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FISCAL STABILITY:

AN ECONOMIC FOUNDATION FOR THE TWENTY-FIRST CENTURY

A Report to the Metropolitan Council

One Paper of a Series

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The Metropolitan Council coordinates the planning and development of the seven-county Metropolitan Area. The Council is authorized by state and federal laws to plan for highways and transit, sewers, parks and open space, airports, land use, air and water quality, waste management, health, housing, aging and arts.

FISCAL STABILITY: AN ECONOMIC FOUNDATION

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INTRODUCTION

"The Minnesota Miracle, once acclaimed nationwide, has run its course. In 1989 half of the state government's budget is devoted to indirect property-tax relief: ...The system is in big trouble."

So wrote Minnesota state Sen. John Brandl in an editorial page commentary in the Star Tribune on Aug. 4, 1989. Brandl, professor of public affairs at the University of Minnesota's Humphrey Institute and, in 1989, vice chair of the Senate Tax Committee, went on to say, "...state grants cover 60 percent of all spending on schools and nearly one-third of the cost of operating city and county governments. The state share of local revenues is 20 percent higher than the national average, and no other state government gives as much direct property tax relief to its citizens."

Twenty years ago public and private development was continuing a period of activity that had been initiated following World War II. Local governments' infrastructure needs and operating expenses were causing a rapid expansion of their traditional revenue sources, primarily property taxes. In 1967 the state enacted the general sales tax to provide property tax relief to local governments, but the major thrust came in the early 1970s when the state deliberately assumed an increased share of the responsibility for the financing of education and of city, township and county general operations. In exchange for the income and sales tax funds dispersed to the local governments, the counties and larger cities were required to accept a limitation on their ability to levy property taxes. According to Brandl and others, the permanent solution to high property taxes that the "Miracle" was to accomplish is not in sight: property taxes of the 1990s are passing those of 1970, and the relief, temporarily provided by the transfer of state-collected revenues to the local governments, is gone. (But it should be kept in mind that property taxes compared to the market value of homesteaded property are lower in 1990 than they were in 1970.)

Following an introduction and background information on the Minnesota service and tax structure, this report provides a current fiscal "snapshot" of tax revenues, revenue trends and a comparison with other states; and discusses potential issues for the 1990s. To some extent, the Minnesota fiscal structure will be compared with those of other states. Data has been used as it is available; therefore, there is not a consistent time frame throughout.

Important for financing state and local government services in the 21st century will be the realization that historical fiscal strategies may not be adequate for the future; changes in fiscal policy will be necessary. This report will not design for the future, but it is intended to inform the Council about the current state and local tax system in Minnesota. Competition for tax resources between the state and its local governments is often portrayed; it is critical for the economic health of the state that there be **only one tax system.**

During the last half century, the United States economy has proceeded through four phases that required three substantial and, at times, painful changes. During the first change, it dragged itself from the economic stagnancy of a major depression (including high unemployment) to the vibrancy of unprecedented wartime production, including dealing with shortages of vital natural and human resources (both shortages in the total number of people and shortages in trained people). Second, it moved from an economy based on wartime production priorities to an economy based on peaceful pursuits including time for education and for recreation. After business and consumers had obtained an adequate supply of the products that they had done without during the war years, a third change was undertaken to take advantage of new production philosophies based on information gained from the space race and the computerization of virtually every facet of human life. Simultaneously, the nations whose economies were destroyed during the war copied and improved upon the manufacturing and marketing processes of the United States to an extent that they were able to compete with the United States and to surpass it in many areas.

In the 1980s, the nation came to a realization that the position of world economic leadership that it had assumed during the 1940s was no longer free from challenge and that it must revitalize itself in order to compete with these newly powerful foreign economies. As part of its effort to reduce the national debt and be more competitive worldwide, the federal government passed on to the states numerous mandates for the provision of government service. Funding to implement these services did not necessarily accompany the mandates.

Therefore, in the 1990s, it has become necessary for states to provide certain basic foundations which the economy requires for growth, for maintaining the ability to adapt to the changing family structure in the United States, and to compete with the aggressive foreign economies.

This paper is one of a series provided by the Metropolitan Council's Economic Research Program based on the report of the Research and Policy Committee of the Committee for Economic Development (CED) entitled *Leadership For Dynamic State Economies,* which describes the economic foundations that states can provide. These foundations are:

1. A capable and motivated **work force** that is well educated and supported by a human resource system that facilitates and assists in finding employment.

2. A sound physical **infrastructure**, including transportation, communications, energy, water supply and waste management.

3. A well-managed **natural resources** program for current and future use and development.

4. Universities and other research and development institutions that are involved in the development, dissemination and market applications of **knowledge and technology.**

5. A system of regulation, capital and technical assistance that encourages **enterprise development.**

6. A **quality of life** that is attractive to employees and to their families.

7. **Fiscal stability** characterized by reasonable tax rates and a prudent spending policy.

One of the foundations that is required to support a strong Minnesota economy is a **healthy and stable fiscal structure** that is capable of financing the services that are required of the state and local governments, but whose cost does not overwhelm those who must pay for it. The structure must be directed by, and be acceptable to, a partnership of the private sector, state government and local government.

The primary responsibility for the design of this fiscal base and for maintaining it must be at the state level. Based on its broad scope of responsibility for government policy and its ability and responsibility to cause citizen interaction, the state has the requirement to manage the services and their financing (that is, the management of expenditures, taxes, other revenues and debt), and delegate appropriate action to the 4,000-plus local and regional governments.

BACKGROUND

A complex and intricately interwoven array of governmental service functions and revenue programs exist in Minnesota. In addition to the uncounted hundreds of private organizations and local associations that provide specific and limited services, there is approximately one governmental jurisdiction for each 1,000 people in the state. To finance these governments, there are 37 taxes as well as a multiplicity of service charges, permits and fees established by most of the governments.

The large number of governments exist for two reasons. First, the basic structure of counties, cities and townships has not changed since Congress authorized statehood for Minnesota; therefore, many communities (incorporated or not) still exist based on the transportation and economic needs of nearly one and a half centuries ago. Second, the legislature has initiated special governments for special purposes with special authority for raising taxes. They include watershed districts, soil and water conservation districts, county fair boards, housing and redevelopment authorities, retirement and relief associations, library districts, regional districts, commissions and authorities. Most of these governments have taxing authority.

What is the rationale for all of these governments and revenue sources? It may be sufficient to say that, when Minnesotans see a need, they usually pursue a solution. Often these proposed solutions arrive at the door of the legislature. The legislature, in turn, may assign the implementation to one of the departments of the state, to another level of government, or it may establish a new entity to manage the issue (airports, sewers, parks, transit, hazardous waste). The legislature also may define a revenue mechanism to accompany the proposed service.

