chips or buttons are being used, a poster such as the following could be made. Place one to five chits in each square showing the group's ranking of each category.

BUDGET CATEGORIES	APPROPRIATIONS (IN CHITS)
Local education	
Higher education	
Transportation	
Welfare	
Health and hospitals	
Corrections	
Justice	
Natural resources	

(Continued)



BUDGET CATEGORIES	APPROPRIATIONS (IN CHITS)
Agriculture	
General state government	
Governor and related agencies	
Legislative	
Public Safety	
Public retirement benefits	
Miscellaneous	
*Other	
TOTAL	45

\*"Other" is not included in the basic 15 categories and is shown to give you the opportunity to include an item not listed or not currently being distributed.

Report forms for game and two discussion questions:

Local League \_\_\_\_\_

Number of Members \_\_\_\_\_ Number of Members Participating \_\_\_\_\_

BUDGET CATEGORIES	
Local education	
Higher education	
Transportation	
Welfare	
Health and hospitals	
Corrections	
Justice	
Natural resources	
Agriculture	
General state government	
Governor and related agencies	
Legislative	
Public Safety	
Public retirement benefits	
Miscellaneous	
*Other	
TOTAL	

1. Which of the following state fiscal procedures would you like to see changed or investigated for possible change?

	Investigated	Changed (In what way)
Budget preparation by Governor	_____	_____
Budget preparation by departments and agencies	_____	_____
Committee procedures	_____	_____
on tax bills	_____	_____
on appropriation bills	_____	_____
Legislative budget adoption	_____	_____
Department of Finance accounting and control procedures	_____	_____

2. On which of the following would you like further information?

Zero-based budgeting	_____	_____
Sunset legislation	_____	_____
Legislative budget review committee	_____	_____
Other	_____	_____

FINANCING STATE GOVERNMENT

Consensus Questions

Return to State Office by June 30, 1977

LWV of \_\_\_\_\_

Total # of Members \_\_\_\_\_ # of Members Participating \_\_\_\_\_

*Record vote in numbers voting yes or no for each question.*

I. In the event that state revenue falls short of projected state expenditures, how would you prefer this be resolved? In other words, what are we going to do when the state needs more money?

YES

NO

I.A. Increase taxation

Cut spending

A combination of these

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Proceed with all questions regardless of the answers given above.*

I.B. If taxation is increased to provide additional revenue, how would you prefer this be done?

YES

NO

1. Sales Tax

Higher rates

Fewer exemptions

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

2. Individual Income Tax

Higher rates

Fewer exemptions

More progressive rates

Remove Federal deductibility

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Corporate Excise Tax

Higher percentage rate

Progressive rate structure

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

4. Property Tax Relief

Eliminate homestead credit

Eliminate circuit breaker

Eliminate senior citizen freeze credit

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Other Tax(es); be specific:

I.C. If there have to be cuts in state spending, where would you prefer these cuts be made?

YES

NO

1. Percentage cuts in all areas

\_\_\_\_\_

\_\_\_\_\_

2. Cut state aid to:

counties

cities

local schools

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Cut state spending for:

Higher education

Transportation

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(Over)



	YES	NO
Welfare	_____	_____
Health and Hospitals	_____	_____
Corrections	_____	_____
Justice	_____	_____
Natural Resources	_____	_____
Agricultural	_____	_____
General State Government	_____	_____
Governor and related agencies	_____	_____
Legislative Branch	_____	_____
Public Safety	_____	_____
Public Retirement Benefits	_____	_____
Miscellaneous	_____	_____
Other: be specific:	_____	_____

4. Cut spending in another way: be specific

II. In the event that the state should have a substantial budget surplus, what would you prefer be done with the surplus?

	YES	NO
II.A. Decrease taxation	_____	_____
Increase spending	_____	_____
A combination of these	_____	_____

*Proceed with all questions regardless of the answers given above.*

II.B. If taxation is decreased, how would you prefer this be done?

	YES	NO
1. Sales Tax		
Lower rates	_____	_____
More exemptions	_____	_____
2. Individual Income Tax		
Lower rates	_____	_____
Higher deductions	_____	_____
More exemptions	_____	_____
Tax refund	_____	_____
3. Corporate Excise Tax		
Lower percentage rate	_____	_____
4. Property Tax Relief		
Higher homestead credit	_____	_____
Higher circuit breaker credit	_____	_____
5. Other Tax(es): be specific		

(Continued)

II.C. If state spending is increased, how would you prefer this be done?

	YES	NO
1. Percentage increases in all areas	_____	_____
2. Increase state aid to:		
counties	_____	_____
cities	_____	_____
local schools	_____	_____
3. Increase state spending for:		
Higher Education	_____	_____
Transportation	_____	_____
Welfare	_____	_____
Health and Hospitals	_____	_____
Corrections	_____	_____
Justice	_____	_____
Natural Resources	_____	_____
Agriculture	_____	_____
General State Government	_____	_____
Governor and related agencies	_____	_____
Legislative Branch	_____	_____
Public Safety	_____	_____
Public Retirement Benefits	_____	_____
Miscellaneous	_____	_____
Other: be specific:		

4. Increase spending in another way: be specific:

\_\_\_\_\_  
Name of person submitting report

The LWV of \_\_\_\_\_ Board approved the above consensus at its  
meeting of \_\_\_\_\_  
date

\_\_\_\_\_  
President

FINANCING STATE GOVERNMENT

Consensus Questions

Return to State Office by June 30, 1977

LWV of \_\_\_\_\_

Total # of Members \_\_\_\_\_ # of Members Participating \_\_\_\_\_

*Record vote in numbers voting yes or no for each question.*

I. In the event that state revenue falls short of projected state expenditures, how would you prefer this be resolved? In other words, what are we going to do when the state needs more money?

YES

NO

I.A. Increase taxation

Cut spending

A combination of these

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*Proceed with all questions regardless of the answers given above.*

I.B. If taxation is increased to provide additional revenue, how would you prefer this be done?

YES

NO

1. Sales Tax

Higher rates

Fewer exemptions

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

2. Individual Income Tax

Higher rates

Fewer exemptions

More progressive rates

Remove Federal deductibility

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Corporate Excise Tax

Higher percentage rate

Progressive rate structure

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

4. Property Tax Relief

Eliminate homestead credit

Eliminate circuit breaker

Eliminate senior citizen freeze credit

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Other Tax(es); be specific:

I.C. If there have to be cuts in state spending, where would you prefer these cuts be made?

YES

NO

1. Percentage cuts in all areas

\_\_\_\_\_

\_\_\_\_\_

2. Cut state aid to:

counties

cities

local schools

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Cut state spending for:

Higher education

Transportation

\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

(Over)



	YES	NO
Welfare	_____	_____
Health and Hospitals	_____	_____
Corrections	_____	_____
Justice	_____	_____
Natural Resources	_____	_____
Agricultural	_____	_____
General State Government	_____	_____
Governor and related agencies	_____	_____
Legislative Branch	_____	_____
Public Safety	_____	_____
Public Retirement Benefits	_____	_____
Miscellaneous	_____	_____
Other: be specific:	_____	_____

4. Cut spending in another way: be specific

II. In the event that the state should have a substantial budget surplus, what would you prefer be done with the surplus?

	YES	NO
II.A. Decrease taxation	_____	_____
Increase spending	_____	_____
A combination of these	_____	_____

*Proceed with all questions regardless of the answers given above.*

II.B. If taxation is decreased, how would you prefer this be done?

	YES	NO
1. Sales Tax		
Lower rates	_____	_____
More exemptions	_____	_____
2. Individual Income Tax		
Lower rates	_____	_____
Higher deductions	_____	_____
More exemptions	_____	_____
Tax refund	_____	_____
3. Corporate Excise Tax		
Lower percentage rate	_____	_____
4. Property Tax Relief		
Higher homestead credit	_____	_____
Higher circuit breaker credit	_____	_____
5. Other Tax(es): be specific		

(Continued)

II.C. If state spending is increased, how would you prefer this be done?

	YES	NO
1. Percentage increases in all areas	_____	_____
2. Increase state aid to:		
counties	_____	_____
cities	_____	_____
local schools	_____	_____
3. Increase state spending for:		
Higher Education	_____	_____
Transportation	_____	_____
Welfare	_____	_____
Health and Hospitals	_____	_____
Corrections	_____	_____
Justice	_____	_____
Natural Resources	_____	_____
Agriculture	_____	_____
General State Government	_____	_____
Governor and related agencies	_____	_____
Legislative Branch	_____	_____
Public Safety	_____	_____
Public Retirement Benefits	_____	_____
Miscellaneous	_____	_____
Other: be specific:	_____	_____

4. Increase spending in another way: be specific:

\_\_\_\_\_  
Name of person submitting report

The LWV of \_\_\_\_\_ Board approved the above consensus at its  
meeting of \_\_\_\_\_ date

\_\_\_\_\_  
President



Borg

## LEAGUE OF WOMEN VOTERS OF MINNESOTA

555 WABASHA • ST. PAUL, MINNESOTA 55102 • TELEPHONE (612) 224-5445

July 14, 1977

The Honorable Jack Davies  
875 Summit Avenue  
St. Paul, MN 55105

Dear Senator Davies:

The League of Women Voters of Minnesota would like to congratulate you on your appointment to the Tax Study Commission. The League has been following the Commission's actions for some time and is aware of the large scope of issues covered by its tax deliberations.

We are enclosing a copy of four current League of Women Voters of Minnesota publications on Financing State Government which may contain helpful background information for you as a Commission member. These publications are a result of our current study/action program on taxation and government spending in Minnesota.

If you would like additional copies of the publications, contact the League of Women Voters of Minnesota office, 224-5445.

Sincerely,

Karen Anderson  
Government Co-Chairperson  
League of Women Voters of Minnesota  
Board of Directors

Sent to Senators (Davies, Hanson, Jensen, McCutcheon,  
Merriam, Peterson, Sillers)

Sent to Representatives (Kelly, Evans, Fugina, Searles,  
Skoglund, Jacobs, Vanasek)

Sent to: Kathleen A. Gaylord, Executive Director, and  
Candace A. Ganje, Secretary, Tax Study Commission

A:M  
Enclosures



# LEAGUE OF WOMEN VOTERS OF MINNESOTA

555 WABASHA • ST. PAUL, MINNESOTA 55102

PHONE: (612) 224-5445



## MEMO

TO: FSG Committee Members

FROM: Karen Anderson

SUBJECT: Consensus results and August  
meeting

DATE: July 22, 1977

The FSG Committee will meet Wednesday, August 10, at 9:30 at the state office to discuss the enclosed consensus results. Results were figured both as a % of those participating in the consensus and a % of those answering each question. If you are unable to attend the August 10th meeting but would like to have some input, please call me, 935-2445. We will meet again between September 6th and 9th.

## FINANCING STATE GOVERNMENT

## Consensus Questions

Return to State Office by June 30, 1977

LWV of MNTotal # of Members 3886 ? # of Members Participating 1610 41.43%

Record vote in numbers voting yes or no for each question.

- I. In the event that state revenue falls short of projected state expenditures, how would you prefer this be resolved? In other words, what are we going to do when the state needs more money?

	% # answering	YES	% 1610	NO	%
I.A. Increase taxation	3.82 96.18	35	2.17	881	54.72
Cut spending	65.72 34.28	740	45.96	386	23.98
A combination of these	68.02 31.98	840	52.17	395	24.53

Proceed with all questions regardless of the answers given above.

- I.B. If taxation is increased to provide additional revenue, how would you prefer this be done?

		YES		NO	
1. Sales Tax					
Higher rates	51.37 48.63	732	45.47	693	43.04
Fewer exemptions	12.53 87.47	163	10.12	1139	70.65
2. Individual Income Tax					
Higher rates	8.52 91.48	116	7.20	1246	77.39
Fewer exemptions	28.67 71.33	321	23.66	948	58.88
More progressive rates	68.30 31.70	988	61.37	448	27.93
Remove Federal deductibility	14.55 85.45	236	12.80	1210	75.16
3. Corporate Excise Tax					
Higher percentage rate	6.30 93.70	84	5.22	1249	77.58
Progressive rate structure	48.70 51.30	674	41.86	710	44.10
4. Property Tax Relief					
Eliminate homestead credit	1.98 98.02	29	1.80	1438	89.32
Eliminate circuit breaker	22.54 77.46	311	19.32	1069	66.40
Eliminate senior citizen freeze credit	5.40 94.60	78	4.84	1366	84.84
5. Other Tax(es); be specific:					

- I.C. If there have to be cuts in state spending, where would you prefer these cuts be made?

		YES		NO	
1. Percentage cuts in all areas	46.43 53.57	664	41.24	766	47.58
2. Cut state aid to:					
counties	31.73 68.27	369	22.92	794	49.32
cities	18.52 81.48	218	13.54	959	59.57
local schools	12.53 87.47	157	9.75	1096	68.07
3. Cut state spending for:					
Higher education	30.76 69.24	370	22.98	833	51.74
Transportation	44.82 55.18	506	31.43	623	38.77

			YES		NO	
Welfare	49.96	50.04	568	35.28	569	35.34
Health and Hospitals	33.33	66.67	377	23.42	754	46.83
Corrections	25.22	74.78	282	17.52	826	51.93
Justice	32.04	57.96	348	21.61	738	45.84
Natural Resources	21.62	78.38	251	15.59	910	56.52
Agricultural	28.46	71.54	319	19.81	862	49.82
General State Government	81.14	18.86	964	59.94	224	13.91
Governor and related agencies	84.72	15.28	937	41.32	178	11.06
Legislative Branch	80.98	19.02	941	58.45	221	13.73
Public Safety	31.40	68.60	741	21.18	745	46.27
Public Retirement Benefits	50.96	49.04	553	34.66	537	33.35
Miscellaneous	56.98	43.02	498	30.93	376	23.35
Other: be specific:						

4. Cut spending in another way: be specific

II. In the event that the state should have a substantial budget surplus, what would you prefer be done with the surplus?

			YES		NO	
II.A. Decrease taxation	78.53	21.47	980	60.87	268	16.65
Increase spending	8.81	91.19	84	5.22	869	53.98
A combination of these	42.19	57.81	443	27.52	607	37.70

Proceed with all questions regardless of the answers given above.

II.B. If taxation is decreased, how would you prefer this be done?

			YES		NO	
1. Sales Tax						
Lower rates	36.87	63.13	483	30.00	827	51.37
More exemptions	21.17	78.83	254	15.78	946	53.76
2. Individual Income Tax						
Lower rates	80.98	19.02	1073	166.65	252	15.65
Higher deductions	31.50	68.50	355	22.05	772	47.95
More exemptions	23.59	76.41	268	16.65	868	53.91
Tax refund	29.01	70.99	342	21.24	837	51.99
3. Corporate Excise Tax						
Lower percentage rate	49.46	50.54	593	36.83	606	37.64
4. Property Tax Relief						
Higher homestead credit	63.71	36.29	837	55.09	404	25.09
Higher circuit breaker credit	48.19	51.81	600	37.27	645	40.00
5. Other Tax(es): be specific						

(Continued)



## II.C. If state spending is increased, how would you prefer this be done?

			YES		NO	
1. Percentage increases is all areas	8.39	91.61	104	16.46	1135	70.50
2. Increase state aid to:						
counties	38.38	51.62	449	27.89	721	44.78
cities	62.86	37.14	745	46.46	442	27.45
local schools	73.09	26.91	899	55.84	321	20.56
3. Increase state spending for:						
Higher Education	51.18	48.82	562	34.91	526	33.29
Transportation	47.51	52.49	553	34.35	611	37.95
Welfare	32.80	67.20	370	22.98	753	47.08
Health and Hospitals	43.47	56.53	469	29.13	610	37.89
Corrections	55.51	44.49	564	35.03	452	28.07
Justice	34.04	65.96	368	22.86	713	44.29
Natural Resources	66.44	33.56	778	48.32	393	24.41
Agriculture	38.49	61.51	413	25.65	660	40.99
General State Government	11.18	88.82	121	7.52	961	59.69
Governor and related agencies	5.53	94.42	60	3.73	1016	63.11
Legislative Branch	5.97	94.03	66	4.10	1040	64.60
Public Safety	33.04	66.96	340	21.12	699	42.50
Public Retirement Benefits	17.08	82.92	178	11.06	864	53.66
Miscellaneous	8.97	91.03	68	4.22	690	42.86
Other: be specific:						

4. Increase spending in another way: be specific:

Name of person submitting report \_\_\_\_\_

The LWV of \_\_\_\_\_ Board approved the above consensus at its  
meeting of \_\_\_\_\_  
date \_\_\_\_\_

President \_\_\_\_\_



# LEAGUE OF WOMEN VOTERS OF MINNESOTA

555 WABASHA • ST. PAUL, MINNESOTA 55102

PHONE: (612) 224-5445

## MEMO

TO: FSG Committee and State Board

FROM: Karen Anderson

SUBJECT: First Draft FSG Position Statement

DATE: August 19, 1977

Enclosed is the first draft of the FSG consensus/position statement as discussed at the 8/10 FSG committee meeting. Please review it and send your corrections, suggestions, whatever to the state office by August 29 (I'll be out of town, and my home mail is likely to be in a confusing state). Note especially the additional statement in first paragraph where I attempted to deal with questions I.A. and II.A. I hate to ignore it when opinion was so strong; your reaction?