A brief discussion of government structures and responsibilities in Minnesota, the balancing of revenues (revenue diversification) and information on general taxation principles is followed by a fiscal "snapshot" of the state.

Government Structures and Responsibilities

The two major levels of government in Minnesota are the state itself and the local governments (all other jurisdictions). The legislature authorizes all of the local governments and determines the policies under which they operate.

General Discussion

The **state** legislature functions as the policy maker for the state and all of the component governmental units, including authorizing the revenue sources for each type of government. It implements federal policy for human services, environmental concerns and transportation and adds policies of its own, especially in the areas of social services, education and highways.

Within the state are 87 **counties** varying in size (*Minnesota Population and Household Estimates, 1988,* Office of the Minnesota State Demographer) from Hennepin (989,956 people and 410,705 households) to Lake of the Woods (3,941 and 1,604). Because most of the county functions are mandated by the legislature, services and types of revenue sources are similar among counties. They are responsible for social services and the court system (both soon to be funded by the state), the sheriff's office (an arm of the court), a road system coordinated with the state, the administration of the property tax system, and general elections. Counties are not a level of government superior to cities and townships, but they perform services that include all cities and townships and often coordinate activities between them.

The remaining general purpose governments are the 1,801 townships and 855 cities which, in broad terms, provide rural and urban services, respectively. In the Metropolitan Area, exceptions to the above pattern are some very urban townships such as White Bear and some rural cities such as Greenfield.

Incorporated **cities** provide the majority of the direct services required by their citizens. Fire, police and land use concerns are covered under the broad responsibility for public safety. Streets or highways, bridges and their natural appendages such as curbs, gutters, ditches and sidewalks come under the heading of transportation. Some cities also have responsibility for air or water transportation and public transit. The needs of the constituents and the corresponding degree of services that are delivered vary greatly for several reasons:

> Size is a major factor. Minnesota's cities range from 355,800 to 13 people (1988 estimates).
>
> Financial resources are also important. Real property is the major financial base and the range of taxable tax capacity for the 854 cities extends from $131,733 per household to $353 per household (Jan. 1, 1989).
>
> Other reasons may derive from populations who may have special needs (more elderly people or young people than average, concentrations of high income or low income people, for example) or the age and health of the city's basic infrastructure; but the major reason for the difference in municipal services may be the initiative of the cities to use local authority to determine the services that will be provided. Except in the area of public health, the legislature has placed relatively few service mandates on the cities, preferring to leave the local citizens and their elected local representatives to determine the service mix and volume or intensity.

The **township** form of government functions in most of the areas of the state that have not been incorporated into cities. Townships are designed to provide rural services that consist of road and bridge construction and maintenance and, often by contract, fire protection. Townships in close proximity to larger cities and some in intensely developed resort areas often provide more urban services. A few areas of low population density of the state are not organized into townships and, in those instances, the services are performed by the counties.

The structure for elementary and secondary education overlays the counties, cities, townships and unorganized territory and consists of 433 operating **school districts**. In most instances, the remaining 1,100-plus governments are single-purpose entities whose revenue raising ability is very limited, including 702 retirement and relief associations, 104 housing and redevelopment authorities, 96 county fairs, 92 soil and water conservation districts, 37 watershed districts, 20 hospital districts, one state fair and one University of Minnesota.

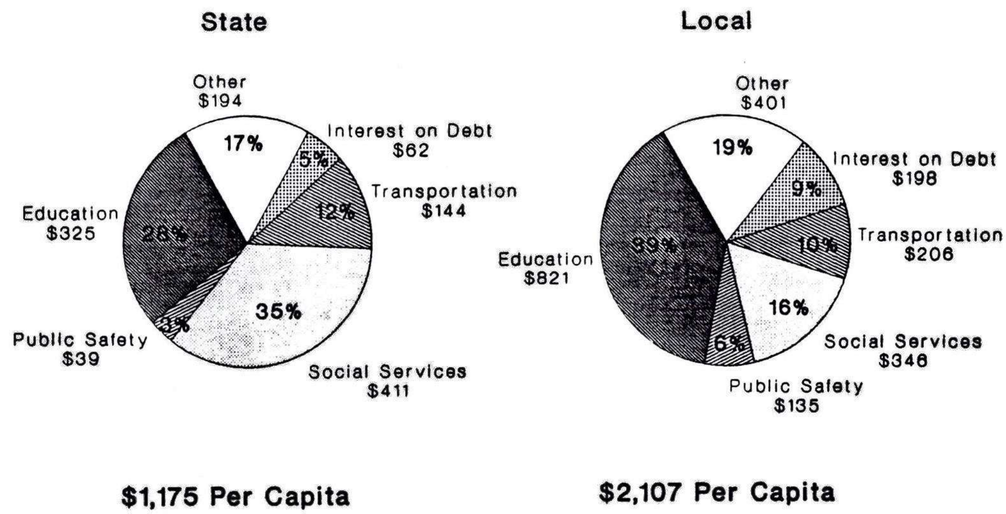
Expenditure Patterns

During 1987 the direct general expenditures of the state of Minnesota totaled $1,175 per capita and those of the local governments were $2,107, as reported by Robert Cline, director of research, Minnesota Department of Revenue, in the *1990 Economic Report to the Governor.*

Figure 1 shows that three-fourths of the state's expenditures were for social services, education and transportation. Education and social services, provided by the school districts and the counties, respectively, were the leading costs of the local governments.

Figure 1

Minnesota State and Local Government
Per Capita Expenditures, 1987



Comparisons with Other States

A report of the Advisory Commission on Intergovernmental Relations (ACIR) entitled *Significant Features of Fiscal Federalism, 1988 Edition, Volume II,* showed that the state and local government expenditures of Minnesota were $12.8 billion for fiscal 1986 This compared to other Midwestern states such as Illinois with $27.2 billion, Michigan ($25.4 billion), Ohio ($24.6 billion) and South Dakota ($1.6 billion); and to the United States total of $606.6 billion.

Minnesota led the nation and the Midwest when the expenditures were compared on a per capita basis. For 1986, Minnesota spent 121 percent of the national average and 126 percent compared to the total of the 13 Midwestern states. The data in Table 1 shows that Minnesota exceeded the national average and the average of the midwestern states for all of the listed services except police and fire expenditures.