I'm sending copies to the state Board for your remarks on the form of the statement. It differs a bit from the previous FSG statement in order to accurately reflect member responses. Your comments will be appreciated. The final draft will be reviewed at the September Board meeting.

Thank you.

LWVMN 8/18/77

Financing State Government

POSITION STATEMENT - First Draft

Support of an equitable and flexible system of taxation/ (LWVUS Principles). Support of a flexible Minnesota multi-tax system with emphasis on maintaining state services through a combination of spending cuts and increased taxation when state funds are short and decreased taxation when there is a budget surplus. Support of using the Minnesota individual income tax as the elastic tax, making rates more progressive when increasing state revenue and lowering rates for all income levels when decreasing state revenues. Support of state relief for property taxes/ (LWVMN 1977). Support of property tax reform (LWVMN 1967).

Strong support for setting priorities in allocating state funds. Strong support of state aids to local governments, especially to local school districts and to the local governmental unit that provides the major portion of local services (county and/or city). (LWVMN 1977)

#### POSITIONS

- When taxation is increased to provide additional revenue, we:
  - support retaining exemptions to the sales tax; support of any sales tax increases being on cigarettes and tobacco and alcoholic beverages; <sup>do</sup> not agree ~~on~~ on a general raise in sales tax rates.
  - support more progressive individual income tax rates with exemptions retained at 1977 level; strongly support retaining deductibility of federal income taxes as a feature of the Minnesota income tax; strongly oppose an across-the-board increase in income tax rates.
  - strongly support retaining the Minnesota corporate excise tax with no increase in rate; do not agree on changing the corporate tax to a progressive rate.
  - very strongly support retaining the homestead credit and senior citizen freeze credit as forms of state relief for property taxes; support retaining the income-adjusted homestead credit (circuit-breaker).
- When measures are taken to decrease taxation, we:
  - support retaining the 4% Minnesota sales tax with no increase in exemptions.
  - strongly support a decrease in individual income tax rates; oppose an increase in individual income tax exemptions; <sup>oppose</sup> ~~do not~~ a general tax refund.
  - do not agree on decreasing the corporate excise tax rate.
  - support an increase in the homestead credit as a form of state relief for property taxes.



- do not agree on providing an increase in the income-adjusted homestead credit (circuit-breaker).
- When cuts in state spending are necessary, we:
  - strongly support cuts in spending for general state government, governor and related agencies, and the legislative branch.
  - oppose cuts in state aid to local governments, especially local school districts.
  - oppose cuts in state spending for natural resources, corrections, higher education and agriculture.
- When increases in state spending are proposed, we:
  - strongly support setting priorities for state spending rather than a percentage increase in all areas of state funding.
  - support an increase in state aids to local school districts.
  - strongly oppose increases in spending for general state government, governor and related agencies, and the legislative branch; oppose increases in spending for public retirement benefits.
  - oppose increases in state spending for transportation unless those increases are designated for mass transportation measures of benefit to the entire state.

Property tax reform statements will be here as printed in 75-77 Program for Action

## Financing State Government Committee

## SUMMARY OF BUDGET GAME RETURNS

<u>Budget categories</u>	<u># of Chits</u>	
	Metro	Outstate
Local education	6	5
Higher education	4	4
Transportation	3.5	3
Welfare	4	4
Health and hospitals	3.5	3*
Corrections	3	4
Justice	2	3
Natural resources	4	4
Agriculture	3	3
General state government	2	2
Governor and related agencies	1.5	2
Legislative	2	2
Public Safety	2	2
Public retirement benefits	2	2
Miscellaneous	2	1
Other	1**	1***
<u>Total</u>	45.5	45.0

\* The 3 metro areas in Outstate -- Duluth, Rochester, and St. Cloud -- gave 4 chits to this item. Otherwise, the Outstate metro area budgets correspond closely to the Outstate average.

\*\* Mass transit, energy research, income tax refund of state budget surplus, aids to local government, public health, Department of Human Rights, investments.

\*\*\* Debt retirement, mass transit, study on reorganization of state government, energy research, art.

27 local Leagues participated in the game, 11 metro area and 16 outstate.

ARLAN STANGELAND  
7TH DISTRICT, MINNESOTA

COMMITTEES:  
GOVERNMENT OPERATIONS  
PUBLIC WORKS AND  
TRANSPORTATION

**Congress of the United States**  
**House of Representatives**  
**Washington, D.C. 20515**

November 11, 1977

NOV 14 1977 OFFICES:  
1518 LONGWORTH HOUSE OFFICE BUILDING  
WASHINGTON, D.C. 20515  
(202) 225-2165

M-F BUILDING  
403 CENTER AVENUE  
MOORHEAD, MINNESOTA 56560  
(218) 233-8631

Ms. Helen Borg, President  
League of Women Voters  
555 Wabasha  
St. Paul, Minnesota 55102

Dear Ms. Borg:

Thank you for sending me your publications "Facts and Issues Financing State Government." I'm sure your study will be useful for citizens and government officials trying to understand taxing and spending by the State of Minnesota.

I would like to extend my thanks for this service to the citizens of Minnesota.

If I can ever be of assistance to you or the League of Women Voters, please feel free to call on me.

With warm regards, I am

Sincerely,

  
Arlan Stangeland  
Member of Congress



WENDELL R. ANDERSON  
MINNESOTA

NOV 14 1977

**United States Senate**

WASHINGTON, D.C. 20510

November 11, 1977

Ms. Helene Borg  
President  
League of Women Voters of  
Minnesota  
555 Wabasha  
St. Paul, Minnesota 55102

Dear Ms. Borg:

I appreciate your thoughtfulness in sending me copies of the League of Women Voters of Minnesota's excellent reports on Minnesota tax revenues and governmental expenditures.

I intend to keep this material handy for future reference and would like to receive copies of reports on other issues as you develop them.

With warmest regards.

Sincerely,

*Wendy Gundersen*

Wendell R. Anderson  
U.S. Senator

WRA:jbr

To: Members of House Committee on Taxes  
From: Helene Borg, President; Pam Berkwitz, Action Chair; Karen Anderson,  
Government Co-Chair  
Date: March 8, 1978

The League of Women Voters of Minnesota urges you to adopt the reduction in income tax rates covered in HF 2250.

The League has over 4,000 members representing every Senatorial district in Minnesota. The members have studied and discussed expenditures and taxation in the state and concluded that the Minnesota individual income tax should be used as the elastic tax, adapted to reflect economic conditions and state needs.

When there is a budget surplus, and an opportunity for reduced taxation, League members strongly support a reduction in income tax rates. Instead of returning the excess as a rebate, or providing reductions for just some segments of taxpayers, League prefers an across-the-board rate reduction. We support the Governor's proposal of rate reductions because it clearly provides across-the-board relief. The implications of other proposals are unclear. We oppose extensions of exemptions or credits as a means of providing reductions unless they are used to correct inequities in the present tax. Therefore, the League urges you to adopt a reduction of income tax rates.

Testimony given to  
the Taxes and Tax Laws Committee  
Minnesota Senate

March 6, 1978

I am Karen Anderson, Government Chair of the League of Women Voters of Minnesota. The League appreciates this opportunity to present its views on proposed changes in the Minnesota tax structure.

The League has over 4,000 members representing every Senatorial district in Minnesota. The members have studied and discussed expenditures and taxation in the state and concluded that the Minnesota individual income tax should be used as the elastic tax, adapted to reflect economic conditions and state needs. Therefore, I'll restrict my comments to the proposed changes in the income tax.

When there is a budget surplus, and an opportunity for reduced taxation, League members strongly support a reduction in income tax rates. Instead of returning the excess as a rebate, or providing reductions for just some segments of taxpayers, League prefers an across-the-board rate reduction. We support the Governor's proposal of rate reductions because it clearly provides across-the-board relief. The implications of other proposals are unclear. We oppose extensions of exemptions or credits as a means of providing reductions unless they are used to correct inequities in the present tax. Therefore, the League urges you to adopt a reduction of income tax rates.





MINNESOTA

# Tax Study NEWS

APRIL 1978

## THE TAX STUDY COMMISSION

The Tax Study Commission (TSC) was newly created as a permanent legislative commission by the 1977 Omnibus Tax Act. The purposes of the TSC are to examine Minnesota's total tax structure, study long range tax policy, and analyze proposed tax legislation.

### Commission Members are:

Senators William McCutcheon, (Chairman), Jack Davies, Marvin Hanson, Carl Jensen, Gene Merriam, Collin Peterson and Douglas Sillers. Representatives William Kelly, Jim Evans, Pete Fugina, Joel Jacobs, Robert Searles, Wes Skoglund and Robert Vanasek.

### Staff Members are:

Kathleen Gaylord, Executive Director  
Candace Ganje, Secretary  
Research Analysts: Mohamed Eldeeb  
and Susan Chianelli Jacobson.

The Commission is currently organized into four Subcommittees which will meet during the 1978 Interim. They are:

### INCOME TAX Subcommittee

Rep. Wes Skoglund, Chairman  
Rep. Joel Jacobs  
Sen. Collin Peterson

### TAX EXEMPT PROPERTIES Subcommittee

Rep. Pete Fugina, Chairman  
Rep. Bill Kelly  
Sen. Marvin Hanson

### RELIANCE & POLICY Subcommittee

Sen. Jack Davies, Chairman  
Sen. Carl Jensen  
Rep. Robert Searles  
Rep. Bob Vanasek

### BUSINESS CLIMATE & TAXATION Subcommittee

Sen. Gene Merriam, Chairman  
Rep. James Evans  
Sen. Douglas Sillers  
Rep. Bob Vanasek

## WHAT IS MIDDLE INCOME IN MINNESOTA ?

In 1976, Minnesota gross income (MGI) averaged \$8960 per filer, but this understates the income level of Minnesota families.

The income level of middle class families, when broadly defined, has risen into the \$20,000 range. In 1976, almost one-third of all Minnesota families (married couples) had gross incomes over \$20,000; compared to slightly more than one-fourth in 1975.

Middle income can be described narrowly as the ten percent of all families closest to

the middle of the income range or more broadly as the middle third or middle half. Using these definitions, the middle income range for Minnesota families is as follows:

	<u>1975*</u>	<u>1976*</u>
Middle 10%	\$13,054-15,332	\$14,520-16,945
Middle 1/3	10,406-18,062	11,338-19,709
Middle 1/2	8,058,20,033	8,950-23,102
Middle	\$14,188	\$15,761

\*Minnesota gross income for married couples.

## LEGISLATURE ENACTS BUSINESS CLIMATE RECOMMENDATIONS

The TSC Subcommittee on Business Climate and Taxation in a series of meetings heard testimony from representatives of the business community, public officials, and others.

From this testimony, the Subcommittee identified several areas of concern which were then addressed by the following recommendations:

1. THAT THE EMPLOYERS EXCISE TAX BE REPEALED.

Legislative Action: Article V of Chapter 721, Session Laws of 1978; (the Omnibus Tax Bill) provides that the Employers Excise Tax is repealed for compensation paid after June 30, 1978.

2. THAT A CARRYFORWARD PROVISION BE ENACTED FOR OUT-OF-STATE INVESTMENT LOSSES.

Legislative Action: Section 18 of Chapter 767, Session Laws of 1978 (H.F. 1916) provides a three year carry-forward to offset out-of-state gains with out-of-state losses.

3. THAT THE WEIGHTED AVERAGE APPORTIONMENT FORMULA BE CONTINUED.

Legislative Action: Recommendation followed.

4. THAT THE LEGISLATURE ENACT S.F. 1773 WHICH REDUCES CORPORATE TAX RATES AND ELIMINATES THE ARITHMETIC APPORTIONMENT FORMULA.

Legislative Action: Committee approval was received. The provisions were included in the House version of the Omnibus Tax Bill, but they were dropped in conference committee. S.F. 1773 will be studied by a Senate Tax Subcommittee during the interim.

5. THAT FUTURE CHANGES IN THE PROPERTY TAX CLASSIFICATION SYSTEM BE EVALUATED IN TERMS OF ITS EFFECT ON COMMERCIAL-INDUSTRIAL PROPERTY TO AVOID SIGNIFICANT SHIFTS IN THE PROPORTION OF PROPERTY TAXES PAID BY BUSINESS.

Legislative Action: None.

6. THAT THIS SUBCOMMITTEE CONTINUE ITS STUDY IN THE FOLLOWING AREAS:

- Problems of small business.
- Problems of border communities.
- Possible elimination of the \$100 minimum corporate tax.

TSC Action: The Subcommittee will meet during the interim to continue its study in these areas.

7. THAT THE LEGISLATURE BE RESPONSIVE TO THE NEEDS AND CONCERNS OF THE BUSINESS COMMUNITY AND ATTEMPT TO MAKE STATE TAX POLICY MORE CERTAIN AND STABLE.

Legislative Action: The adoption of these recommendations indicates legislative responsiveness to business concerns.

## UPCOMING CONFERENCES

### NTA-TIA SYMPOSIUM

Energy Taxation - Conflicting Federal, State and Local Interest.

May 17-18, 1978, Mayflower Hotel., Washington, D.C.

**TAX EXEMPT PROPERTIES**

Work on Phase 2 of the Public Lands Impact Study is nearing completion. The Study which was begun in September of 1976 has been investigating the impact of public tax exempt property on local units of government in Minnesota.

Phase I of the study, which dealt with natural resource lands, was completed, and approved by the Tax Study Commission and the LCMR, which is jointly participating in the study, on March 29, 1977.

Phase 2 was begun in May of 1977 and focuses on State Lands held for administrative and institutional purposes.

On May 12th, the Tax Study Commission Subcommittee on Tax Exempt Properties completed work on the Background Report of Phase 2 data. The conclusions, recommendations, and a broad outline of the issues which should be considered by the Legislature when it deals with public land impacts should be completed next month.

When the Subcommittee completes its work, a final draft will be presented to the Full Tax Study Commission for approval prior to printing and distribution.

Subcommittee members are Rep. Peter Fugina, Chairman; Rep. Bill Kelly and Sen. Marvin Hanson.

**INTERIM SUBCOMMITTEES**

Both the House and Senate Tax Committees have appointed Subcommittees for the 1978 Interim.

The SENATE has three Subcommittees:

- Inheritance, Estates & Trusts -  
Chairman, Gene Merriam
- Income Tax -  
Chairman, Eugene Stokowski
- Sales & Property Tax -  
Chairman, Bill McCutcheon

The HOUSE has two Subcommittees:

- Tax Exempt Properties -  
Chairman, Steve Novak
- Minerals & Natural Resources -  
Chairman, Peter Fugina

**TAX CALENDAR**

- |                |  |
|----------------|--|
| <u>May 31</u>  | • Deadline for paying first half of real property taxes.                           |
| <u>June 6</u>  | • California - Jarvis/Gann Initiative to limit real property taxes to 1% of value. |
| <u>June 30</u> | • End of Fiscal Year 1978.   |

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* The Tax Study Commission (TSC)
* is a permanent Legislative
* Commission created to examine
* Minnesota's total tax structure,
* study long range tax policy,
* and analyze proposed tax
* legislation.
*
*****

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## MEASURING INFLATION

*Inflation has hit Twin Cities consumers harder than U.S. consumers in 10 of the last 18 years. During the same period state and local governments have faced an inflation rate which is higher than both the inflation rate for consumers and the inflation rate for the economy as a whole in 16 of those 18 years.*

The Consumer Price Index and the Implicit Price Deflator are two of the best known measures of inflation. Although these indices usually move in the same direction, they move at different rates since the items, whose prices are being compared, are not the same and since the prices of all items do not increase at the same rate.

The Consumer Price Index (CPI), commonly called the Cost of Living Index, compares prices paid for a specified group of about 400 items which represent the purchases of a "typical" urban family. This represents the inflation for urban consumers and is the most quoted inflation rate indicator.

The CPI is broken down into component indexes such as food and shelter, and is also calculated for local areas, such as Minneapolis/St. Paul.

The CPI for Minneapolis/St. Paul shows that inflation has hit Twin Cities consumers as hard, or harder than U.S. consumers in 10 of the last 18 years.

Beginning in June 1978, the CPI will be revised into two indexes; the CPI-U and the CPI-W. The CPI-W like an old CPI includes only wage earners and clerical workers. The new CPI-U will include all urban consumers. In addition to wage earners and clerical workers, it includes many groups which previously were excluded such as professional, managerial, and technical workers, the unemployed, and retirees. Rural families are not represented by either the CPI-U or the CPI-W.

The data collection methods have also been changed. A wider variety of products and stores will be checked to better represent and reflect the price changes faced by consumers

The Implicit Price Deflator (IPD) is a more general inflation index. The IPD is calculated by dividing the current value of all final goods and services produced in the economy (GNP) by the value of those items at base year prices. The resulting ratio is a comprehensive measure of inflation, and is usually considered the best single indicator of price movements in the economy as a whole.

The IPD is also broken down into individual indices such as personal consumption expenditures and government purchases of goods and services.

The IPD for government purchases of goods and services for state and local governments shows that these governments face an inflation rate which has been higher than both the inflation rate for consumers and the inflation rate for the economy as a whole in 16 of the last 18 years.