Balancing Government Revenues

Robert J. Kleine and John Shannon, writing to the National Conference of State Legislatures in a report entitled *Reforming State Tax Systems,* state the following:

> The ideal state-local revenue system places heavy emphasis on three values---balance (revenue diversification), tax fairness (shielding low-income households from the tax collector's reach), and moderation (tax rates and trends in revenue growth that do not deviate too far from the average).
>
> It must be emphasized, however, that differing value systems produce different "ideal" state-local revenue systems---a truism powerfully underscored by the great diversity found in the American federal system.
>
> If the highest goal is attractiveness to high-income individuals and investors, then the Texas model is best because that state has neither a personal nor a corporate income tax.

Table 1
State and Local Government Expenditures, 1988
(dollars per capita)

	Elem., Sec. Education	Higher Education	Public Welfare	Health, Hospitals	High-ways	Fire, Police	Other	Total
United States	601	234	309	221	204	133	813	2,516
Midwest	606	254	340	206	217	121	683	2,427
Illinois	545	207	329	150	207	150	762	2,351
Indiana	529	246	232	200	162	78	551	1,998
Iowa	569	332	293	239	315	93	601	2,443
Kansas	619	298	200	191	314	102	657	2,382
Michigan	706	295	448	278	172	139	742	2,780
Minnesota	**704**	**259**	**460**	**244**	**311**	**110**	**960**	**3,049**
Missouri	506	176	199	211	201	109	513	1,916
Nebraska	616	280	235	251	304	91	618	2,395
North Dakota	620	379	265	146	355	73	869	2,707
Ohio	613	227	369	185	176	124	595	2,289
South Dakota	568	194	210	122	372	79	710	2,254
Wisconsin	648	339	438	208	238	137	728	2,736

If a distinctly progressive tax system is preferred, the Minnesota model receives very high marks because that state leans heavily on a progressive personal income tax for the financing of public services. *(Note: Kleine and Shannon's paper was prepared before Minnesota reduced its personal income tax rates from the previous broad range to the current three steps.)*

If local political accountability becomes the central consideration, then New Hampshire's model certainly receives the top prize because that state makes intensive use of the local property tax for the financing of public services.

If the central objective is to maximize the amount of taxes paid by nonresidents, then the Alaskan approach comes to the forefront because that state derives most of its tax revenue from energy-producing corporations. *(Note: This objective was employed in iron ore taxing programs in Minnesota prior to, and during, World War II. The revenues were dedicated to education and the Iron Range. The demise of open-pit mining required that other fiscal resources be developed.)*

> The concern for building greater balance into the revenue systems of most states stems from the authors' belief that states and localities will be operating in an increasingly harsh and competitive fiscal environment over the next several years. To put the issue more directly, state policymakers will be under growing pressure to reshape their revenue systems to reduce their vulnerability to economic recessions, taxpayer revolts, growing interstate competition for jobs, and cutbacks in federal assistance. The move toward more "balanced" and moderate tax systems holds the best promise of reconciling the need for states to reduce their fiscal vulnerability while still permitting them to maintain equitable and effective revenue systems.

Insofar as possible, the users of government services should pay for them directly. But, because the function of government is to provide services even if users cannot pay for them, it follows that fees are not always a practical financing mechanism. Then the most available revenue source often becomes taxes.

General Taxation Principles

According to Kleine and Shannon, certain principles are commonly accepted when legislators and others evaluate proposals for the development of a "balanced" tax system: diversification of revenue, tax fairness, political accountability, revenue stability and tax competitiveness. The Metropolitan Development and Investment Framework contains similar principles that are reviewed when the Council staff makes recommendations. The following discussion is a summary of Kleine and Shannon's writing, supplemented with italicized comments by the author.

Diversification of Revenue

"The need for revenue has its roots in the hard fact that there is no ideal tax." Income, wealth and expenditures are the basis for most tax revenues. Revenues are generated through income taxes, property taxes and sales taxes. To the extent possible, it is advantageous to maintain balance in the revenues derived from each of these. Those states that do not employ all three taxes are more subject (1) to the disadvantages that may be present in any one tax, (2) to fewer investments originating from outside of the state and (3) to whims of the local, national and international economy as they influence one tax more than another. *Other taxes and charges should be used insofar as they are acceptable to the majority of the public, and produce a level of revenue which sufficiently exceeds the costs of producing it.*

Tax Fairness

Tax fairness is concerned with the amount of taxes paid relative to income. The philosophy is to shield low income people from the costs of the public services that they may require. Some of the tools used for purposes of fairness are property and income tax credits, direct rebates to the taxpayer (circuit breakers), income tax brackets in which higher amounts of income are taxed at higher rates, and the exemption of food and clothing from sales taxes. *An alternative to the exemptions could involve the use of personal credits.*

Political Accountability

Public officials should take specific actions regarding taxing and other budget matters and not hide behind inflation and complex tax strategies to finance services. The primary way to obtain accountability is to require the public official who spends the dollars also to be the one who must set the tax rate. Additional methods to emphasize an open taxing process are to index income tax rates for inflation, and to require truth-in-taxation notification. A further discussion of these points follows:

To prevent income tax revenues from growing simply because of inflation, a system of indexing the tax rates (adjusting for inflation) should be installed. As Kleine and Shannon state it: "...elected state officials should not be allowed to hide in the inflationary weeds and watch taxpayers be bumped up gradually into higher tax brackets." Without indexing, tax revenues can be increased with little political pain. *Minnesota's income tax rates and credits have been indexed for approximately a decade, using the provisions of the Internal Revenue Code.*

The jurisdictions that levy property taxes should adopt "truth in property taxation" policies that inform the taxpayers *(probably in a mailing with the tax statements or earlier releases to the news media)* about the changes from the current year's tax program to the taxes that will be required for the following year's budget.

Legislation promoting political accountability was adopted by Minnesota in 1989 by requiring the preparation of a fiscal note that identifies the projected fiscal impact of any program proposing new or expanded mandates on political units. The "fiscal note" is intended to show the impact that a mandate will have on both the state and local governments.

Revenue Stability

Stable revenues help insulate government from the fluctuations characteristic of the business cycle. Revenue diversification is a necessary foundation for revenue stability---"getting into everyone's pocket at least a little bit"---but it is not an answer by itself.

A number of taxes and a broad base for each tax are important. The fewer properties exempted from the tax rolls, the fewer purchases not subject to the sales tax, the fewer income categories excused from taxation, the more stable the revenues will be. In addition, rates will be lower.

Budget reserves ("rainy day" funds) and cash reserves are essential. If there is any disagreement about the reserves, usually it is not about the basic philosophy but about the *amount* that is reserved and the *criteria* for the withdrawal of the funds. Reserves should be established to cover two situations: (1) unpredicted failures of the economy that impact planned revenues and (2) seasonal swings in the collection of revenues. The best chances of maintaining stability occur when revenues grow in step with the economy.

Tax Competitiveness

Today interstate competition for economic growth requires keeping tax structures comparable. If taxes increase the costs of the state's business to the point that it is not competitive in the national or international marketplace, those taxes are important liabilities. The state that has high taxes because of a high level of services and wages is at a disadvantage compared to a state with lesser services and lower wages---unless the purchasers of the more expensive services value them sufficiently to be willing to pay for them. Balancing rates versus the need for revenues to pay for "demanded" services will continue to be a struggle for all levels of government.

Guidelines

Guidelines which take into consideration the previously discussed principles should be reviewed when new taxes are planned or existing ones are amended or reconstructed. Additionally, guidelines may concern rates, credits, exemptions, rebates, maximums, minimums, disparities and potential impacts on other revenue sources or on service delivery. Guidelines for some taxes are discussed in Appendix A.

FISCAL SNAPSHOT OF THE STATE

The previous section of this report discussed government responsibilities, structure and expenditures. The following portion will provide a snapshot of the current revenue structure and revenue patterns, a comparison with other states and some trends. Also, there is a short section in which the variations in the property tax base are discussed.

Description of the Minnesota Tax Structure

The State of Minnesota collects individual income and inheritance taxes, corporation income taxes and business excise, gross earnings and severance taxes. The sales and excise tax category includes the general sales tax, liquor, cigarette, motor vehicle, gasoline and gambling taxes. Property taxes are the major source of tax revenue for local governments. Franchise taxes and sales taxes are important for certain cities.

Minnesota's Department of Revenue employs an enforcement division whose responsibility is to require full payment of taxes in a timely manner. That philosophy is being expanded to include agreements with other states to collect sales and use taxes on interstate purchases. Several of these taxes are briefly touched upon in the following paragraphs, using data taken from the 1987 edition of the *Minnesota Tax Handbook*, produced by the Minnesota Department of Revenue.

General Discussion of Types of Taxes

The **individual income tax** is based on the same criteria as the federal income tax with a few exceptions. The taxpayers are the residents of the state regardless of where they work, with some consideration for reciprocity agreements between states. The basic premise is that all income is taxable unless specifically declared tax exempt. Currently, the rates are six, eight and 8.5 percent, depending on the amount of taxable income. Business profits (income less the costs of producing the income) are taxed in a similar manner, most of them under the provisions of the **corporation franchise tax** laws at a rate of 9.5 percent of the taxable net income. **Sales and use taxes** are levied on all retail purchases unless specifically exempted, and on some services. The common tax rate is six percent although certain specific sales are taxed at other rates varying from two to 8.5 percent. In most instances the revenues from these three sources are credited to the general fund of the state.

Excise taxes are defined as those which are based on a privilege and assessed as a fee or license. The **motor vehicle excise tax**, basically a six percent sales tax on vehicles, was credited to the state's general fund until fiscal 1989, when 22.5 percent was assigned to the highway user tax distribution fund and 7.5 percent to the transit assistance fund. Currently, the **motor fuels tax** rate is 20 cents per gallon with the majority of the receipts going into the highway user tax distribution fund. Less than three percent is shared with water recreation, snowmobile trails and enforcement, and all-terrain vehicles. The **motor vehicle registration tax** is credited to the highway user tax distribution fund, and the **aircraft taxes** to the state airports fund.

There are several taxes included in the category of **gross earnings taxes**. They are paid into the state's general fund, including taxes collected on insurance premiums paid in the state, telephone and telegraph services, taconite railroads and rural cooperatives. Taxes collected on the sale of **liquor, cigarettes, tobacco, controlled substances and gambling** approximate two percent of the state and local tax revenues. The alcohol tax varies by the proportion of alcohol in the product that is sold. The cigarette tax rate currently is at 38 cents per pack and the gambling tax is 10 percent of the gross receipts. Except for a small portion, the taxes are credited to the general fund.

Property taxes are levied on the value of all taxable real estate. By the use of a system of property classifications, the market values of property are reduced to taxable values which are the basis for the levies. Although the state itself does not levy a property tax, it does have a direct effect on the taxes by a combination of (1) the design of the property classification system, (2) tax credits to individuals, (3) levy limits on local governments and (4) direct state payments to local governments. Some payments are based on equalization (the state school aid formula). Most nonstate governments in Minnesota have authority to levy property taxes. A major exception is the Metropolitan Waste Control Commission, which must secure its funding by means of allocating its costs to the cities and townships that it serves. The Metropolitan Airports Commission has the authority to levy, but in recent years it has preferred to secure its revenues from leases and contracts with the airlines and the tenants of its airports.

The Minnesota property tax system is far more complicated than that of most states because of the intricate design of the classifications and credits. The legislature has taken steps to simplify the system, and it is expected to make additional improvements in future legislative sessions.

There are various other taxes, including **estate taxes** (paid to the state general fund), **local franchise, sales and income taxes** (specific cities levying the taxes), **mining taxes** (local governments in the mining areas and the state general fund), **forest, sand and gravel taxes** (local governments), **unemployment insurance** and **pollution taxes.**

Revenue Patterns

During fiscal 1987 the general revenues of the State of Minnesota averaged $2,081 per capita and those of the local governments were $2,250, including $867 received from the state, as reported by Robert Cline in the *1990 Economic Report to the Governor.*

From 1968 to 1987, the state revenues increased an average of 9.1 percent per year (compounded) while those of the local governments grew by 9.5 percent. However, the state's share of the state and local revenues increased from 35 percent to 38.5 percent over those years. State revenues from income taxes were $645 per capita and sales taxes were $567. Figure 2 shows that federal grants were the third source of revenues at $448 per capita.

Property taxes were the major revenue source for the local governments, totaling $405 for the cities, counties and townships, with an additional $169 per capita for other local jurisdictions. State grants were the second most important revenue. Federal grants were third in importance for counties; for cities third place revenues were from user charges.