The following table shows the annual rates of inflation under four indices for the last 18 years.

RATES OF INFLATION

YEAR	(1967=100)	(1967=100)	(1972=100)	(1972=100)
	MPLS./ST. PAUL CPI	U.S. CPI	U.S. IPD	U.S. IPDGPGS S&L
1960	1.6	1.6	1.7	2.5
1961	1.0	1.0	.9	2.6
1962	1.2	1.1	1.3	3.4
1963	1.4	1.2	1.5	2.7
1964	1.0	1.3	1.6	2.3
1965	1.4	1.7	2.2	2.3
1966	2.4	2.9	3.3	5.1
1967	3.3	2.9	2.9	5.0
1968	4.6	4.2	4.5	6.1
1969	5.1	5.4	5.0	5.5
1970	5.9	5.9	5.4	7.3
1971	3.6	4.3	5.1	7.0
1972	3.1	3.3	4.1	5.8
1973	6.0	6.2	5.8	7.3
1974	11.5	11.0	9.7	10.3
1975	8.5	9.1	9.5	9.5
1976	6.2	5.3	5.3	6.2
1977	7.1	6.5	5.5	5.8

CPI = Consumer Price Index  
IPD = Implicit Price Deflator  
IPDGPGS (S&L) = Implicit Price Deflator for Government Purchases of Goods & Services by State & Local Units.

SOURCES: CPI, Economic Indicators, Council of Economic Advisors, United States Government Printing Office.

IPD and IPDGPGS (S&L), Survey of Current Business, United States Department of Commerce.



## CALIFORNIA'S PROPOSITION 13. (JARVIS/GANN)

On June 6th, California voters approved Proposition 13 by an overwhelming margin. Many observers feel it is the beginning of a tax revolt that will spread across the country.

### What is Proposition 13?

Proposition 13 is an amendment to the California constitution sponsored by Howard Jarvis and Paul Gann. On the ballot it read:

*"Proposition 13. Tax Limitation - Initiative Constitutional Amendment. Limits realty tax to 1 percent; (permissible annual) increase (limited) to 2 percent. Imposes 2/3 voting requirement on new taxes. Financial impact: Commencing with the fiscal year beginning July 1, 1978, would result in annual tax losses of local government property tax revenues (approximately \$7 billion in 1978-79 fiscal year), reduction in annual state costs (approximately \$600 million in 1978-79 fiscal year), and restriction on future ability of local governments to finance capital construction by sale of general obligation bonds."*

The main provisions of the amendment are:

- The property tax is limited to a maximum of one percent of market value. This does not apply to bonded debt approved by the voters prior to July 1st.
- Property values will be based on the assessments as of March 1, 1975. Thereafter assessments may be increased only 2% a year, except for new construction or where the property is sold.

- New taxes must be passed by a two-thirds vote of the Legislature. No new real estate taxes of any kind may be imposed.
- Local governments will need a two-thirds vote of the "qualified electors" to impose "special taxes." They also may not impose any new real estate taxes.
- The revenues from property taxes are required to be apportioned "according to the law to the districts within the counties."
- All provisions will take effect on July 1st, except the two-thirds voting requirement in the Legislature, which goes into effect immediately.
- If any provision of the initiative is declared unconstitutional by the Supreme Court, all the remaining sections would remain in effect.

The initiative has several legal problems which need to be resolved by the courts. Among them are the definition of several terms such as "special taxes", "qualified electors", and "districts", which are used in the initiative and whether the initiative applies to state assessed property.

The Legislature has until July 1st to enact a law on the distribution of property tax revenues as required in the initiative. California currently has no such law.

In addition, the 2% assessment limit may violate the equal protection clause of the constitution by establishing different assessments on identical properties.

### What will be its effects?

Proposition 13 will have a number of effects as it is implemented.

CONTINUED

The proposition means a \$7 billion dollar loss to local government. The net savings to Californians, however, would be \$5 billion because lower property tax deductions will increase state and federal income taxes. In addition, California will lose federal revenue-sharing funds because the formula is based in part on local taxing effort. They will also lose CETA jobs because the layoff of regular employees will make the local community ineligible for some CETA funds.

While the full effects will depend on when and how the California Legislature responds, some of the effects of Proposition 13 are already apparent. Some jobs, summer schools and other programs have already been cut.

Some of the effects that have already emerged are:

- All property owners will receive substantial cuts in their property tax bills. Homeowners will immediately feel the impact because mortgage payments will be reduced where property taxes are held in escrow or "impound" accounts.
- Business property which pays two-thirds of the States property tax, will greatly benefit. This could stimulate business activity. However, business inventory taxes have already been reinstated and other increases in business taxes are expected.
- Substantial increases in property values will continue as the holding costs of property are lowered and more people enter the market.
- The 2% reassessment limitation will hold down taxes on non-residential property which is sold or transferred less often than residential property. Residential properties will then pay an increasing proportion of the property tax.
- Renters receive no direct relief. If landlords voluntarily pass on their savings, rents could be reduced.
- Utility companies will save millions of dollars. Pacific Telephone, for example, will save \$130 million. Utility bills will be reduced as these companies pass along savings.
- A freeze was immediately placed on state hiring. This and job layoffs could push the unemployment rate to 10%.
- Local governments will become more dependent on the State and Federal governments.
- General obligation bonds secured by the property tax are now prohibited. Bond ratings have already dropped making borrowing by local units more expensive.
- If police and fire services are curtailed, insurance rates will increase.

As it stands, Proposition 13 is a tax cut, not tax reform. If the Legislature raises other taxes to offset the revenue losses, Proposition 13 may become only a tax shift rather than a tax cut. For now, the California Legislature will use the State's \$5.3 billion surplus to soften the impacts of Proposition 13 for at least a year.

## SINGLE SALES FACTOR UPHELD

The United States Supreme Court, in *Moorman Manufacturing Co. v. Bair*, upheld Iowa's single-factor sales formula for apportioning corporate income for state income tax purposes.

In a 6-3 decision, the Court rejected Due Process and Commerce Clause objections and upheld the constitutionality of Iowa's 100% sales factor. The Court stated it would not reject an apportionment formula unless it was clearly shown that the income attributed, to a state, by the formula, was "out of all reasonable proportion" to the business transacted in that state and "led to a grossly distorted result."

The Moorman case was cited during last session's discussion of S.F. 1773, a proposal which would have modified Minnesota's corporate apportionment formula.





MINNESOTA

# Tax Study NEWS

JULY 1978

## MCCUTCHEON TAX SHIFT PROPOSAL

Since June 15th, when it was first announced, the McCutcheon tax shift has generated discussion of property taxes by supporters and opponents alike.

Senator William McCutcheon, who is Chairman of the Senate Tax Committee and the Tax Study Commission, has proposed reducing property taxes by 35-38%, by increasing the state sales tax.

The proposal calls for a state take-over of the total cost of basic maintenance education, reducing property taxes by \$541 million annually. The state would also take-over the yearly \$137 million cost of all welfare maintenance aid programs.

The combined cost of \$678 million, in 1980, would be offset by the reduced need for the homestead credit and circuit breaker (property tax refund) and by the elimination of the agricultural mill rate reduction.

The plan proposes increasing the sales tax, from the current 4%, to 6% and continuing the current exemptions. The remaining cost would be financed through projected growth in income tax collections or through cuts in spending.

Senator McCutcheon has emphasized that his proposal is a shift from the property tax to the income and sales taxes which bear a stronger relationship to ability to pay. It is not a tax cut.

The proposal is part of McCutcheon's continuing efforts to reduce property tax burdens in Minnesota. Senator McCutcheon still welcomes comments and suggestions about the proposal. During the last session of the Legislature, the Senator introduced a bill (S.F. 1507) to eliminate residential property taxes. The tax shift proposal signals the end of S.F. 1507.

## INCOME TAX SUBCOMMITTEE MEETS

The Tax Study Commission's Income Tax Subcommittee chaired by Representative Wes Skoglund, met June 27th to hear suggestions for simplifying the Minnesota income tax from several accountants and income tax preparers.

The Subcommittee also reviewed the 1978 income tax changes and the progress of the Revenue Department's revisions of the 1978 forms and instructions.

The speakers at the June 27th meeting included: Commissioner Arthur Roemer from the Department of Revenue; Mr. Robert Edstrom, Department of Revenue; Mr. Harry M. Mickelson, Jr., Association of Enrolled Agents; Mr. Paul Volstad, State Association of Public and Tax Accountants; Mr. Roger

Hanson, H & R Block, Inc.; Mrs. Dorothy Marden, Minnesota Accounting Aid Society of CPA's; and Mr. Jerry Deiley, Mr. Harry Peterson and Mr. Charles Hockert, of the Minnesota Association of Public Accountants.

The meeting resulted in over forty suggestions ranging from minor administrative changes to major tax law revisions. Several of the suggestions and their alternatives will be studied further by the Subcommittee as it begins to draft recommendations on income tax simplification for the Tax Study Commission and the 1979 Legislature.

Subcommittee members are Representative Wes Skoglund, Chairman, Representative Joel Jacobs and Senator Collin Peterson.

## STATE TAX/EXPENDITURE LIMITATIONS

The taxpayers revolt has focused increased nationwide attention on taxes and on the size and cost of government. Currently, efforts are underway in a number of states to amend state constitutions or to enact state statutes to limit tax revenues and expenditures.

In addition, at least 23 states have petitioned Congress for an amendment to the U.S. Constitution to limit federal spending.

The following is a state by state rundown on the status of various state tax/expenditure limitations.

### ALABAMA -

A special session of the legislature may be called to consider a constitutional amendment imposing a 20% lid on county tax increases.

### ARIZONA -

Petitions gathered for constitutional amendment on November ballot to: 1) restrict state spending to 7% of personal income, and 2) limit property tax increases.

### CALIFORNIA -

Passed 1978 - Proposition 13 - Property tax limited to 1% of market value. Future assessments limited to 2% per year, new taxes must be passed by two-thirds vote of the legislature.

### COLORADO -

Passed 1977 - Legislation limits increases in state general fund expenditures to 7% above previous year. An additional 4% above that limit is allocated for reserves and revenues beyond that are returned as tax relief.

### CONNECTICUT -

Proposed legislation would provide constitutional amendment to limit state taxes plus all other revenue, except federal aid, to 7% of the total personal income of the state. Another petition is circulating that would limit local property taxes to 1% of true and actual value. A second proposal is circulating to restrict state and local spending increases to no more than 2% of the preceding year's budget.

### DELAWARE -

A bill to limit state spending to 98% of anticipated revenue passed the legislature. Constitutional amendment has been proposed which would require a 3/5 vote of the legislature to raise taxes.

### FLORIDA -

A California-like proposal is being pushed for the November ballot. Plans are being made to circulate petitions for a limitation initiative for the 1979 ballot.

### HAWAII -

Constitutional convention proposed to consider limitation amendment.

### IDaho -

Petitions circulating for November election which would limit property taxes to 1% of market value.

### ILLINOIS -

Proposed legislation would prohibit state from having more than \$3.5 billion dollars in outstanding debt.

### MARYLAND -

Passed legislation limiting assessment increases to 1% a year. Resolution 13 would impose a ceiling on state spending.

### MASSACHUSETTS -

Proposed constitutional amendment would permit the classification of property according to use. Another constitutional amendment is being pushed to tie state revenues and outlays to growth in personal income and petition is circulating for spending limitation amendment.

### MICHIGAN -

Proposed constitutional amendment. Signatures required for November 7th ballot. "Tisch Amendment" would: 1) limit the proportion of true cash value at which property may be assessed 25%, 2) assessment increases cannot exceed 2.5% per year, 3) limit state income tax rates to 5.6%, 4) allow public school districts to impose a local income tax of up to 1%, not to exceed 10 years, if approved by majority of voters; and 5) state prohibited from requiring any new or expanded activities by local governments and school districts unless the state provides full financing.

### MONTANA -

A referendum is being sought for the November ballot which would shift property tax burdens to the income tax.

### NEBRASKA -

1975 - special session of the legislature passed two bills to limit local government property tax increases and to allow spending lids imposed by local voters on themselves.

Proposed constitutional amendment would prohibit annual increases of more than 5% in local spending without voter approval.

### NEVADA -

California-type initiative would limit property assessment to purchase value.

### NEW HAMPSHIRE -

Governor is seeking a referendum to limit property taxes and prohibit sales and income taxes.

### NEW JERSEY -

Passed 1976 - Legislation limits increases in state spending to the growth in state personal income and restrains local governments to a 3% annual increase.

### NEW YORK -

Proposed legislation would provide a constitutional amendment to limit state taxation to 8% of the average of state personal income for preceding three years.

### NORTH DAKOTA -

Petitions circulating for initiative to cut state income taxes by one-third.

### OHIO -

Pending legislation to amend the constitution would provide the framework to revise the state's tax structure for financing education. A state basic education fund would be created. The fund would be financed with untaxed taxes levied against real property and tangible personal property, state personal and corporate income taxes and net proceeds from any lottery conducted by an agency of the state.

### OREGON -

Proposed constitutional amendment on the November ballot would limit property taxes to 1 1/2% of 1975 assessed value. The fair market value based cannot exceed 2% for any one year. Two-thirds vote of each house required for new or increased taxes and a two-thirds popular vote required for special local taxes.

### PENNSYLVANIA -

Two bills being considered in the legislature would set spending ceilings determined by the rate of inflation and personal income growth. One would amend the statutes, the other the state constitution.

### RHODE ISLAND -

Proposition 14, similar to California, is being pushed for consideration by the legislature. Non-statutory 8% spending limit policy set by legislature.

### TENNESSEE -

Passed 1978 - Constitutional amendment restricting increases in state expenditures. Prohibits the growth rate of state appropriations from tax revenues from exceeding the estimated rate of growth from the state economy. Balanced budget required.

### TEXAS -

Proposed constitutional amendment providing that no increase in taxes or no new tax may be enacted unless approved by two-thirds of each house. Another constitutional amendment would prohibit income taxes and limit property assessments to 5% of the total property taxes for the preceding year. A third constitutional amendment would provide some type of initiative and referendum. The last constitutional amendment would limit appropriations to 7 1/2% above the preceding biennium.

### WASHINGTON -

Petitions circulating for a referendum to limit property taxes in a way similar to Proposition 13.

In addition, 10 states have introduced spending limits:

MAINE, GEORGIA, SOUTH DAKOTA, MINNESOTA, IOWA, WISCONSIN, UTAH, MISSOURI, VIRGINIA & WYOMING



## Schwarzkopf: Minneapolis Facing Difficult Legislative Session

Complex and interrelated issues in the Minneapolis legislative package and the inexperience of the 1979 Legislature make this one of the most difficult sessions the city has faced, said Lyall Schwarzkopf, city clerk and chief lobbyist for Minneapolis, at the April 10 breakfast in Minneapolis.

The city wants to do two things to reduce the amount of its annual payroll that goes for pensions. First, it wants to merge the Minneapolis pension fund for non-uniformed employees (MERF) with the state fund for local government employees, Public Employees Retirement Association (PERA). This merger would mean that the local government employees of other cities in the state would, through PERA, help Minneapolis pay for its \$175 million unfunded liability and the pensions benefits that were earned by Minneapolis employees in the past, for which no money was set aside.

Secondly, the city wants to share 50/50 with its current employees, the cost of pension benefits being accrued now. Today, the city contributes 14 percent of its payroll for these costs, while employees contribute 8 percent of their earnings.

A new formula for distributing state financial aid to municipal governments has been proposed which includes the pension plan merger favored by the city. Specifically, Minneapolis has agreed to forego any increase in aid under the proposed new formula for the first year of its operation, as long as the other cities agree to the merger. The new formula itself is described in the March 30 issue of the CL News.

While he did not address the issue of property taxes in detail, Schwarzkopf did mention that the city's solution to the pension issue would have this effect. Specifically, he indicated that the merger of MERF and PERA would reduce the property taxes in Minneapolis by \$6.7 million annually.

According to Schwarzkopf, a legislative decision for either no stadium or a Bloomington stadium would not solve the problems of the teams, and insure their continued activity in the Twin Cities. He said that a professional sports operation in this area, particularly baseball, requires public subsidy. Consequently, the city will continue to work for a downtown site, until the Legislature makes the final decision.

With respect to the investment the city has already made in preparing for a downtown stadium, Schwarzkopf is confident that the state will reimburse the city.

Tax increment financing is a method whereby the growth in tax revenue from new development is used to pay for the public expenses of making that development possible. Although legislation regarding this policy is still being debated, Schwarzkopf commented that nearly all cities favor a new bill which would allow the use of tax increment financing for redevelopment, low and moderate income housing projects, and to a limited extent, economic development. This law would replace the various special laws that currently apply to housing authorities, port authorities and cities.

## People

*A regular feature reporting on job changes in Twin City public life.*

**Thomas Dewar**, an assistant professor at the Humphrey Institute of Public Affairs at the University of Minnesota, will be joining the staff of The Minnesota Project in June, where he will work with the policy group.

\* \* \*

The new publisher of the Burnsville Current and the Apple Valley/Lakeville Countryside, is **Mary K. Ziegenhagen**. She previously served as publisher until 1977, when she joined the editorial and opinion page staff of the Minneapolis Star.