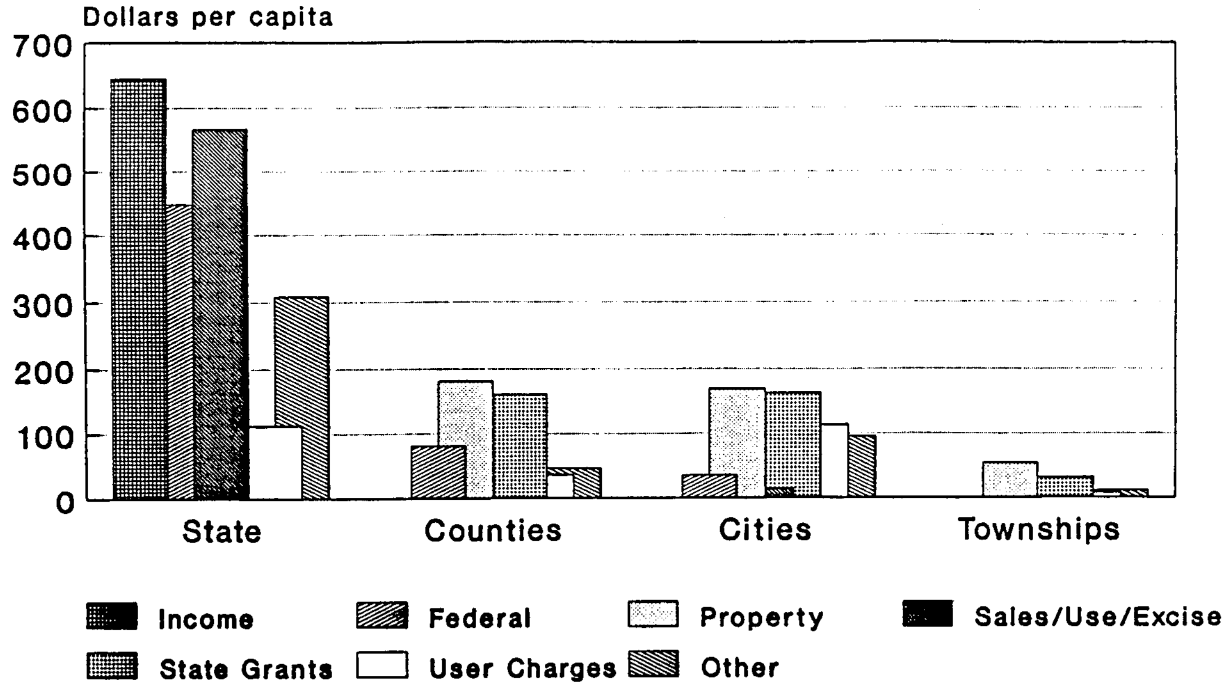
Comparison of Minnesota Taxes to Those of Other States

In 1986, Minnesota's state and local governments received 54.5 percent of their general revenues from taxes. The other major sources were federal aids at 16.5 percent and user charges at 14.6 percent with 14.4 percent classified as miscellaneous according to *Significant Features of Fiscal Federalism* as published by the ACIR. The older states of the New England and the Mideast regions received a larger proportion of revenues from taxes, 62.8 and 62.5 percent, respectively.

In relation to other states in the **Midwest**, taxes levied by Minnesota's governments were a smaller share of total revenues than eight states and larger than Nebraska, North Dakota and South Dakota. Minnesota's share of federal aid is smaller than all except Kansas. Four states have a higher reliance on user charges.

Figure 2

Minnesota State and Local Government Per Capita Revenues, 1987



According to this ACIR report, in 1986 Minnesota's governments received general revenues averaging $3,145 per capita. This was higher than each of the Midwestern states, than the United States in total, and all regions but the Mideast ($3,246).

Governmental revenues in Minnesota, including those from businesses, equaled 22.4 percent of the personal income in the state. That exceeds the 19.4 percent for the nation as a whole and exceeds each of the regions. All except seven states had a lower ratio of governmental revenues to personal income than did Minnesota, including all Midwestern states except North Dakota.

There is a substantial difference in the mix of taxes that are levied in the Midwestern states. In 1986, the primary tax revenue source for state and local governments in Minnesota, the Midwest and the United States was the **property tax**, all 30 percent or greater, according to the 1988 *Significant Features* report of the ACIR. Nebraska (43 percent) led eight Midwestern states that received a larger share of revenues from property taxes than did Minnesota (31 percent). (The Minnesota amount is net of the various credits and the income adjusted property tax refund.) Missouri (21 percent), North Dakota and Ohio (each 28 percent) were lower.

Minnesota made more use of the **individual income tax** (27 percent) in 1986 than shown nationally or in the Midwestern states. It was also a relatively low user of the **general sales and use tax.** The changes made by the legislature since that time probably have altered the relationship of these taxes. Detail is shown in Table 2.

Tax Revenue Trends

Data in various editions of the *Minnesota Tax Handbook* prepared by the Minnesota Department of Revenue shows that in recent years there have been some subtle shifts in the major categories of state and local taxes collected in Minnesota.

Table 2
Share of Total Tax Revenue - 1986

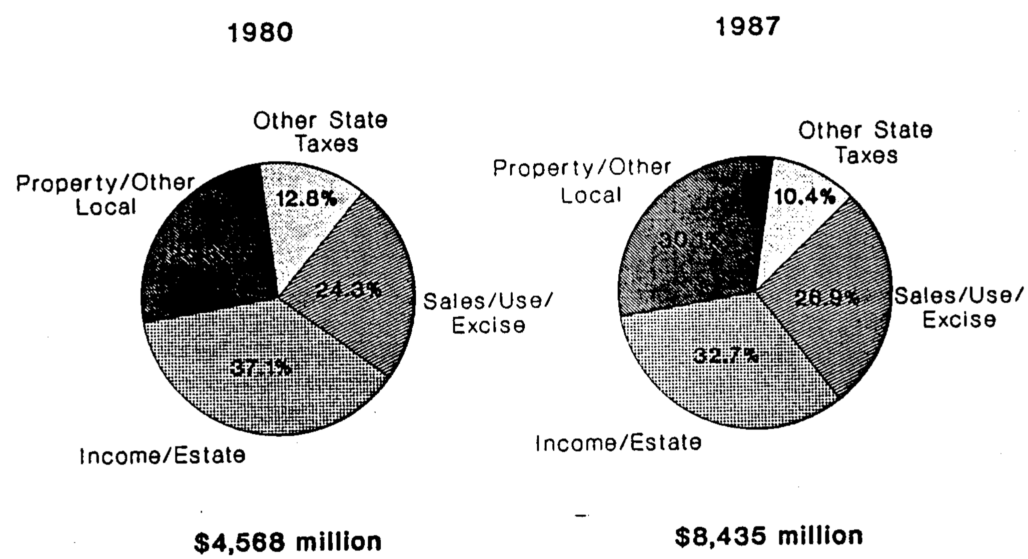
	United States	Midwest	Minnesota
Property Taxes	29.9%	33.3%	30.8%
Sales and Use Taxes	24.3%	22.8%	18.9%
Individual Income Taxes	20.0%	21.8%	27.0%
Corporate Income Taxes	5.3%	4.9%	5.1%
Other Taxes	20.5%	17.2%	18.2%
	100.0%	100.0%	100.0%

Share of Tax Revenues

Cline stated in the *1990 Economic Report to the Governor* that "In 1987, revenue from each of the three major taxes was roughly 30 percent of total state and local tax revenues." According to data from the *Handbook*, the category of income and estate taxes was 33 percent of the total, property taxes were 29 percent and sales and excise taxes were 27 percent. Most of the remaining revenues were based on unemployment insurance taxes, motor vehicle and aircraft registration fees and gross earnings taxes.