\* \* \*

**Katherine Gustafson** has been named acting state demographer, since the departure of **Hazel Reinhardt**. Gustafson is also continuing her responsibilities as manager of the economic division of the State Planning Agency.

\* \* \*

The new director of the Upper Midwest Council is **Stephen Alnes**. Formerly, he was editor of the Opinion page of the Minneapolis Star.

\* \* \*

The transportation coordinator for the Metropolitan Council's Transportation Advisory Board for the past four years, **Clem Springer**, is resigning to become director of corporate development for the Kahler Corporation in Rochester, Minn.

# CL News

MAY 7 1979

VOLUME XXVII, NO. 8

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May 1, 1979

## League Recommends Metropolitan Sales Tax To Pay For Regional Financial Needs

A fraction-of-a-penny increase in the state sales tax imposed only in the Twin Cities metropolitan area might help the 1979 Legislature with some of its most difficult problems during the remaining weeks of this session, recommended a Citizens League task force on tax and finance chaired by Earl Colborn, Jr.

The Citizens League is recommending revenue from the increase be used:

- \* To replace current metropolitan-wide tax levies, which could be as high as \$22 million, if all metropolitan-wide property tax levies were replaced with revenue from a metropolitan sales tax. This would provide property tax relief throughout the metropolitan area and help reduce the difference between metropolitan and outstate property tax levies.
- \* To finance incremental increases in expenses of regional functions, such as transit.
- \* To help pay for major public capital projects and major publicly-assisted private redevelopment projects in the metropolitan area.

The League said the Legislature also should establish a procedure to produce an orderly general budget for regional services in the Twin Cities area. It should require the Metropolitan Council to submit a comprehensive advisory budget proposal every year or two covering the budgets of the Metropolitan Transit Commission, Metropolitan Parks and Open Space Commission, Metropolitan Waste Control Commission, Metropolitan Airports Commission, Metropolitan Sports Facilities Commission, and the Metropolitan Mosquito Control District.

The Legislature can attack problems in the metropolitan area without disruption of its present decision-making framework, and use the Metropolitan Council for the purpose for which it was created in the first place, the League said.

The League proposal keeps the Legislature in the central role of raising revenue and making appropriations, and makes it possible for the Legislature to unify the system through a general regional tax. It provides a role for the

Metropolitan Council to make proposals to the Legislature, which is what the Council was created to do in the first place—to help the Legislature with decisions that must be made in the metropolitan area.

The Legislature would act on the Council's proposal, determining level and sources of financing.

"Four major issues in front of the 1979 Legislature could be addressed by this proposal," the League said, "the problem of the metropolitan liquor tax, the financing for the downtown people mover, metropolitan property tax relief,

and financing of major redevelopment projects. And, in the process, the Legislature can bring some rationality to the system of financing services in the metropolitan area."

The 1979 Legislature is being asked to provide additional financing for regional services, such as transit and parks. It is likely more proposals related to regional services in the Twin Cities area will be presented to the Legislature in future years.

Use of the state general revenue fund for regional services in the metropolitan

(Sales Tax cont. on p. 3)

## New Collective Bargaining System Proposed by CL

A framework for public employee bargaining with new opportunities for both sides in a dispute to reach settlements voluntarily instead of resorting to strike or arbitration was recommended by a Citizens League task force chaired by Greer Lockhart.

The proposal is designed to require that all compromising will be made by the parties in dispute, with no disruption of public services. If an outside party is needed to impose a final settlement, the outside party could not make any further compromises. It could only choose between the final package offers of the employer and the employees.

Too much effort in public sector collective bargaining in Minnesota is directed at trying to resolve disputes after both sides have reached an impasse. Currently, the parties at interest—management and the employee groups—are trying to manipulate the impasse procedures of strike or arbitration to their own interests. The League decided that from the public's standpoint, the key problem is how to keep disputes from reaching impasse in the first place.

A recent strike by community college teachers, combined with continuing concern over Minnesota's seven-year-old

public employee bargaining law, make it possible that a serious reappraisal of the law may be undertaken by the Legislature even though only four weeks remain in the 1979 session.

The current Minnesota law relies on strike and arbitration as the vehicle to resolve impasses. The strike option is not available for certain categories of employees.

Here are the key elements of the League proposal:

\* **All public employees would be governed by the same collective bargaining provisions.** Currently, provisions differ depending upon whether or not an employee's job is classified as "essential to the health or safety of the public and the withholding of such services would create a clear and present danger to the health or safety of the public." That definition has created two classes of employees, essential and non-essential. Under the League's proposal all employees would be treated as essential.

\* **Only one type of procedure would be used to resolve an impasse.** If the parties are unable to settle voluntarily, either side would be permitted to activate the

(Bargaining cont. on p. 3)

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Citizens League non-partisan public affairs research and education in the St. Paul-Minneapolis metropolitan area. 84 S. Sixth St. Minneapolis, Mn. 55402 (612)338-0791

Ms. Sally D. Sawyer  
League of Women Voters of Minn.  
555 Wabasha Street  
St. Paul, MN 55102





## Events

*A regular feature, announcing meetings, TV and radio programs, and conferences of interest.*

### Citizens League Breakfasts

*We think we have an exciting line-up of speakers for the remaining breakfasts of this season. We invite you to attend these informative meetings!*

#### ST. PAUL

**The Pilot House Restaurant**  
First National Bank Building  
(Use Robert Street entrance)  
7:30—8:30 A.M.

#### Thursday, May 17

"Progress Report of Lowertown"

**Weiming Lu**, Director of Urban Design,  
Lowertown Redevelopment Corporation

#### MINNEAPOLIS

**Grain Exchange Cafeteria**  
3rd St. and 4th Ave. So.  
7:30—8:30 A.M.

#### Tuesday, May 8

"Environmental Conflict Resolution:  
How the Project Works"

**Ronnie Brooks**, Director, Environmental  
Conflict Resolution Project of the Upper  
Midwest Council

#### Tuesday, May 15

"Tax Cut: Issues to be Resolved?"  
**Clyde Allen, Jr.**, Commissioner of  
Revenue

#### Tuesday, May 22

"New Directions For the Agency"  
**Arthur Sidner**, Director,  
State Planning Agency

#### Tuesday, May 25

To Be Announced

#### BLOOMINGTON

**Northwest Financial Center Cafeteria**  
South side of I-494 at France Ave. S.  
(Ground level at the northwest corner  
of the tower)  
7:30—8:30 A.M.

#### Friday, May 29

To Be Announced

## CL News

Published every two weeks.  
Second class postage paid at Minneapolis,  
Minn. \$20 per year.

## A 'Local' Tax for Regional Needs

I had a conversation on the phone the other day with Dave Walker, of the staff of the Advisory Commission on Intergovernmental Relations in Washington, that I thought I might share with you, in the context of the discussion stimulated by the new statement of the CL Board of Directors about an add-on sales tax for the Twin Cities area.

Dave has been a close and thoughtful watcher of the trends in the federal system in this country for a long time, now.

And I found him the other day much more intensely concerned than I had known him to be with what he sees as the strong centralizing tendencies in the system today.

There is a powerful impulse, on the part of almost everyone who wants a new program or a new project, to move toward the largest pool of revenue available. I suppose you could say that, with a rock of any given size, the larger the pool of water you drop it into, the less visible are the waves that are made.

What worries Dave, I sensed, is that in this desire to get money for things as easily as possible, we are slowly but inexorably moving policy making, and power, upward in the system. He sees this mainly—where he sits—in terms of the growing expansion in the power of the national government over the states. But something of the same danger is present in the parallel tendency, within Minnesota, to look to the state general fund.

What the CL is saying, in an important way, is that there is some virtue in maintaining some concept of "local" in the revenue-raising system. The metropolitan level is simply the most local level at which non-property sources are appropriately used.

One of the purposes of the fractional metropolitan sales tax, as the CL saw it, is simply to change the "mix" of revenue sources within the region.

Here—unlike the other 80 counties—property taxes are relatively high. About \$22 million of an add-on regional sales tax could be used to relieve existing property levies.

But tax relief in only a part of the justification.

Over the years, as currently, a series of needs are certain to appear for the financing of large, and essentially local, programs of—as we say—"metropolitan significance." It just makes basic sense that there ought to be some general revenue

source available, to use for these.

For lack of such a source, we've been fumbling around with what I think most people would regard as goofy expedients (such as the "blinking" liquor taxes). Or trying to load the charge into the state general fund (which produces conflicts with legislators from outside the Twin Cities area).

A fractional sales tax (and this tax can be used in small increments, just by changing the tables that you see posted on the side of a store's cash register) would provide a solid and sensible source of financing.

And, in the year when surpluses make it possible to reduce the big income and property taxes, this might be a time when a regional non-property source could be added to the system—as it needs to be.

Maybe it should be emphasized, too—in view of some of the early reaction—that the CL is talking about the state use of a state tax . . . not about the state delegation of the sales tax source for use (at their discretion) by local governments.

In this respect, it may be worth clarifying the comparison with Duluth.

The CL pointed to that as a case where some general tax source other than property has been opened up for the financing of the public expenditures of one of the state's major urban communities.

It is a municipal tax, because that community is substantially contained within the boundaries of the municipal corporation of Duluth. In the Twin Cities area it would not be a "city" tax in the municipal sense, since this community embraces many municipalities . . . any more than the piggy-back tax, in Duluth, would have been imposed just on the west end, or just in the east end, or just on the hilltop.

The comparison with Duluth is **not** parallel in terms of the **way** the tax was imposed. There, it was by local action. For the Twin Cities area, the CL has proposed action directly by the Legislature.

The CL proposal is consistent with the whole stream of state policy since 1967 . . . which is that the decision-making on metropolitan affairs, and certainly on taxes, ought to reside with the Legislature. The role of the Metropolitan Council is to bring the Legislature proposals.

*Ted Keldum*

## Make the Negotiating Process Succeed, CL Says

(Bargaining cont. from p. 1)

impasse procedures. Then both sides would submit their final offers in a package, with the understanding that if an arbitrator ultimately must decide, the arbitrator would have only the right to pick one package or the other. The arbitrator could not split the difference.

Currently, employees who fall into the "essential" category can demand arbitration to settle a dispute. The arbitrator has full authority to prescribe all aspects of a settlement, irrespective of the positions of the parties in dispute. Such employees are prohibited from striking.

Employees who do not fall into the "essential" category are treated differently. Under the current system, if the employer refuses a request to settle a dispute by arbitration, these employees may legally strike.

This means, the League said for example, that firefighters are deemed to be essential, while snowplow operators who keep streets open so fire trucks can get through are deemed to be non-essential. If an employee isn't essential, the League asks, why should taxpayers dollars be used to pay the salary?

In addition to the problems created by the essential and non-essential categories, dissatisfaction has been expressed with the power given to the arbitrator, who can write whatever settlement he wishes, under the current system.

There are complaints that the current system discourages good-faith bargaining in the early stages of negotiations. Employees may feel they can get a better settlement by arbitration than with good-faith bargaining. On the other hand, if an employer feels the employee group will insist on arbitration, will the employer make an early proposal that could form the basis for settlement?

The new proposal by the League would provide final-offer settlement for both types of employees and would remove the strike option for all public employees. The League emphasized that it would oppose elimination of the strike option unless it were accompanied by the arbitration change.

The League stressed that its proposal diminishes the role of the arbitrator who now has the authority to mandate, unilaterally, a binding, comprehensive agreement, irrespective of the positions of the two sides.

The arbitrator should be limited to picking one package or the other, the

League concluded, and should not have the right to select some issues from one package and some issues from the other package. The package approach is realistic because the employer or employee's package is almost surely to be tied together with parts balancing each other. The League does recommend that the arbitrator be permitted to remove from either package any issue which the arbitrator determines is not properly the subject of arbitration. The arbitrator's action to remove any issue from the package could be appealed to the courts.

The League anticipates that once each side knows the other's best offer that both sides will work harder to resolve whatever differences remain. If in a reasonable time they can't agree, then the arbitrator can make the selection, which becomes binding.

## Problems Noted in Current Financing System

(Sales Tax cont. from p. 1)

area has some real limitations, although this has been largely a satisfactory arrangement so far, the League found. Transit and parks funding in the metropolitan area have "balanced" certain transportation and state parks funding in the non-metropolitan parts of the state. Consequently, all parts of the state have received shares from the state general revenue fund. But needs are continuing to grow for financing of regional services in the metropolitan area. It is not likely that the nature of these needs nor their level will necessarily have counterparts in the non-metropolitan parts of the state.

The League recommended a fraction-of-a-penny increase in the state sales tax as a preferable non-property source, over an income tax surcharge.

"The income tax is more difficult to administer on a sub-state basis, because of problems such as whether to tax income based on location of residence or location of employment," the League said. "Also, we are aware of considerable concern over the overall level of the income tax in Minnesota today. By contrast, Minnesota ranks among the nation's lowest in sales tax collections. Finally, the Duluth sales tax provides some precedent for use of this source on a sub-state basis."

The League restated its long-standing opposition to sales or income taxes at the municipal level in the Twin Cities area because of wide differences in tax resources among different municipalities.

A one-half cent increase in the state sales tax would generate about \$40 million a year in the metropolitan area, the League said.

The League noted the problem of high

The League hopes that if such a proposal is adopted, both sides would find the degree of risk so high in post-impasse procedures that they will make extra effort to avoid such procedures.

The League stressed that whatever choice is made should be final even if the employer is the State of Minnesota. But, the League stressed that the decision doesn't by itself determine the level of appropriations. The public employer should have full authority to reduce the number of employees, for example, if that is necessary to stay within allowable appropriation limits.

*This statement, prepared by the task force, was considered for the second time, and approved by the Board April 25. The full statement is available from the CL office: 338-0791.*

property taxes exists particularly in the metropolitan area. Outside the seven county area, three-fourths of the homesteads paid less than \$397 in net homestead taxes in 1978. Inside the metropolitan area, three-fourths of the homesteads paid more than \$397, the League said.

The League found several problems with the current system of financing regional functions:

- \* A good way to pay for major redevelopment projects hasn't been found. Cities have had nothing available except highly controversial tax-increment financing since the federal government withdrew its urban renewal funding in the late 1960s.
- \* Unusual financing arrangements are proposed when the need for revenue occurs, because a rational system is not available. One proposal in the 1979 Legislature was for a liquor tax that would "blink" on and off in different parts of the metropolitan area, depending upon the need for revenue.
- \* Priorities on spending really aren't set in a conventional fashion of debating the relative value of one regional function versus another. It is also difficult to determine the total dollars being spent on regional services in the Twin Cities area, because expenditures are not assembled in one place on a regular basis.

*This statement prepared by the committee was discussed at two meetings of the Board, and was approved by the Board April 25. If you would like the full statement, call the League office: 338-0791.*





MINNESOTA

# Tax Study NEWS

APRIL 1979

## INFORMATIONAL SERIES COMPLETED

The Senate Tax Committee recently completed its two month long series of informational meetings which began in late February.

The series topics ranged from school aids and the property tax to senior citizens tax relief and pensions to tax treatment of the individual income tax and indexing.

The speakers included Keith Carlson, Senate Tax Committee; Joyce Krupey, Senate Research; Steve Wellington, City of St. Paul; Mark Anderson, MACI; Earl Craig, Minneapolis Urban Coalition; Lyall Schwarzkopf, City of Minneapolis; Barbara Newman, Bureau of Labor Statistics; and Jim Holmes, League of Minnesota Cities.

The staff of the Tax Study Commission also assisted the Senate Tax Committee during the informational series. The Commission staff prepared and presented information on the impacts of tax exempt property on local units of government, indexing the Minnesota income tax to adjust for inflation, the history of the corporate income tax, and the sales tax and its exemptions.

## HOUSE OMNIBUS BILL BEGUN

In the House Tax Committee, work began April 24th, on an omnibus tax bill which is expected to provide \$686 million in tax relief to Minnesota taxpayers.

The committee began by setting parameters to determine which of over thirty bills passed by the two divisions of the committee should be included in the omnibus bill. As of April 23, the bills passed out of the divisions totaled \$835.5 million in cost, and included changing the railroad gross earnings tax to an ad valorem property tax at a cost of \$30 million, increasing homestead credits and other property tax relief of over \$179 million, updating the states tax laws to reflect recent federal changes - \$40 million, widening income tax brackets by 24% at a cost of \$341 million, increasing the pension exclusion to \$12,000-\$28 million, reducing the corporate income tax rate on the first \$20,000 of taxable income at a cost of \$40.9 million and numerous other changes.

In addition, a number of other tax bills remain to be acted on by Division I and Division II.

## SESSION 1979 - TAX RELIEF

The tax cutting mood which swept the country last year has made the 1979 Minnesota Legislature very tax conscious this session. With less than a month remaining before the May 21, adjournment date, tax relief proposals which have been introduced in volume are being modified and refined by both caucuses in the House and Senate. Governor Al Quie has also made modifications in his original tax package particularly in the property tax area.

The tax relief proposals this session cross the spectrum of taxes in Minnesota. Proposals impact the income, property, and sales taxes as well as inheritance, gift, gross earnings, and excise taxes. The final tax relief package which emerges in late May is expected to be one of the largest in recent years and could total \$686 million.

The following page is a compilation of the highlights of many of the current proposals.

SESSION 1979 - TAX RELIEF - (Continued)INCOME TAX

Indexing for inflation is the key to several income tax proposals this session. One widely supported proposal would index the tax brackets for increases in the local Consumer Price Index (CPI). Other proposals use the CPI to index credits, the standard deduction, the rates or the income calculation. Alternative proposals reduce rates and widen the tax brackets to reduce the likelihood of being pushed into a higher bracket by a cost of living raise.

The revenue impacts of these proposals which are based on 7% and 8% inflation could be seriously understated if inflation continues at its current double digit rate.

Additional income tax proposals include increasing the tax break for pensions, providing energy credits, allowing an exclusion of \$100,000 of capital gain on the sale of a home for those over age 55, extending the \$140 national guard credit to reservists and active military serving outside of Minnesota and enacting the simplification measures recommended by the Tax Study Commission.

PROPERTY TAXES

A recent Tax Court decision has seriously questioned the constitutionality of the limited market value concept. (TSC News, February 1979.) As a result, property tax relief has received much legislative attention.

Many of the current proposals use similar vehicles of relief with varying dollar amounts. In general, the proposals will change the computation of the homestead base value which is now at \$21,000, increase the homestead credit which is now at 45% up to \$325, provide additional relief through the circuit breaker program and adjust assessment ratios for agricultural and for residential properties.

A special "targeting credit" has also been proposed to benefit those whose taxes rise 10% or more when limited market value is eliminated.

INHERITANCE AND GIFT TAX

One inheritance tax proposal being considered would repeal the inheritance tax and replace it with an estate tax.

An inheritance tax taxes each beneficiary on his share of the estate. Personal exemptions and rates are determined by the beneficiary's relationship to the decedent. In estate taxation, the tax is levied on the full estate under a single graduated rate structure. The current estate tax proposals would also repeal the present gift tax.

As in the property tax area, a recent Court case is also influencing proposals in the inheritance tax area. The Nordby decision resulted in the recognition of a spouses contribution to the production of income which enabled the acquisition of jointly held property. As a result the Governor and others have proposed that joint tenancy property be presumed to result from the equal contribution of both spouses.

RAILROAD GROSS EARNINGS

Another change in the tax structure is proposed as a result of federal legislation passed in 1976. The Railroad Revitalization and Regulatory Reform Act of 1976 prohibits discriminatory taxation of railroads and mandates that states cease taxation which discriminates against railroads, within three years.

Both the Governor and the Legislature have allotted approximately \$30 million to repeal the present gross earnings tax on railroads and require that railroads pay ad valorem property taxes. Under the proposal the Commissioner of Revenue would value railroad property under that "unit value" concept. Under this concept the individual railroad is first valued as a system, and then the value of that portion located within Minnesota is apportioned to each county on the basis of miles of rail and other physical structures within the county.

The gross earnings repeal bill passed the House on April 19th and is currently being considered in the Senate.





## FEDERAL VAT PROPOSAL STIRS INTEREST

Federal tax reformers and Congressional leaders have taken a renewed interest in the value-added tax (VAT).

VAT, which was proposed during the Nixon administration to provide increased revenue sharing for property tax relief, is now being proposed by Senator Russell Long, Chairman of the Senate Finance Committee, to replace the social security tax and reduce the federal income tax.

The VAT is a form of sales tax collected at each stage of the production and distribution chain. The tax is less regressive than social security taxes but more regressive than the income tax.

Proponents of the tax claim among other things that the VAT is a painless, hidden tax whose regressiveness could be reduced by circuit breaker type refunds. They also argue that since it is a tax on consumption rather than on savings or income it would result in more investments and less consumption, in effect increasing capital formation. In addition, since a value added tax is imposed on imports and rebated on exports, proponents argue it would reduce the balance of payments deficit.

Opponents argue that the tax will be passed on to consumers and accelerate inflation through a rise in retail prices to absorb an increased tax rate. Unless the tax has few exemptions and a single rate, it will be complex to administer. The burden of the tax will fall most heavily on low income persons who are least likely to be reached by a rebate or refund program. Because of its regressiveness, opponents claim the tax is being supported by those who feel the redistribution of wealth through the tax system, has gone too far.

Both sides agree that a value-added tax will not be adopted this session. As the social security tax hikes go into effect over the next few years, however, the VAT may become more politically attractive.

The value-added tax could be calculated three different ways on three different tax bases. The tax bases differ primarily by their treatment of capital assets.

### VAT VARIATIONS

<u>Tax Base</u>	<u>Capital Asset Treatment</u>
Gross product	No deductions allowed.
Net income	Deduction for depreciation.
*Consumption	Deduction for purchase price when acquired.
<u>Calculation Methods</u>	<u>Formula</u>
Subtraction	Gross receipts minus purchases $\times$ tax rate.
Addition	Payments to factors of production $\times$ tax rate.
*Tax-credit	Sales $\times$ tax rate minus taxes paid on purchases.

\*The preferred form of VAT is the consumption type which provides the most neutral treatment of capital assets and the European tax-credit procedure which can correct for errors and handle multiple rates.

## TAX STUDY COMMISSION

The Minnesota Tax Study Commission (TSC) is a permanent, bi-partisan legislative commission established by the 1977 Omnibus Tax Act. The primary purposes of the Tax Study Commission are three-fold:

- to examine Minnesota's total tax structure.
- to study long range tax policy.
- to analyze proposed tax legislation.

Membership of the Tax Study Commission consists of the Chairmen of the House and Senate Tax Committees and six additional members of the Senate and House. Members are appointed at the beginning of each biennial session and serve for a two year term.

The members of the 1979-1981 Tax Study Commission were chosen earlier this month. The members are:

### SENATORS

William McCutcheon  
DFL - St. Paul  
Chairman, Senate Tax

Jack Davies  
DFL - St. Paul

Marvin Hanson  
DFL - Hallock

Carl Jensen  
IR - Sleepy Eye

Gene Merriam  
DFL - Coon Rapids

Collin Peterson  
DFL - Detroit Lakes

Douglas Sillers  
IR - Moorhead

### REPRESENTATIVES

Harry Sieben, Jr.  
DFL - Hastings  
Chairman, House Tax

James Evans  
IR - Detroit Lakes

Adolph Kvam  
IR - Litchfield

Steven Novak  
DFL - New Brighton

Robert Searles  
IR - Wayzata

John Tomlinson  
DFL - St. Paul

Robert Vanasek  
DFL - New Prague

## SESSION 1979 - TAXES

The tax committees of the House and Senate have been inundated with tax bills this session. Twenty percent of bills introduced in the Senate and 22% of the House bills have been tax related.

The Senate Tax Committee has been holding a series of informational meetings on various tax issues since the end of February. The following is a tentative schedule of the April meetings:

April 2 - Treatment of Pensions and Military Pay.

April 4 - Indexing.

April 9 - Energy Credits & Deductions.

April 11 - Corporate Income or Excise Tax.

April 16 - Consumption Taxes including Sales Tax.

April 18 - Sales Tax exemptions.

April 23 - Inheritance, Gift and Estate taxes.

Division II of the House Tax Committee has devoted a number of meetings to repeal the gross earnings tax on railroads. The Division passed H.F. 177 on March 22, which provides property taxation on railroads. The transition from gross earnings to the property tax will take two years and during this time the taxes due will be paid to the State. For taxes payable in 1982, the local taxing districts will levy and collect the taxes due. The repeal of the 5% gross earnings tax will provide \$30 million in tax relief for the railroads.

Division I of the House Tax Committee recently passed Governor Quie's income tax proposals. The \$416 million dollar package includes an immediate 10% reduction in personal income taxes, indexing of future tax brackets and inflation adjustments in the low income credit. The Division also approved adoption of the Federal Code update provisions which include a capital gain exclusion for the sale of a personal residence.



MINNESOTA

# Tax Study NEWS

FEBRUARY 1979

## LIMITED MARKET VALUE RULED UNCONSTITUTIONAL

On January 31, 1979, the Tax Court, in a decision written by Judge Earl Gustafson, declared that the "limited market value" provision in property valuation unconstitutionally discriminated against property owned by Dr. Malcolm McCannel.

Before the concept of limited market value was enacted in 1973, uniform assessment at full market value had been the goal of property tax valuations since 1906, when the Minnesota Constitution was amended to provide that "taxes should be uniform upon the same class of subjects." The 1973 law provided the additional criterion that limited annual increases in assessed value to 5%.

In 1974, the Tax Study Commission recommended the 5% limit be repealed. The Commission recognized that "the 5% limit prevented assessors from bringing all parcels up to market value and locked in existing inequities." Further, the Commission felt that "if it desired to shift taxes among property classes then the classification system is a more accurate, predictable and effective vehicle."

The law was amended in 1975 to change the limit on increases to 10% of the previous valuation or 25% of the total increase in value over the previous valuation, whichever was greater. As predicted by the Tax Study Commission, the law did two things. First, by allowing property to be taxed at less than market value, it shifted taxes to other property in the same taxing district. Secondly, it continued the practice of unequal assessments within the same class of property.

Limited market values were designed to mitigate rising property taxes which resulted from rapidly inflating home values. The law, however, unfairly discriminated against property owners whose property

values had remained stable or declined in value. The concept also ran counter to recent trends toward equality, through improved assessment practices.

The suit brought against the State of Minnesota and Hennepin County by Dr. McCannel challenged the constitutionality of the limited market value law on the grounds that he was denied "equal protection of the laws and uniform tax treatment guaranteed by the U.S. Constitution and the Minnesota Constitution."

His property was placed at full market value while other homes in the area were valued less under the limited market concept. In addition, the Minneapolis Assessor had a practice of undervaluing other homes, like his, which had values over \$100,000.

In declaring limited market value unconstitutional, the Tax Court decision affected McCannel in two ways. Under M.S. 273.11 Subd. 2, the limited market value discrimination, the McCannel parcel was reduced from 100% to between 90% and 94% which is the average of all parcels in the taxing district. As a result of the separate discrimination by the assessor, the Tax Court concluded that upper bracket homes in the same neighborhood were "systematically and intentionally valued for tax purposes at approximately 63% of market value," and therefore reduced the valuation on the McCannel property to 63% of market value.

It is premature to predict the effect of the Tax Court decision on property values and taxes. The ruling applies only to McCannel and has no immediate effect on other property owners. The final outcome will depend on whether the Supreme Court upholds the decision. Until that time, the limited market value concept remains in effect.



## WHAT IS LIMITED MARKET VALUE

The concept of limited market value allows homes to be taxed at a lower valuation than estimated market value. The following is an example of how property taxes are determined with limited market value for residential property.

### ASSUME

1977 Limited Market Value - \$40,000  
1978 Estimated Market Value - \$50,000

The increase in limited market value is the greater of:

- 1) 10% of the previous valuation  
( $\$40,000 \times 10\% = \$4,000$ )

OR

- 2) 25% of the total increase in value over the previous valuation  
( $\$50,000 - \$40,000 = \$10,000$  and  
 $\$10,000 \times 25\% = \$2,500$ )

Therefore, 1979 - Limited Market Value is -  
( $\$40,000 + \$4,000 = \$44,000$ )

The assessed valuation is then determined by applying the assessment ratios to the limited market value. For non-agricultural homesteads the ratio is 20% of the homestead base value (\$17,000 for taxes payable in 1979) and 33-1/3% of the remainder.

$$\begin{aligned} \$17,000 \times 20\% &= 3,400 \\ \$44,000 - 17,000 &= 27,000 \times 33\frac{1}{3}\% = 8,991 \end{aligned}$$

$$\begin{aligned} \$3,400 + 8,991 &= 12,391 \quad \text{Assessed Value} \\ &\times .100 \quad \text{Mill Rate} \\ &\$1,239.10 \quad \text{Gross Tax} \\ &- 325.00 \quad \text{Homestead Credit} \\ &\$914.10 \quad \text{Property Tax Payable 1979} \end{aligned}$$

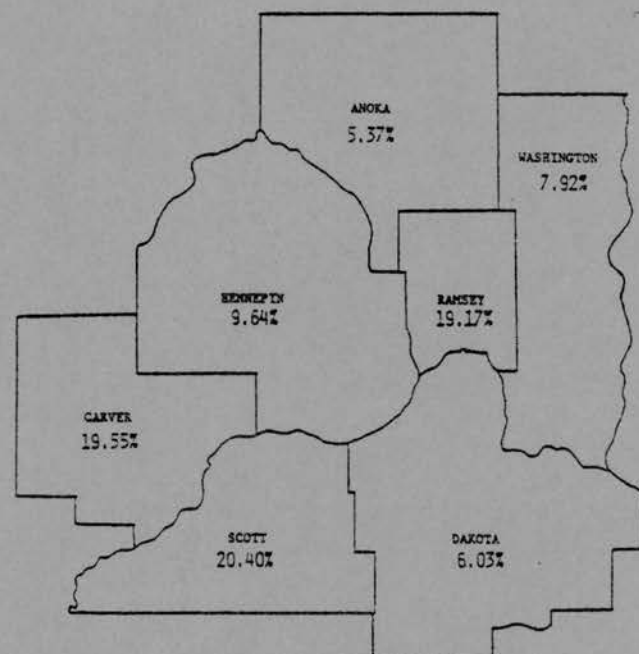
If limited market value is declared unconstitutional the effects on property values and taxes will vary. Assessed value would be based on market value and while it could increase property taxes, it will result in a shift in the tax burden between different classes of property.

For example, those classes of property such as commercial and industrial that traditionally have been valued near their actual value could realize a decrease in taxes. While homeowners in the same taxing district that are undervalued could expect an increase in property taxes. In areas where there is substantial new development, homeowners may pay less tax if the property is already at market value. Generally it is expected that taxes will increase on property that is considerably undervalued and decrease on property valued closer to actual market value.

The map below shows how percentage differences in limited and estimated market values vary in the seven county metro area. The lower the percentage the closer the county has come to assessing up to 100%. Major disparities occur in outstate Minnesota where the percentage differences range from 2.26% in Carlton County to 72.16% in Roseau County.

On the average, statewide, limited market values are 20.31% lower than estimated market values.

% DIFFERENCE IN LIMITED AND ESTIMATED MARKET VALUES IN SEVEN COUNTY METRO AREA





MINNESOTA

# Tax Study NEWS

DECEMBER 1978

## TSC RECOMMENDS SIMPLIFICATION

On December 18, 1978, the Tax Study Commission reviewed recommendations for the simplification of the Minnesota income tax. The recommendations, prepared by the Income Tax Subcommittee, were then accepted by the Commission to be forwarded to the 1979 Legislature in January.

Through a series of meetings over the past eighteen months, the Income Tax Subcommittee investigated the simplification of the income tax and found that various changes to the tax in its current form could be enacted to make it simpler to file and understand. The recommended changes deal with administrative changes directed at the Department of Revenue as well as legislative changes.

Administrative changes include the development of a short form for standard deduction filers similar to the federal 1040A form, redesigning the tax form to follow a logical format that can be retained from year to year, continuation and expansion of taxpayer services, and issuing updated rules and regulations. Several other recommendations to simplify the tax form have already been incorporated into the 1978 forms.

Legislative changes recommended include placing the federal tax deduction on an accrual basis, increasing the standard deduction, conforming itemized deductions more closely to the federal, and standardizing the dollar level of personal and dependent credits. These will be drafted into bill form for the 1979 Session.

The report also includes suggested versions of a short form and simplified schedules for itemized deductions which incorporate the recommendations.

Members of the Income Tax Subcommittee were Rep. Wes Skoglund, Chairman, Rep. Joel Jacobs, and Sen. Collin Peterson.

## TSC MEMBERSHIP TO CHANGE

On January 16, 1979, at least three new members will be appointed to the Tax Study Commission.

Under Minnesota Statutes, Chapter 3.86, the membership of the Tax Study Commission changes in mid-January. The law provides for a membership of seven Senators and seven Representatives including the Chairmen of the Senate and House Tax Committees. The Senators are appointed by the Committee on Committees while the Representatives are appointed by the Speaker of the House.

Most current members are expected to be reappointed. However, the Commission will lose three House members on January 3, as a result of the November elections. Those members not returning to the Legislature in 1979 are Representatives Wes Skoglund, Peter Fugina, and Bill Kelly, each of whom has made significant contributions to the success of the Tax Study Commission.

## TSC PUBLICATIONS

Single copies of the following Commission reports are now available through the Tax Study Commission by calling 296-6717.

- 1977 Minnesota Rankings - Comparison of Taxes & Expenditures. (December 1978)
- 1978 Comparative Business Climate Study Staff Research Report #1. (October 1978)

Scheduled for release in early January 1979 is a history of taxation in Minnesota which includes a brief narrative with extensive tables of tax legislation enacted since 1858.

- History of Taxation in Minnesota, Staff Research Report #2. (December 1978)

## TAX EXEMPT STUDY COMPLETED

The Public Lands Impact Study, a joint project of the Tax Study Commission and the Legislative Commission on Minnesota Resources (LCMR) was completed this month.