As shown in Figure 3, in 1987 the state collected 70 percent of combined state and local taxes (income, sales and other state taxes), while the various levels of local governments received 30

Figure 3
Minnesota State and Local Tax Revenues



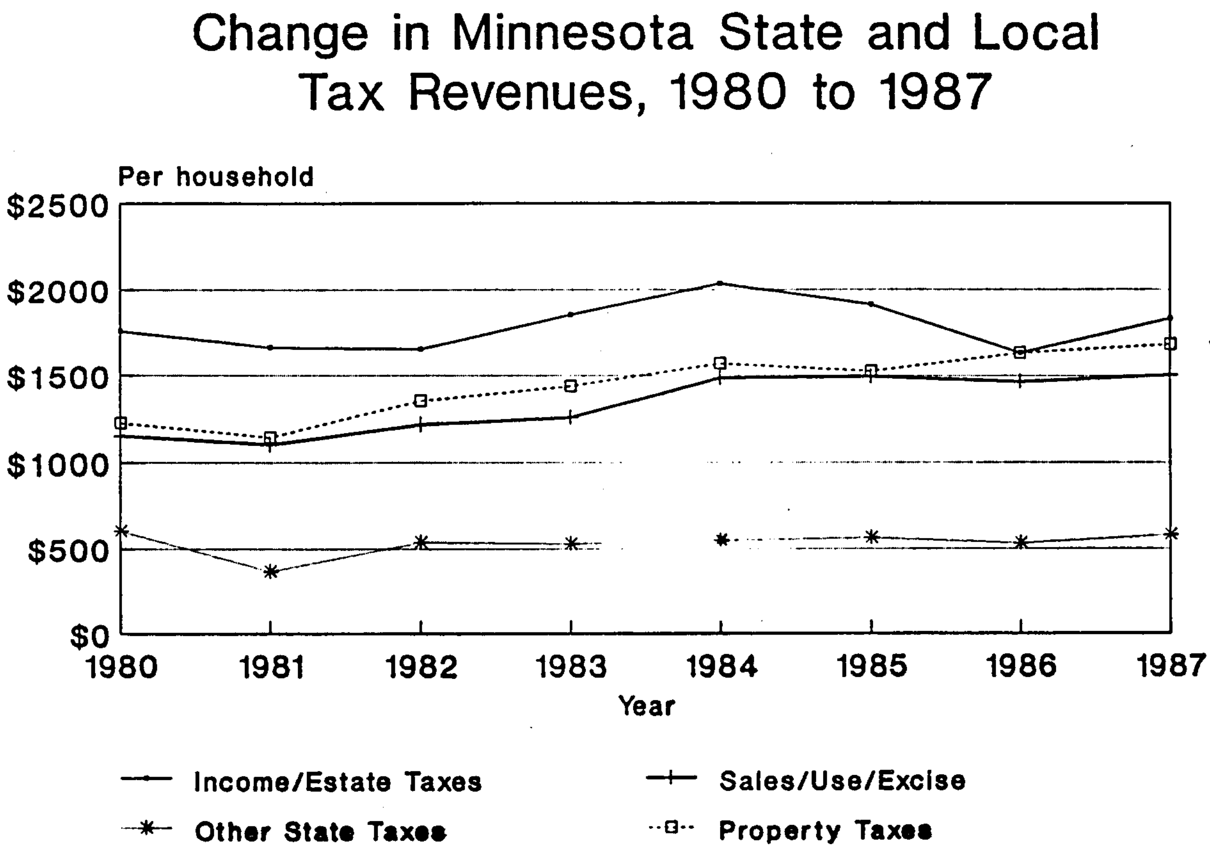
percent (property taxes). Property and other local taxes increased their share of the total by more than four percentage points during the seven years, and sales and excise taxes increased by 2.6 percentage points. The decrease in the share of income and estate taxes approximately offset the property tax change.

Changes During the 1980s

A major reason for the adoption of the sales tax in 1967 was to provide relief from the existing property tax burden, but this relief did not hold through the 1980s. Income tax rates were decreased. Categories were added and removed from the provisions of the sales tax law. Property values had inflated during the 1970s, and, during the 1980s, deflated in the parts of the state heavily influenced by an agricultural economy; but they either stabilized or continued to increase in the largely urban areas. By 1986, property taxes were higher than either income or sales taxes (although not as high as income and estate taxes combined).

All three of the major tax groups decreased from 1980 to 1981 and ascended as the years progressed. Income and estate taxes reached a peak of $2,034 per household (adjusted for inflation) in 1984. Property taxes (combined with a small amount of other local government tax collections) increased steadily from $1,142 in 1981 to $1,684 in 1987, an average of 6.5 percent per year compounded. Sales, use and excise taxes increased from $1,099 in 1981 to $1,507 in 1987. These changes are illustrated in Figure 4.

Figure 4



Variation in the Property Tax Base

Possibly the major factor in the acceptability of any tax is the faith of the taxpayer that the tax will be applied equally across the taxing jurisdiction. All people having a taxable income of

$10,000 (who are filing the same type of return) will pay the same **rate** of state income tax regardless of where they live or work or how they obtain their income. All people buying the same package of dishwashing soap will pay the same **rate** of sales tax regardless of where they live, the location or type of store where the purchase is made or the amount of their income. The same application cannot be made for the property tax.

The property tax rate that is applied may be different for each city and township. County rates will be different between counties. School districts' rates vary. As county and school district boundaries bisect cities and townships, and as a vast array of special districts further disect the municipalities, the rates, as applied to individual properties, become more varied. Differences in the demand for services is a part of the reason, but tax bases of the individual governmental units also are not equal. This influences the revenues that can be raised and the services that can be provided.

In recent years, the legislature has revised the property valuation system from one that prescribed a tax base in terms of "taxable assessed valuation" to one of "taxable tax capacity". The changes involved some restructuring of the classification system and the result lowered the valuation amounts without necessarily changing the relative ability of the governments to provide property tax revenues.

For 1988 valuations (taxes collectible in 1989), Hennepin County had $1,218 million in tax capacity and Ramsey County had $454 million. Their combined total was 45 percent of the valuation for the entire state and exceeded the total for the 80 counties outside of the Twin Cities Metropolitan Area by $284 million. The counties of the Metropolitan Area had an average tax capacity that ranged from Hennepin County with $2,965 per household to Anoka with $2,376, a ratio of 1.25 to one. The average for the region was $2,753 per household.

The differences were more pronounced outside of the Metropolitan Area. Sherburne County (Elk River is the county seat) had the highest valuation with an average of $4,690 per household; the lowest was in Koochiching County (International Falls) with $1,037. The ratio between the two was 4.5 to one.

As might be expected, city valuations are more diverse than those of the counties. Becker in Sherburne County had an average tax capacity of $131,733 per household, 373 times that of the city of St. Vincent in Kittson County with $353. This denotes a serious variation in the ability to finance municipal services. If Becker can afford to hire one employee for a year to be financed from its property tax base, St. Vincent can afford to hire an employee for five hours and 34 minutes.

The Jan. 1, 1988, net tax capacity (for taxes payable in 1989), the 1988 estimated population and numbers of households, and the 1988 net taxable capacity per household and per capita are shown for each county in Appendix D.

DISCUSSION

The property tax system has existed in Minnesota for approximately a century and a half. It was the major source of all state and local revenues until the enactment of the income tax in 1933. The state stopped levying a property tax for its own purposes in 1967-68, at the time of the enactment of the sales tax. During the 1970s, under the heading of the "Minnesota Miracle," the sales and income tax proceeds were used to fund increased state aids to the local governments to relieve the pressure on the property tax payers.

Little has been done to examine the pattern of government expenditures to determine if the existing service delivery systems---systems that may have developed unhindered by a comprehensive study of service needs since statehood began---are appropriate for the future. The legislature has shown some concern by its 1989 tax bill which transferred the costs of welfare, income maintenance and the court system to state financing from county budgets. Also, it switched some state funding from the cities, townships and counties to the school districts.

Primarily, this report is concerned with a review of the tax system of the state. An in-depth look at services and other expenditures is a separate topic not programmed by the Council. However, a review of revenues cannot be complete without some acknowledgement of the expenditures that the revenues are expected to finance.

A Tax and Service Delivery System for the 21st Century

In the ongoing discussions about fiscal affairs, the theme that appears to be emerging is that state funds should pay for those services mandated by the state and local funds should pay for services that are initiated locally. That is easy to say and difficult to do within the current financing structure. In 1987, 64 percent of the state and local expenditures were made by the local governments, but only 45 percent of the "own-source" revenues were received by them. The state's own-source revenues for that year were $1,611 per capita and those of the local governments were $1,296 *(1990 Economic Report to the Governor)*. Further research is required to decide if the mix of services and revenues can be improved.

To determine the fiscal structure that is appropriate for the 21st century, there must be an examination of service needs, service delivery, government structure, and revenues.

1. Service Needs or Service Demands

The public services that are required in the next century most likely will not be the same as those of the 19th and 20th centuries. It is important for public agencies to understand these changing demands. There is a continuing stress between those requiring services and those paying for the services---sometimes the same people and sometimes not. It is important that the legislature, acting as the highest-ranking policymaking body in the state, determine the real demands for the future and establish the priority for service delivery.

2. Service Delivery

The next step is to determine an effective system or systems for delivering the approved services. Which are those needs that can be met privately, either by a person-to-person relationship, a business-to-client or an employer-employee relationship? Which services can best be delivered by private, nonprofit service organizations? Which services require a government provider? What are the delivery options that are available when the government delivers the services? When determining the provider, it also is necessary to design an effective system for monitoring.

3. Government Structure

The next step is to assign those services that are to be provided by government to the appropriate **unit** of government. As a part of the same process, an evaluation of the existing governmental structure should occur. Can the necessary services for the 21st century be effectively provided within the current structure, which in most instances is more than a century old? If improved structures are required, they should be invented and those that are inefficient or ineffective should be eliminated. It is important that **the level of government upon which the equity in service delivery is based should determine the level at which policy is established.** The following points are intended to be examples, not policy recommendations.

a. Public policy and numerous court decisions require that elementary and secondary educational **opportunity** be equal for all people. Policy for public education, including setting the standards, monitoring their implementation and financing the system are appropriately determined by the state. The actual implementation may be state, regional, local or, as some are willing to advocate, on a building-by-building basis. Social services, income maintenance, water quality standards are additional public policy matters that require the consideration of statewide equity.

b. On the other hand, the public may be served very well by establishing standards at the local level for fire and police response time, for the quality of local street maintenance, for the numbers of volumes in the library and for recreation programming.

c. The legislature should determine the optimum **number** of units of government that are necessary to deliver effective and equitable services. The current government structure permits the same service (police and corrections, street and highway construction and maintenance, park and recreation programs) to be provided at several levels of government. The policy question that the state must analyze is: Are the different governments providing different services within the same functional area for different clients, or are they competing for the same clients with the same services?

4. Financing the Services

The importance of setting policy at the level of government where the equity is intended to occur has been discussed. It is equally important that financing policy be determined at the same level as service policy so that adequate funding is available. Revenue-raising may be prescribed at the level that delivers the service (which may be different from the level that establishes policy). This revenue-service relationship provides accountability because the taxpayers are able to compare the costs of the service to the amount of service that is delivered.

In a specific jurisdiction, there may be a restriction in the delivery of services if the ability to finance them is not equal to the need for the services. This causes inequity in the delivery of services between recipients. This inequity is apparent in social service delivery between counties and in education between school districts. The state has issued mandates in each of these areas of service, but the ability of those who deliver the service to provide equal financing for the local share of the costs is not present. The ability of the local governments to collect fees and charges for services, licenses and permits, special assessments, grants or revenue sharing by the state and federal governments should be taken into consideration when establishing fiscal policy for local governments, but there should be an awareness of any prior dedication of these revenue sources, and which of them may be available for the financing of mandates.

Also, as a part of its review of service financing, the legislature should consider the administrative cost of maintaining the currently existing 4,000-plus units of government.

5. Redirection of State and Local Government Financing

Since 1970, the legislature has made changes in both government structure and in revenue patterns that have improved taxing equity, and it has expressed its intention to continue its review of fiscal affairs. Section 4 of the tax bill adopted by the legislature in its 1989 special session requires the establishment of a task force "for the purpose of implementing the review of state aids and associated state mandates" as a part of "conduct(ing) a continuing study of state-local finance." The words "continuing study" imply that the monitoring, review and analysis of the task force will be ongoing.

The parent of the task force, the Legislative Commission on Planning and Fiscal Policy, has a deadline of November 15, 1991, (as amended in the 1990 legislative session) to "make recommendations to appropriate standing committees of the legislature on any changes in uniform accounting and financial reporting methods necessary to assure public and legislative oversight of expenditures by cities, counties, towns and special service districts." By January 15, 1991, the Commissioner of Revenue is required to provide recommendations for amendments to the formulas for local government aid to cities.