The study which began in September, 1976, to investigate the fiscal impacts of tax exempt property on local governments, was divided into two phases. Phase I dealt with the impacts of natural resource lands, parks and forests. Phase II dealt with administrative and institutional properties including education, health care, corrections and administrative facilities.

Phase I was completed in March, 1977, and was presented and accepted by the Tax Study Commission and the LCMR at that time.

Phase II, completed this month, was begun in May, 1977. The Phase II study was more comprehensive in its analysis than Phase I. Phase II utilized a cost-benefit approach to analyzing the impacts of public facilities on local governments. The research focused on:

- the amount, use, and distribution of state lands and facilities.
- public service demands and costs.
- options and principles related to state compensation for public land impacts.

On the basis of the information gathered, the study concluded that compensation for state lands and facilities is warranted on a cost-benefit basis, in many cases. The study, however, also shows that while most costs can be quantified, many benefits can not. The result of the study therefore is not a set of recommendations. Instead, it is a discussion of the findings and the thirteen key factors which must be addressed when considering public land impacts.

The final report of the Public Lands Impact Study was presented by the Property Tax - Tax Exempt Properties Subcommittee and accepted at the December 18, 1978, meeting of the Tax Study Commission.

Members of the Subcommittee are Representative Peter Fugina, Chairman, Representative Bill Kelly and Senator Marvin Hanson. Copies of the full study are not yet available to the public.

## INCOME TAX RANKINGS

Per capita individual income tax collections in Minnesota rose 12.4% in 1977 to a record \$240.74 while the states ranking dropped from 4th highest in 1976 to 5th in 1977.

For the other states in the top ten, collections rose an average of 14.9%. Alaska increased 35% retaining its number one position. Wisconsin increased 18.7% moving from 7th in 1976 up to 4th in 1977. Massachusetts dropped from 5th to 8th due to a 1.6% decrease in collections.

The U.S. average for income tax collections increased 17.9% from \$100.24 per capita to \$118.22.

While tax revenues in Minnesota are increasing each year, those increases appear to be stabilizing at levels below the national average. As a result, Minnesota's tax rankings have been improving over the past few years.

The following table illustrates the change in the rankings in per capita income tax between 1976 and 1977.

STATE INDIVIDUAL INCOME TAX

FISCAL 1976			FISCAL 1977		
PER CAPITA			PER CAPITA		
STATE	RANK	TAX	STATE	RANK	TAX
Alaska	1	\$382.26	Alaska	1	\$516.30
Delaware	2	243.10	Delaware	2	288.66
New York	3	218.36	New York	3	252.56
MINNESOTA	4	214.25	Wisconsin	4	245.38
Massachusetts	5	209.36	MINNESOTA	5	240.74
Hawaii	6	208.47	Oregon	6	176.49
Wisconsin	7	208.27	Kanali	7	226.84
Oregon	8	202.73	Massachusetts	8	206.08
Maryland	9	190.72	Maryland	9	194.91
California	10	137.64	California	10	165.37
Iowa	11	135.27	Michigan	11	160.53
Montana	12	129.51	Iowa	12	155.40
Michigan	13	124.20	Montana	13	146.39
Colorado	14	124.03	Vermont	14	145.62
Vermont	15	123.79	North Carolina	15	141.56
Virginia	16	122.13	Virginia	16	139.06
Idaho	17	118.92	Idaho	17	131.24
Utah	18	114.46	Colorado	18	129.41
North Carolina	19	110.59	Illinois	19	125.69
Illinois	20	108.34	Utah	20	124.82
Rhode Island	21	100.33	Rhode Island	21	111.00
North Dakota	22	91.41	Nebraska	22	109.29
Pennsylvania	23	89.55	South Carolina	23	100.97
South Carolina	24	85.86	Pennsylvania	24	99.76
Kentucky	25	85.34	Georgia	25	98.19
Kansas	26	83.87	Kentucky	26	97.79
Georgia	27	83.14	New Jersey	27	94.33
West Virginia	28	76.94	Kansas	28	89.93
Indiana	29	76.47	Indiana	29	89.92
Oklahoma	30	72.67	West Virginia	30	88.58
Arizona	31	71.75	North Dakota	31	84.28
Missouri	32	70.92	Arizona	32	83.01
Arkansas	33	70.03	Missouri	33	81.15
Nebraska	34	68.08	Oklahoma	34	77.14
Alabama	35	61.23	Arkansas	35	76.39
New Mexico	36	49.82	Alabama	36	70.97
Maine	37	48.78	Maine	37	69.27
Ohio	38	47.36	Ohio	38	67.46
Mississippi	39	44.78	Massachusetts	39	59.08
Louisiana	40	30.63	Louisiana	40	14.08
Connecticut	41	16.20	New Mexico	41	22.29
New Jersey	42	13.79	Connecticut	42	19.09
New Hampshire	43	7.51	New Hampshire	43	8.12
Tennessee	44	1.25	Tennessee	44	5.21
Florida		(No Tax)	Florida	45	-
Nevada		(No Tax)	Nevada	46	-
South Dakota		(No Tax)	South Dakota	47	-
Texas		(No Tax)	Texas	48	-
Washington		(No Tax)	Washington	49	-
Wyoming		(No Tax)	Wyoming	50	-

U.S. AVERAGE --- \$100.24  
MEDIAN STATE --- \$40.43

U.S. AVERAGE --- \$118.22  
MEDIAN STATE --- \$105.13





MINNESOTA

# Tax Study NEWS

NOVEMBER 1978

## IMPACT OF 1978 REVENUE ACT

As a result of the Revenue Act of 1978, most Minnesotans will realize a tax reduction on their federal income taxes. For some taxpayers, the reduction in withholding will be offset by increases in social security taxes.

However, the State of Minnesota may receive a windfall in income tax revenues because of the provision allowing the deduction of federal taxes from Minnesota gross income. When federal taxes are reduced, the deduction for federal taxes is smaller resulting in higher Minnesota adjusted gross income.

The reduction in corporate income tax rates will not have the same effect since businesses are not allowed to deduct federal taxes.

The four major provisions of the Revenue Act of 1978 - the reduction in individual income tax rates, the increase in the zero bracket amount, repeal of the general tax credit and the increase in the personal exemption will increase Minnesota tax revenue approximately \$12 million according to Revenue Department estimates.

The following table illustrates the net effect of the major changes in Minnesota for the next three fiscal years.

(In Millions of \$)	1979	1980	1981
RATE REDUCTION	+ 9.244	+ 24.034	+ 28.843
ZERO BRACKET AMOUNT	+ 1.240	+ 3.034	+ 3.187
GENERAL TAX CREDIT	- 9.214	- 22.639	- 23.934
PERSONAL EXEMPTIONS	+ 10.811	+ 26.593	+ 28.187
NET GAIN	+ 12.081	+ 31.022	+ 36.283

Other changes not affecting revenues until fiscal 1980 include an additional \$1.3 million for the increased earned income credit, a decrease of nearly \$3 million for the repeal of the gas tax deduction, and a net gain of \$44,000 due to the repeal of the political contribution deduction and the doubling of political contribution credit.

## ENERGY TAX ACT OF 1978

On November 9, 1978, President Carter signed the Energy Tax Act which provides residential and business energy credits, incentives for alternative energy sources and a transportation tax on 1980 model cars.

A residential credit of 15% on expenditures up to \$2,000 to a maximum credit of \$300 is allowed for insulation, exterior caulking or weatherstripping, storm doors and windows and other types of energy-conserving items in the taxpayers principal residence.

In addition, a credit is allowed for installation of solar, wind or geothermal equipment. The credit is 30% of the first \$2,000 and 20% of the next \$8,000 up to a maximum credit of \$2,000.

For business, an additional 10% investment credit is allowed for investment in alternative energy property. The additional credit may be offset against 100% of tax liability, except for solar and wind energy equipment for which a refundable credit is allowed.

The gas guzzler tax was imposed on the sale of automobiles whose fuel economy fails to meet fuel efficiency standards. The tax applies to 1980 and later model year autos weighing less than 6,000 pounds.

The tax rates for 1980 automobiles will depend on the MPG rating and will range from \$200 to \$550. The range would increase yearly until 1986 when the range will be \$550 to \$3,850.

Other provisions of the act include removing the excise taxes on certain gasohol blends and refined lubricating oil, allowing an additional 10% investment credit for certain alternative energy property, and providing tax incentives for the development of geothermal resources and the production of geopressurized methane gas.

## REVENUE RANKINGS

For the second year, the Minnesota Tax Study Commission will be releasing a comparison of the tax and expenditure rankings for each of the 50 states.

Based on statistics issued by the U.S. Department of Commerce, Minnesota continues moving in the direction of lower taxes in relation to the other 49 states. Minnesota's ranking in several revenue categories improved in fiscal 1977. Minnesota also improved its ranking in several expenditure areas.

Total state revenue increased 8% between fiscal 1976 and fiscal 1977 compared to an increase in total general expenditures of 9.8% during the same period. In comparison with other states, Minnesota ranked 40th in increased revenue and 16th in increased expenditures.

The full report will be available early next month. Below is a summary of the revenue rankings which compares the rankings for fiscal 1975, 1976 and 1977.

### MINNESOTA SUMMARY RANKINGS - REVENUE

	1975	1976	1977
<u>TOTAL STATE &amp; LOCAL REVENUE (own sources)</u>			
Per Capita	7	9	3
Per \$1,000 Personal Income	7	6	4
<u>TOTAL STATE &amp; LOCAL TAX REVENUE</u>			
Per Capita	8	8	9
Per \$1,000 Personal Income	6	8	7
<u>STATE INDIVIDUAL INCOME TAX</u>			
Per Capita	3	4	5
Per \$1,000 Personal Income	2	2	4
<u>PROPERTY TAX</u>			
Per Capita	22	24	23
Per \$1,000 Personal Income	23	22	22
<u>STATE GENERAL SALES TAX</u>			
Per Capita	35	36	38
Per \$1,000 Personal Income	35	35	36
<u>CORPORATE INCOME TAX</u>			
Per Capita	4	6	6
Per \$1,000 Personal Income	3	6	3

Fiscal year 1977 is the period from July 1, 1976 through June 30, 1977.

## TAX LIMITATIONS- ELECTION RESULTS

Voters in seventeen states were faced with a wide variety of tax-limitation measures.

The proposals were adopted in twelve of the seventeen states reinforcing the national trend toward fiscal conservatism.

Proposition 13 look alike were defeated in Michigan and Oregon but were approved in Idaho and Nevada.

Measures to tie spending limits to increases in state economy were passed in Michigan, Arizona, Hawaii and Texas but defeated in Nebraska and Colorado. Illinois passed an advisory referendum to consider the establishment of a spending ceiling.

Two states, Alabama and Missouri, approved measures to lower property tax rates and Massachusetts passed a property tax classification system.

North Dakota voters passed a personal income tax reduction and at the same time raised corporate income taxes. In South Dakota a measure passed requiring either a 2/3 vote of the legislature or a referendum to increase taxes. Arkansas voters defeated a proposed food and drug exemption from the sales tax, and a proposed amendment to exempt inventories from property taxation was defeated in West Virginia.

## MEETING NOTICE

December 5 • Tuesday, Property Tax - Reliance and Policy Subcommittee - Senator Jack Davies, Chairman, Room 118 - Capitol, 1:00 P.M.

\*\*\*\*\*  
 \* The Tax Study Commission (TSC) is a  
 \* permanent Legislative Commission created  
 \* to examine Minnesota's total tax  
 \* structure, study long range tax policy,  
 \* and analyze proposed tax legislation.  
 \*  
 \*\*\*\*\*



MINNESOTA

# Tax Study NEWS

OCTOBER 1978

## COMPARATIVE BUSINESS CLIMATE STUDY

On October 18, 1978, the Minnesota Tax Study Commission released a staff research report on Minnesota's business climate.

The report, which is entitled the 1978 Comparative Business Climate Study, is a statistical evaluation of the general business climate in Minnesota and the other 49 states.

Staff researchers began, last May, compiling a comprehensive list of the factors used by businessmen in the selection of sites for their corporate facilities. Statistics were then located to provide a representative mix of the factors on that list. Among the factors included were size of the labor force, wage rates, workers compensation, labor productivity, building costs, transportation facilities, energy, taxes, and facilities for living.

Prior to its release the study was offered for review and comment to the Business Climate Subcommittee, the Tax Study Commission, House and Senate researchers, and other private and state agencies.

### FINDINGS

The 46 socio-economic variables included in the study were combined in a varying number of categories. No matter how the factors were categorized, when all the factors were considered, Minnesota ranked as one of the best states in the nation in which to do business.

When quality of life factors are completely disregarded, the economic costs of doing business in Minnesota were found to rank higher here than in South Dakota and many of the Sun Belt states. Considering only the 27 economic factors, the analysis results in a Minnesota rank of 14th.

When the combined rankings of all 46 factors were rated, Minnesota was found to rank as the second best state in the nation for business.

### CONCLUSION

Businesses which are concerned about the quality of life of their employees will find Minnesota to be an excellent state in which to do business.

The cost of doing business in Minnesota, however, does tend to be higher than in some of the states with which we compete. Legislative action could improve Minnesota's cost attractiveness and enable Minnesota to retain its excellent overall business climate and growth record.

#### BUSINESS CLIMATE TOP TWENTY

All Factors	Rank	Economic Factors Only
Nebraska	1	tie { Nebraska
MINNESOTA	2	tie { Oklahoma
South Dakota	3	tie { Kansas
Wyoming	4	tie { Texas
Kansas	5	Tennessee
Oklahoma	6	Wyoming
Tennessee	7	Mississippi
Iowa	8	Indiana
Utah	9	North Carolina
North Carolina	10	South Dakota
Wisconsin	11	Arkansas
North Dakota	12	Louisiana
Colorado	13	Georgia
Texas	14	MINNESOTA
Indiana	15	Alabama
Missouri	16	Iowa
Alabama	17	Idaho
Mississippi	18	Florida
Washington	19	North Dakota
Arkansas	20	South Carolina

#### FIVE STATE REGION

	ALL FACTORS		ECONOMIC FACTORS	
	National Rank	Regional Rank	National Rank	Regional Rank
MINNESOTA	2	1	14	2
South Dakota	3	2	10	1
Iowa	8	3	16	3
Wisconsin	11	4	23	5
North Dakota	12	5	19	4

TAX STUDY COMMISSION  
1978 Comparative Business Climate Study



## FEDERAL TAX BILL APPROVED

On October 15, 1978, Congress approved the Revenue Act of 1978 that, if signed by President Carter, will provide \$18.7 billion in tax reductions.

The bill is expected to cut individual taxes by approximately \$12.7 billion, business taxes by \$3.7 billion and capital gains taxes by \$2.2 billion.

Although the reduction is smaller than President Carter had requested, the bill does not contain the two provisions Carter had threatened to veto; namely the tuition tax credit and tax cuts tied to restraints in federal spending.

### INDIVIDUAL

Major provisions affecting individuals include an increase in the personal exemption from \$750 to \$1,000, repeal of the \$35 general tax credit, increases in the zero bracket amount (standard deduction), and elimination of the itemized deductions for non business gasoline taxes and political contributions. The earned income credit is made permanent and the maximum credit increased to \$500. The exemption from taxation for unemployment compensation is phased out for singles with incomes over \$20,000 and couples with over \$25,000 in gross income.

In addition, the rate brackets are restructured, with the number of brackets reduced from 25 to 15. The smaller number of wider brackets will allow taxpayers to earn higher incomes without being pushed so rapidly into higher brackets.

### BUSINESS

The bill reduces the top corporate tax rate from 48% to 46% and provides a graduated rate schedule as follows:

TAXABLE INCOME	CURRENT	NEW
\$ 0 - 25,000	20%	17%
25,000 - 50,000	22%	20%
50,000 - 75,000	48%	30%
75,000 - 100,000	48%	40%
100,000 +	48%	46%

The bill replaces the existing general jobs credit with a new credit targeted at certain hard-to-hire persons.

The 10% rate for the investment credit and the \$100,000 used property limitation are made permanent. The tax liability limit was increased from 50% to 90% on a phased-in basis. The investment credit will now be allowed on certain rehabilitation expenditures.

### CAPITAL GAINS

Several changes were made in the taxation of capital gains. The exclusion for individuals was increased from 50% to 60%. The 25% alternative tax is repealed. A new alternative minimum tax is created to apply to excess itemized deductions and the excluded portion of capital gains. The present add-on minimum tax is retained for other preferences but is allowed as an offset in computing the alternative minimum tax.

Effective July 26, 1978, a one-time \$100,000 exclusion is allowed for taxpayers over age 55 on the sale of a principal residence.

## TAX LIMITATION UPDATE

Voters in seventeen states will be deciding on tax-expenditure limitations on Election Day, November 7th.

Those seventeen states are: ALABAMA, ARIZONA, COLORADO\*, FLORIDA, IDAHO\*, ILLINOIS\*, MASSACHUSETTS, MICHIGAN\*, MISSOURI, NEBRASKA\*, NEVADA\*, NEW MEXICO, NORTH DAKOTA\*, OREGON\*, SOUTH DAKOTA, TEXAS, and WEST VIRGINIA.

The ballot proposals resulted from the initiative process<sup>(\*)</sup> in eight states and from the legislative process in ten. Oregon has both an initiative and a legislative proposal on the ballot.

If adopted by the voters, these various tax/expenditure limitations could have a major impact on taxation and spending in those states.

# URBAN BRIEF 4

## CIRCUIT-BREAKERS FOR THE TAX OVERLOAD?

Overnight, tax limitation became part of the American political vocabulary. But long before the vivid object lesson of the California vote on Proposition 13, state legislatures across the country were struggling with the problem of property taxes and low-income families, especially the elderly. Retirement incomes are strained by the taxes resulting from rising home values and tax rates. Homeowners fear the loss of their homes and have increasingly articulated their fears. At the same time, as the number of Americans over 65 has increased, the senior citizen lobby has become a significant force among the host of special interest groups on the political scene.

All 50 states now have some form of property tax relief for the elderly, most adopted within the past 20 years. Circuit-breaker programs, the subject of this Urban Brief, are distinguished from other forms of tax relief in two ways. They are designed to relate property tax liability to income, and the cost of the local tax relief is paid for by the state.

### HOW THEY WORK

The term "circuit-breaker" signals the intent to prevent an overload of taxes, just as a circuit breaker in an electrical system prevents an overload of current. If the tax bill is "too high" in relation to a prescribed income scale, part or all of the taxes are forgiven.

Since Wisconsin pioneered the circuit-breaker concept in 1964, 30 states have embraced such a system. Many have extended relief to renters (viewing a portion of rent as property tax paid). A few have also included all homeowners regardless of age.

The details vary greatly, but all circuit-breaker formulas use one of two basic approaches. One takes the view that when the amount of property tax due exceeds an established percentage of income, the taxpayer should be relieved of all or a portion of the excess amount. The other provides that at given income levels the taxpayer pays only a particular percentage of the property tax due.

The Maryland law, newly amended in 1978, illustrates the first approach. For taxpayers over 60, property taxes are limited to 1.5% of the first \$4,000 of total gross income, 3.5% of the next \$4,000 and a similar graduated scale up to 9% of all income over \$16,000. For example, homeowners with an income of \$7,000 would pay a maximum of \$165 in property taxes, regardless of the value of their house or the tax rate of the jurisdiction in which they lived. This structure gives absolute protection against property tax increases for people on fixed incomes.

The Pennsylvania program is characteristic of circuit-breaker systems that feature relief equal to some proportion of the property tax bill. Those with incomes under \$3,000 pay nothing. Those with incomes between \$3,000 and \$7,500 (the upper limit for relief) pay a proportion ranging up to 90% of the tax owed. This design makes the tax burden in different parts of the state very different for persons of the same income. A homeowner with an income of \$7,000 living in a high-tax urban area in a house valued at \$40,000 could have a bill of \$800 and would be liable

for \$720 of that. A person owning a house of the same value in a rural area could have a bill of \$400 and be required to pay only \$360.

All programs like the one in Pennsylvania involve co-payment: as taxes rise, the homeowner pays part of the increased tax and the state pays part. Some observers favor this arrangement on the ground that the taxpayer retains a stake in controlling the level of local taxation because he is only partially protected from increases. The state of Maryland has chosen to provide a co-payment feature for people under 60. Politically, it is attractive, because for the same outlay by the state more people get benefits, though the average benefit is lower.

### EVALUATING CIRCUIT-BREAKERS

In evaluating circuit-breaker programs, it is useful to consider several questions: 1) Who benefits? 2) Does the circuit-breaker make the overall tax system more equitable? 3) What alternate use of the same state resources might be made?

#### WHO BENEFITS?

Both the strength of the circuit-breaker programs and the challenge to them derive from the fact that they benefit homeowners as a class. By definition, ownership means some amount of net worth. The highest dollar benefits from a circuit-breaker program accrue to those having the highest net worth, given equality of income. The effect is accentuated by the emphasis on the elderly, whose net worth, because of accumulation over a lifetime, is often substantially greater than that of younger families. This apparent inequity may be weighed against the possible social consequences if older people are forced to sell their homes because of high taxes.

If the circuit-breaker is looked on simply as a tax relief program, it can be argued that it is just as hard for a young family with a couple of children and modest income to pay property taxes as it is for older people. On the basis of this argument, about a half a dozen states cover all homeowners in their circuit-breaker programs. The state expense of such comprehensive coverage can be a major deterrent.

Costs of providing property tax relief fall in some way on all taxpayers, whether homeowners or not. To avoid requiring renters, who as a group are not as well off as owners, to subsidize property tax relief, most states have devised mechanisms to give renters equivalent circuit-breaker relief. For this purpose the various states consider from 12% to 25% of rent as property tax.

The distribution of benefits by jurisdiction necessarily varies according to the details of each state's program. In general, programs that emphasize the elderly show above-average benefits flowing to cities, because they have higher proportions of older citizens and higher tax rates, even though property values may be depressed. Programs that cover all homeowners may reflect a different distribution because some suburbs have high home values, high service expectations and relatively high tax rates. In any



case, circuit-breakers are not intended to be aid for local government; the money goes to the individual.

#### TAX EQUITY

All circuit-breaker programs involve a decrease in local property tax revenues. Typically, the programs are mandated by state law, and some mechanism is provided whereby the state replaces the revenues lost by the local jurisdiction. This means that state-collected taxes are being substituted for part of the locally collected property tax. The equity of the exchange depends on the nature of the state's fiscal system.

State tax revenues are a mix of sales, income and other taxes. Across the country, sales taxes are the most productive source. To judge the effect of substituting sales for property taxes, it is useful to examine effective tax rates. Using conventional assumptions about who really pays sales and property taxes, the most recent authoritative study found the two about equally regressive. At annual incomes from \$3,000 to \$5,000 people paid 4.8% of income in property tax and 7.1% in sales tax; at incomes between \$50,000 and \$100,000 the proportions were 2.8% and 2.4% respectively.

Next to sales taxes, income taxes raise the most revenue at the state level. Rate structure varies substantially from state to state, from a flat rate to rather steep graduation. Progressivity consequently varies as well (though even a flat rate is slightly progressive if personal exemptions are allowed).

Nationally, sales and income taxes account for about 60% of state tax revenues. The rest comes from other sources including taxes on business. It is impossible to generalize about the effects of substituting business taxes for real property taxes, partly because of the variety of taxes involved and partly because there is no agreement about who bears the burden of taxes on business. That is, part of a tax on business may be paid by the consumer in higher prices, part by the owner in reduced profit, and part by labor in lower wages.

In a particular state the substitution of state revenue sources for property taxes should be judged in terms of the proportion of revenue derived from various state taxes and the specific coverage of each.

#### COMPETING USES OF STATE REVENUES

Significant property tax relief for a significant number of people is a costly business. It is therefore more likely to be considered seriously when a state is in a surplus position financially. Circuit-breaker tax relief is then balanced against the other possibilities for using the money: provision for more funding of state services or aid to local government. If the state chooses to increase financial aid for local government, property taxes may be reduced or stabilized. Some local governments will choose to expand services, some will absorb the new money in higher wages, some will hold the line on taxes. From the standpoint of the state official, this indirect and uncertain result is not wholly satisfactory. The impact of circuit-breaker relief is known.

The choice of additional funding for state services may be a difficult one because of the problem of getting a legislative consensus on which program has priority. It involves a double political judgment: whether proposed beneficiaries of tax relief would be better served by money in the pocket or by the services the government might provide instead, and whether this particular group of people should indeed be beneficiaries.

In the context of tax relief versus public spending, it is useful to look at the proposed average level of benefit. Programs with widespread coverage and an annual benefit of

\$50 per eligible homeowner may be very costly to the state without doing much for anybody. Narrower targeting can offer a dollar benefit of some significance to the individual. In a few states the average circuit-breaker benefit is more than \$225.

Instead of circuit-breakers, a few states have chosen to pay for homestead exemptions to provide property tax relief. A stated sum is subtracted from the assessed value of the home before calculation of the tax. If there is any relation to income, it is usually in the form of an income ceiling for eligibility.

Some states permit local government to make homestead exemptions; others require it. In neither case does the state fill the revenue gap, so that property tax relief for some is paid for by higher property taxes on others: the burden is simply shifted.

#### WHAT OF THE FUTURE?

What are the chances that additional states will join the circuit-breaker column? Are existing programs likely to be modified or revised?

About three-fourths of the states that have not adopted a circuit-breaker plan already make significantly less use of property tax than is typical nationally. None are high tax effort states. Both facts suggest less pressure for relief in these jurisdictions. Further, several of these states pay for homestead exemptions, so the additional rationale for substitution of the wider and/or more progressive state tax base for the property tax does not exist.

New Hampshire is among the remaining states that do not use circuit-breakers, although it has unusually high property taxes. The high property tax load in New Hampshire is the result of a positive decision to rely on that source. It is the only state that levies neither sales nor income tax. Massachusetts is the one state with both high property tax and high total tax effort that has not adopted the circuit-breaker approach. The governor vetoed such a measure in 1978. Rhode Island and New York, similar high tax states, first passed circuit-breaker laws in 1977 and 1978. Three states making average tax effort have not chosen to use a circuit-breaker: Montana, New Jersey, and Washington.

In addition to weighing such factors as the pressure for tax relief, the fiscal condition of the state, and the question of alternative uses of the funds, officials are likely to consider the possibility that circuit-breaker relief may blunt the public's disposition for deep and potentially disruptive tax cuts. If such a goal is important, it argues for inclusion of all homeowners, not just the elderly, and for a program that extends benefits to families up to median incomes.

Most states that already have circuit-breaker programs have revised them since original enactment—at least four so far in 1978. Revisions will probably continue, both to expand coverage and to keep up with inflation.

#### SOME SOURCES

John Shannon and Frank Tippet, "An Analysis of State Personal Income Taxes and Property Tax Circuit Breakers," paper presented to National Association of Tax Administrators, Boston, June 1978.

D. Kent Halstead, *Tax Wealth in Fifty States*, National Institute of Education, Washington, 1978.

*Property Tax Circuit Breakers: Current Status and Policy Issues*, Advisory Commission on Intergovernmental Relations, Washington, 1975.

George E. Peterson, ed., *Property Tax Reform*, The Urban Institute, Washington, 1973.





## LEAGUE OF WOMEN VOTERS OF MINNESOTA

555 WABASHA • ST. PAUL, MINNESOTA 55102 • TELEPHONE (612) 224-5445

September 7, 1978

The Honorable Bill McCutcheon  
29 Capitol  
St. Paul, MN 55155

Dear Senator McCutcheon:

The League of Women Voters of Minnesota would like to comment on your tax shift proposal presented at the June 15th meeting of the Senate Committee on Taxes. We commend you for presenting the proposal to the public for comments and suggestions before writing it into bill form.

League positions relating to your proposal have been established through our studies of property tax reform, funding of education and financing state government. The League has long supported less dependence on the property tax as a source of revenue. Minnesota Legislatures have gradually been moving in this direction, and the League continues to support this movement.

We also support increased state funding of basic education and welfare costs; however, we have some concerns regarding these specific proposals. We believe that public services of broader than local significance, such as welfare, are less appropriately financed by the property tax. Your proposal would provide for uniform state-wide payment levels for general assistance programs. Our concern is that assistance levels not be reduced below present levels. We believe education is appropriately financed partly by the property tax (to maintain local control) and partly by revenue from other sources. While your proposal involves no actual change in local control, it is important that the proposal be explained in a way to emphasize this.

While the League supports a shift away from the property tax, we are concerned that all the implications of a sudden shift to the sales tax be known before such a move is made. We do support retaining sales tax exemptions regardless of the level of taxation. Though the progressivity of the sales tax can be improved somewhat by the exemptions, the sales tax is still basically a regressive tax. We would prefer that the elasticity of the income tax be used to provide gradual adjustments in property tax levels.

Thank you for your attention to these comments. Enclosed is a copy of our complete financing state government position for your information.

Sincerely,

Karen Anderson, Government Co-Chair

*Helene Borg*

Helene Borg, President

*Karen Anderson*

cc: Members of the Senate Committee on Taxes and Tax Laws



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## **BUSINESS CLIMATE SUB MEETS**

On September 6th, the Business Climate Subcommittee of the Tax Study Commission met to discuss the preliminary draft of the 1978 Tax Study Commission's Comparative Business Climate Study.

### THE STUDY

The comparative study is the culmination of four months of staff work. The purpose of the study is to provide a general indication of the business climate for each state as a whole. The study began with a review of several national studies to determine the criteria used by businesses in deciding where to locate their manufacturing plants or their corporate headquarters. With the list of factors determined, various statistics were developed to objectively measure as many of the factors as possible. All the factors; which include labor, wage, building cost, income, tax, and quality of life indicators; were then ranked for each of the fifty states.

### FINDINGS

In the preliminary draft, Minnesota ranks as the best state in which to do business when all factors are weighted equally. A separate weighting of the factors by four subdivisions; labor, production costs, consumer market and quality of life, resulted in a rank as the fifth best state in which to do business behind Nebraska, Iowa, Wyoming, and North Carolina.

The Subcommittee reviewed each of the factors and suggested several revisions. The study is also currently being reviewed by researchers and others both in and out of state government for suggestions on further statistical improvements.

All comments will be considered in the preparation of the second draft which will be presented to the full Commission in October.

## **UPCOMING CONFERENCES**

The National Tax Association will hold its annual meeting starting November 12, 1978, in Philadelphia. In addition, numerous other tax conferences have been planned. Many of these are in reaction to the increased public attention that has been focused on taxes and tax burdens in recent months.

Some of the conferences which are scheduled for the next two months are listed below:

- October 5-6 • National Conference of State Legislatures - "State & Local Tax Structures", Part II - Salem, Oregon.
- October 6-8 • Conference on Alternative State & Local Policy, "State and Local Tax Reform-The Progressive Agenda", Washington, D.C.
- November 9 • Minneapolis Urban Coalition Tax Cuts & Social Services Minneapolis, Minnesota
- November 12-16 National Tax Association (NTA-TIA) Annual Meeting Philadelphia, Pennsylvania

## **MEETING SCHEDULE**

- September 26 • Tuesday, Income Tax Subcommittee - Representative Wes Skoglund, Chairman, Room 120 Capitol, 3:30 P.M. Preliminary discussion of income tax recommendations.
- October 3 • Tuesday, Tax Study Commission Senator William McCutcheon, Chairman, Room 15 Capitol, 1:00 P.M. Consideration of TSC budget and review of Subcommittee progress and staff studies.



## PERSONAL INCOME IN MINNESOTA - 1977

According to the latest figures available from the U.S. Department of Commerce, Minnesota per capita personal income increased 14.3% from \$6,237 in 1976 to \$7,129 in 1977. This compares to a 9.6% growth rate nationally.

Minnesota's significant increase places the state 18th highest in the nation.

With the exception of 1973 when grain shipments to China and the Soviet Union substantially increased local farm incomes, this is the first year, since at least

1929, that Minnesota per capita personal income has exceeded the national average.

Minnesota's 1977 personal income per capita at \$7,129 is \$110 higher than the national per capita personal income figure of \$7,019.

In 1976 Minnesota was \$166 below the U.S. average of \$6,403.

The table on the left presents a state by state listing of per capita personal income figures for 1976 and 1977. The relationship between Minnesota per capita personal income and the U.S. average since 1929 is shown in the graph below.

Personal income is usually defined as income from all sources. It is measured before the deduction of income taxes, but after the deduction of contributions to social security and retirement programs.

PER CAPITA PERSONAL INCOME

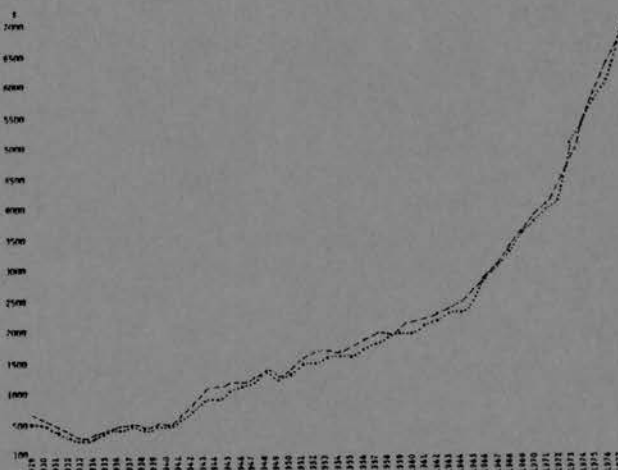
1976			1977		
STATE	RANK	\$	STATE	RANK	\$
Alaska	1	10,124	Alaska	1	10,586
D.C.	2	8,120	D.C.	2	8,999
Illinois	3	7,332	Connecticut	3	8,061
New Jersey	4	7,314	New Jersey	4	7,994
Connecticut	5	7,313	Nevada	5	7,988
California	6	7,219	California	6	7,911
Nevada	7	7,198	Illinois	7	7,768
Hawaii	8	7,183	Delaware	8	7,597
Delaware	9	7,107	Hawaii	9	7,577
Maryland	10	6,995	Michigan	10	7,519
New York	11	6,929	Maryland	11	7,572
Washington	12	6,878	Wyoming	12	7,562
Michigan	13	6,765	New York	13	7,537
Wyoming	14	6,764	Washington	14	7,528
Massachusetts	15	6,533	Massachusetts	15	7,258
Colorado	16	6,527	Colorado	16	7,160
Kansas	17	6,507	Kansas	17	7,134
Pennsylvania	18	6,402	MINNESOTA	18	7,129
Ohio	19	6,400	Ohio	19	7,084
Oregon	20	6,368	Pennsylvania	20	7,011
Virginia	21	6,314	Oregon	21	7,007
Indiana	22	6,259	Indiana	22	6,921
MINNESOTA	23	6,237	Wisconsin	23	6,890
Rhode Island	24	6,187	Iowa	24	6,878
Iowa	25	6,172	Virginia	25	6,885
Texas	26	6,166	Texas	26	6,803
Wisconsin	27	6,136	Rhode Island	27	6,775
Nebraska	28	6,112	Nebraska	28	6,720
Florida	29	6,105	Florida	29	6,584
New Hampshire	30	5,974	Missouri	30	6,554
Missouri	31	5,968	New Hampshire	31	6,536
Arizona	32	5,944	Arizona	32	6,509
North Dakota	33	5,773	Oklahoma	33	6,346
Oklahoma	34	5,707	North Dakota	34	6,190
Idaho	35	5,678	Montana	35	6,125
Montana	36	5,669	Georgia	36	6,014
Georgia	37	5,531	West Virginia	37	5,386
North Carolina	38	5,478	Idaho	38	5,380
West Virginia	39	5,476	South Dakota	39	5,357
Utah	40	5,422	Kentucky	40	5,345
Kentucky	41	5,414	North Carolina	41	5,335
Vermont	41	5,414	Utah	42	5,323
Maine	43	5,367	Louisiana	43	5,313
Louisiana	44	5,337	New Mexico	44	5,257
Tennessee	45	5,305	Vermont	45	5,223
New Mexico	46	5,298	Tennessee	46	5,285
South Carolina	47	5,197	Maine	47	5,234
Alabama	48	5,138	South Carolina	48	5,228
South Dakota	49	5,097	Alabama	49	5,222
Arkansas	50	4,923	Arkansas	50	5,540
Mississippi	51	4,543	Mississippi	51	5,030

U.S. AVERAGE --- \$ 6,403

U.S. AVERAGE --- \$ 7,019

PER CAPITA PERSONAL INCOME

MINNESOTA - .....  
U.S. - - - - -



SOURCE: Revised - Bureau of Economic Analysis  
Regional Economic Information System  
Regional Economics Division  
U.S. Department of Commerce



MINNESOTA

# Tax Study NEWS

AUGUST 1978

## NATIONAL TAX SEMINAR HELD

Legislators and staff from across the country met August 3 and 4, in St. Paul to discuss the tax revolt and its impact on state and local revenue systems.

The seminar was sponsored jointly by the Minnesota Legislature and the National Conference of State Legislatures (NCSL).

Featured speakers included Dr. Francis Boddy of the University of Minnesota, who urged a tax system with roughly equal reliance on property, income and sales taxes; Dr. Mason Gaffney of the University of California, who described the aftermath of Proposition 13 and its prevention; and Richard Gabler of the Advisory Commission on Intergovernmental Relations, who presented recommendations on the states fiscal responsibility to local governments in setting tax policy.

In addition, author and political commentator Kevin Phillips told the seminar that American society is being "balkanized" into smaller and smaller loyalties and concerns which are producing "internal protectionism", and Bruce Thompson, an aide to U.S. Senator William Roth, R-Del., described the Kemp-Roth bill to reduce federal taxes by a third over 3 years.

Participants discussed indexation of the income tax for inflation, trends in state taxes, and tax and expenditure limitations. Senator Bill McCutcheon and Representative Bill Kelly served as program moderators.

Part II of the NCSL examination of state and local tax structures has been scheduled for October 5 and 6, 1978, in Salem, Oregon.

## MEETING NOTICE

Sept. 6 - BUSINESS CLIMATE SUBCOMMITTEE  
Senator Merriam, Chairman, 10:00 A.M.  
Room 15 Capitol. Discussion of Tax Study  
Commission's 1978 Business Climate Study.

## STATE ECONOMISTS MEET

Economists for various state agencies and the Legislature have joined together to form a mutual assistance organization. The purpose of the group will be to promote the exchange of ideas, data sources, methodologies, etc., among state employees who are involved in economic analysis.

Members of the steering committee for the economists group are: Mr. Fred Post, State Economist, Department of Finance; Mr. Elwood Rafn, Director-Minerals, Department of Natural Resources; Mr. Dan Salomone, Director-Research, Department of Revenue; Mr. Francis Geisenhoff, Industrial Economist, Department of Economic Development; and Ms. Kathleen Gaylord, Executive Director, Legislative Tax Study Commission.

## BUSINESS CLIMATE

Over the past several months the Tax Study Commission has been compiling and attempting to objectively rate dozens of socioeconomic variables on business climate. The preliminary results of this study are very encouraging and will be released in September.

At the same time, the Tax Study Commission has compiled a list of firms moving or expanding out of Minnesota. It has been estimated that 1,500 businesses move each year in the United States. Minnesota appears to be losing its proportionate 30.

From a statewide perspective Minnesota is an excellent state for business. However, a look at a particular company or industry can show that Minnesota's tax or other policies can be extremely burdensome.

The Tax Study Commission's composite study will not solve the current business climate debate. Hopefully, however, it will serve to illustrate the general business climate and help to focus attention where it can do the most good.

## U.S. HOUSE REJECTS KEMP-ROTH VOTES \$16.3 BILLION TAX CUT

On August 10th, the U.S. House of Representatives approved a \$16.3 billion tax cut by a vote of 362 to 49. The bill, as passed, differs substantially from the tax program outlined by President Carter in January.

During the House debate, several amendments to the bill were rejected, including a credit for social security taxes paid and the Kemp-Roth proposal to lower federal tax rates by a third over the next three years.

President Carter apparently is not satisfied with the House bill and has threatened to veto it if it reaches his desk in its present form. The President stated that the bill does not meet his criteria for fairness, equity, simplicity, progressivity or efficient enhancement of capital investment funds.

The House package is expected to be expanded by the Senate Finance Committee which is scheduled to begin its hearings on August 21. The Senate Finance Committee has already passed several bills which will probably be attached to the tax cut proposal.

### PROVISIONS

Among the provisions in the "Revenue Bill of 1978" are post-1978 tax cuts for both individuals and businesses and changes in the taxation of capital gains.

For individuals, the House approved a \$10 billion cut directed at middle and upper-middle income taxpayers to stimulate the economy and to offset both inflation and higher social security taxes. The bill provides for a widening of tax brackets by 6%, some rate cuts, increases in the zero bracket amount (standard deduction), an increase in the personal exemption to \$1,000, repeal of the \$35 general tax credit, simplification of the earned income credit, elimination of the deductions for non-business gas taxes and the political contributions (credit still allowed) and revision of the medical deduction for medical insurance premiums and for medicine and drugs.

The bill also calls for the phase out of the exemption from taxation for unemployment

benefits for singles with incomes over \$20,000 and married couples with over \$25,000 in gross income.

The bill also modifies certain tax shelter and deferred compensation provisions.

For businesses, a new graduated rate schedule has been established as follows:

TAXABLE INCOME	RATES	
	Current	Proposed
Bracket		
\$ 0 - 25,000	20%	17%
25 - 50,000	22	20
50 - 75,000	48	30
75 - 100,000	48	40
100,000 +	48	46

In addition to reductions in the corporate tax rates, the bill liberalizes the investment tax credit provisions, replaces the general jobs credit with a targeted credit and revised special provisions benefiting small business.

Finally, the bill makes several changes in the taxation of capital gains. It repeals the alternative capital gains tax and removes capital gains from the list of tax preference items for both the minimum and the maximum tax.

The effect of these provisions is to reduce the maximum rate on capital gains to 35%.

Starting in 1980, the bill also provides an inflation adjustment to the basis of a limited category of capital assets. In addition, the bill provides a one-time exclusion of \$100,000 of any gain on the sale of a residence, repealing the current exclusion limited to taxpayers over 65.

### REMINDER

- |                  |   |
|------------------|---|
| <u>August 31</u> | • Property Tax Refund (Circuit Breaker) form due. |
| <u>Oct. 31</u>   | • Property Taxes - Second half payment due.       |



# The Opinion Page

the minneapolis star

8A

Thursday, July 6, 1978

## State's role as property taxpayer poses questions

By STEPHEN ALNES  
The Star's Editorial Editor

Who pays the biggest property taxes in Minnesota?

It's the state itself. For every property tax dollar collected by local governmental units, the state pays another \$1.66 in various forms of property tax relief or for services that could be considered local in nature, according to the Minnesota Taxpayers Association (MTA).

The situation isn't new. But it's worth exploring right now in light of the tax revolt that is supposed to be sweeping the nation in the aftermath of California's Proposition 13.

One of the things that seems likely to happen in California is that a large part of the huge state surplus of \$5 billion will be used to help make up some of the money lost to local government. Proposition 13 decreed that property taxes cannot be higher than 1 percent of the market value of the property.

Of course, the use of the surplus would be just a one-shot deal. And the \$5 billion surplus is not as big as the \$7 billion which local government will lose as a result of Prop 13. But it's important to recognize that the part of the cost of local government which will be picked up by the state is not a tax cut. It would be a tax shift, from the local property tax to the income and sales taxes collected by the state.

It may be a desirable tax shift, from an unfair tax to one that seems more fair or from one type of taxpayer to another. But it's still a shift. It would also be a shift, not a cut, if state Sen. William McCutcheon,

### The State We're In

DFL-St. Paul, should win approval of his plan for Minnesota to pick up more of the local costs of education and welfare and thus lower property taxes. McCutcheon would get the necessary money from an increase in the state sales tax and from normal growth in income tax collections.

And it would merely be a shift if, as Terry Herndon, executive director of the National Education Association, proposed at the group's convention in Dallas, federal aid to education were increased to allow schools to cope with the effects of measures like Proposition 13.

The MTA found that the state's property tax "bill" from local units of government amounted to an estimated \$2.088 billion in fiscal 1978. Of that amount, the state paid \$398 million in direct property tax relief such as the homestead credit and the circuit-breaker.

The homestead credit pays the first 45 percent of a homeowner's property taxes up to a maximum of \$325. The circuit-breaker will pay as much as another \$475 in property taxes to a person whose income is low in relation to his/her property taxes.

The homestead credit is paid by the state directly to the local taxing district—city, school district, county. The homeowner never sees the money, nor does he or she have to file for it. The total was \$229 million for fiscal 1978. To get a circuit-breaker refund, the taxpayer must file for it. The state paid \$159 million under this program for 1978.

The state also paid \$1.69 billion in indirect property tax aid, according to the MTA. This includes items which would be paid out of local government property tax revenues if the state had not assumed or shared the cost.

Chief among this category is the school aid program, which amounted to \$894 million. Then comes welfare at \$265 million, the aid to cities program at \$198 million, the county and municipal shares of the highway fund at \$122 million and teachers retirement fund at \$113 million. (Several other smaller programs bring the total to \$1.69 billion.)

The MTA report doesn't relate the total

to the complete state budget. But a State Revenue Department official says the two-year budget, not including federal funds, is about \$7.589 billion. (Federal contributions add another \$1.5 billion.) Half of that would be about \$3.794 billion for one year. The official, using somewhat different numbers from the MTA's, says the state spent \$2.3 billion (not \$2.088 billion) in total direct and indirect property tax relief for the year. That's about 61 percent of the total state budget that is being used for what the MTA defines as property tax relief or substitute.

Well, so what? At the very least, this Minnesota trend away from the property tax to sales and income taxes raises some questions. The property tax is by far the most visible of the taxes and the most unpopular. It was the property tax that spurred Proposition 13, and Minnesota may have averted a revolt here by the device of making the state the biggest property taxpayer.

But if the state pays an ever-larger share of the cost of local government, what are the implications for state control of those governments? And how concerned will local residents be about local government spending when most of the money comes from St. Paul? And what's the best way for the state to parcel out all that money?

The income tax, particularly, and the sales tax grow with the economy or even faster. And for some reason, taxpayers don't seem as upset about government spending the windfall from that growth as they are about local expenditures of the property tax. How can we make the income tax more visible so that taxpayers demand the same restraints at the state level they have at the local level?

City councils have to vote regularly to raise property taxes to keep their governments going. The Legislature more often can increase spending without raising tax rates because the money from the income tax just keeps rolling in. Could we impose some of the same discipline on the Legislature with regard to the income tax that city councils face with the property tax? How would the Legislature handle that?

Finally, now that we recognize clearly the choices that are involved in state and local tax policy (and we may as well include federal tax policy, too), what criteria should we use to determine how much of government is financed from what tax? How can we get people to understand it? And how can we know what's fair?

June 27, 1978 Minneapolis Star

# Minnesota shift may increase sales tax

By STEPHEN ALNES  
The Star's Editorial Editor

Sen. William McCutcheon, DFL-St. Paul, was before a Senate committee explaining his plan to cut property taxes by 38 percent when a loud blast of thunder shook the hearing room.

Now, said McCutcheon with a grin, it's time to talk about raising the sales tax. It busted the place up.

McCutcheon, as noted, is a DFLer, and DFLers historically have not been friendly to the sales tax. Minnesota's first general sales tax was enacted in 1967 by a Republican Legislature. The three-cent tax was increased by a penny in 1971 by a Legisla-

## The State We're In



ture narrowly controlled by Republicans; the DFL governor and most DFL legislators reluctantly accepted it as part of the price they had to pay for a new approach to school aids and for property tax relief.

But McCutcheon now proposes to raise the sales tax to six cents on the dollar as a means of paying for part of his proposed cut in property taxes. He would get the rest of the necessary money mostly from normal growth in income tax collections.

Proposition 13 it isn't, but the McCutcheon proposal invites comparison with the California shot heard 'round the world. Proposition 13 decrees that property taxes cannot be more than 1 percent of market value. McCutcheon is also searching for a ceiling and has talked about a 2-percent limit. But Minnesota's more complex property tax system doesn't yield quite as easily to the same ceiling for all types of property. Residential taxes now average about 2.6 percent of market value; business property runs about 4.8 percent.

McCutcheon would achieve the 38-percent cut in local property taxes by having the state pick up some \$541 million a year in costs of local school districts and by having the state provide \$137 million spent locally for various welfare programs.

Proposition 13, on the other hand, assumed the cost of local government can be cut by 57 percent without any particular problems arising. McCutcheon's approach is clearly more reasonable. But California voters were reacting to rapidly escalating property valuations and property taxes that, in some instances, doubled in a year.

California's political leaders probably deserved the comeuppance of Proposition 13 for their failure to see what was happening to local property market values and taxes. On the other hand, unless California's local officials had gone completely out of their minds on spending, it is impossible to see how revenues can be cut by more than a half in one year without devastating effects. That promises to turn a mere taxpayers' revolution into a blood bath.

The fact is that government costs money. People want good schools, potholes filled, sewage treated, potable water, air-conditioned buses that run on time, parks and playgrounds, citizen participation and zoning ordinances that slow down growth. Certainly government wants to build empires, but it gets plenty of encouragement from its constituents. And the cost of gov-

ernment, which is primarily the cost of labor, is just as susceptible to inflation as any other sector of the economy.

Minnesota's political leaders have taken numerous steps over the years to keep property taxes from rising as rapidly as they might. Thus from 1966 to 1976, Minnesota property taxes per capita rose 54 percent while the average for the nation rose 111 percent. California's increase was about average, at 110 percent. (Minnesota's per capita income tax, meanwhile, rose 246 percent against a national average of 196 percent; the sales tax rose from zero in 1966 to \$107 per capita in 1976. Those numbers explain how the property tax increase was moderated.)

McCutcheon's proposal obviously is a tax shift and not a tax cut. In fact, it promises to be a tax increase because we will pay more and more sales taxes as prices rise because of inflation, and more and more income taxes as wages rise to meet inflation.

So if the proposal has any virtues they lie in the contentions that (1) the sales and income taxes are less onerous than the property tax and that (2) the welfare and education costs to be assumed by the state should be state rather than local responsibilities. Both, obviously, are debatable.

On the first point, McCutcheon justifies turning to the sales tax because, he says, public opinion polls show it is preferred, because the property tax is a burden in that it bears no relationship to ability to pay and because the Minnesota income tax is under heavy attack these days because of Minnesota's near-the-top national ranking in many tax brackets.

But a look at some property tax numbers turns up some startling facts. The average paid for a non-farm homestead in 1977 was \$559 statewide. However, outside the seven-county metropolitan area, the average paid was only \$311. Inside the seven counties, the average was \$802. The homesteads in the state are split roughly evenly between the metro area and the other 80 counties. The numbers listed are before application of the circuit-breaker, which refunds money to people whose income is low in relationship to their property taxes.

Meanwhile, income tax numbers presented on this page last week showed a four-member family with one wage-earner would pay \$495 in state income taxes on a gross income of \$10,000, \$657 on \$12,000, \$825 on \$14,000, \$908 on \$15,000, \$988 on \$16,000 and \$1,153 on a gross income of \$18,000.

The questions force themselves: which tax needs attention more? And who benefits most from more property tax relief?