During 1989 and 1990, the Citizens League of the Twin Cities studied the matter of *Financing and Managing State and Local Programs*. Government structures for service delivery and for financing were examined, and a report was released in 1990. Council staff members were members of this committee.

Relating Minnesota State and Local Government Revenues and Expenditures to the United States Average

In the article "Reforming the State and Local Fiscal System," published in the *1990 Economic Report to the Governor,* Robert Cline showed the per capita revenues and expenditures of Minnesota's state and local governments in relationship to those of the United States for 1968, 1974, 1981 and 1987. Some of Cline's data is reproduced in Tables 3 and 4. The index numbers indicate Minnesota's relative position compared with the U.S. average of 100 percent.

Minnesota's state government revenues decreased from 127 percent of the U.S. average in 1968 to 120 percent in 1987, according to Table 3. At the same time Minnesota's local government revenues increased from 114 percent to 133 percent. Minnesota's income and property taxes decreased from 1968 to 1987 in relation to the U.S. average. Sales tax revenues increased during that period, which is understandable because the sales tax was first collected during fiscal 1968. All three taxes were higher than the U.S. average in 1987. The total of state taxes was higher than the U.S. average but the local governments' total was about eight percent less than the U.S.

Both the state and the local governments exceeded the U.S. average for federal grants in 1987 compared to the 43 percent that Minnesota local governments had been behind the U.S. in 1968. The State of Minnesota was far more generous in sharing its tax base, 54 percent higher than the average of the other states. User charges also were more important sources of state and local revenues in Minnesota than in the other states.

Cline writes:

> In 1968, per capita local property taxes equaled state sales and personal income taxes combined. Compared with taxes in other states, local property taxes were 23

percent higher than the U.S. average and state personal income taxes were 142 percent higher. Following the tax reforms in 1967 and 1971...local property taxes fell to 98 percent of the U.S. average by 1974. A doubling of per capita state taxes between 1968 and 1974 paid for the state aids, credits and intergovernmental grants, which held property tax increases to 30 percent. Over the same period, state-paid property tax relief and intergovernmental grants jumped from 48 percent to 55 percent of total state spending.

The first important step in reducing property tax levels was the state adoption of the homestead and renter credits in 1967...Revenues from the sales tax were used to reduce property taxes indirectly by funding additional state aid to local governments. The elimination of the state property tax was also a part of the 1967 reform package. As a result of these changes, Minnesota per capita property taxes fell almost seven percent in 1969...The reforms reduced Minnesota per capita property taxes to the nationwide average by 1970.

Table 3
Minnesota State and Local Per Capita General Revenues
Percent of U.S. Average

	State Govt. Revenues				**Local Govt. Revenues**			
	1968	1974	1981	1987	1968	1974	1981	1987
Taxes:								
Individual Income	242	221	191	174				
Corporate Income	145	170	131	117				
Sales, Use and Excise	87	100	99	115		2	4	3
Property	202	11	8	8	123	98	103	119
Total Taxes	124	134	126	128	109	84	82	92
Intergovernmental Revenues:								
Federal	127	103	118	114	57	112	99	108
State					123	158	150	154
Local	151	73	124	74				
Total Intergov. Revenues	128	102	118	111	117	150	140	148
Nontax Revenues:								
User Charges			137	142			125	131
Miscellaneous			100	75			176	237
Total Nontax Revenues	141	118	118	105	122	126	144	177
Total General Revenues	127	123	123	120	114	118	119	133

In 1971, additional state aids and property tax relief were enacted, financed by income and sales tax increases. Levy limits were imposed on local governments. Because of the fiscal problems of the early 1980s, state spending was decreased and local property taxes increased by $262 million. As a result, state-paid property tax relief increased during the 1980s at two-thirds of the rate that it increased in the 1970s. By 1987 property taxes had increased to 119 percent of the U.S. average. In the last decade of the 20th century, it appears that the "Minnesota Miracle," the bright and shiny state and local fiscal vehicle of the 1970s, has become road weary.

Table 4 shows that although state government expenditures decreased from being on a par with the U.S. average in 1968 to 10 percent below the U.S. average in 1974, by 1981, and again in 1987, those expenditures exceeded the national base by nine percent. Expenditures for higher education, health, transportation and public safety have decreased at various rates, while welfare has increased from eight percent in 1968 to 105 percent of the average in 1987.

Table 4 shows that the Minnesota average of expenditures exceeded the U.S. average by nine percent in 1987, and Table 3 shows that the revenues were 20 percent higher. An explanation of this difference may lie in the fact that Minnesota's state aids were 54 percent higher than the U.S. average. The state aids to local governments are not shown as expenditures.

Local government expenditures increased from 120 percent of the U.S. average in 1968 to 131 percent in 1987. Most categories of services increased in cost more rapidly than the U.S., although sewerage and parks and natural resources increased less rapidly. Education was about the same in 1987 as in 1968 but 1974 and 1981 had seen a lower ratio. Education, social services and transportation received heavy funding from the state aids which showed, in Table 3, an increase from 123 percent of the U.S. average in 1968 to 154 percent in 1987.

The expenditures for public welfare showed great changes at both the state and local levels. By 1987, the local costs were 174 percent higher than the U.S. average, up from 99 percent over the average in 1968. The state was five percent over the national average in 1987, but had been 92 percent below the average in 1968.

Table 4
Minnesota State and Local Per Capita Direct General Expenditures
Percent of U. S. Average

	State Expenditures				**Local Expenditures**			
	1968	1974	1981	1987	1968	1974	1981	1987
Education:								
Elementary Education					125	120	114	117
Higher Education	157	151	135	134				142
Total Education	138	127	121	127	120	112	107	119
Social Services:								
Public Welfare	8	28	100	105	199	250	233	274
Health and Hospitals	125	101	107	113	83	90	122	107
Total Social Services	58	52	103	110	148	175	170	172
Transportation	118	107	100	107	172	198	185	184
Public Safety	75	73	74	55	67	72	86	83
Natural Resources and Parks			135	150	333	129	150	138
Sewerage			35	72	193	129	135	125
Housing and Urban Renewal			306	81			76	124
Interest on Debt	50	61	98	82	134	135	150	206
Total Direct General Expenditures	100	90	109	109	120	123	123	131

ISSUES FOR THE 1990s

There remain several issues that should concern Minnesota taxpayers. Balancing of the tax revenue sources is critical to providing a stable fiscal base. Some states operate without one of the three major taxes (income, sales and property) and are very sensitive to a falling off of revenues from either of the two that they do have. If Minnesota hopes to function in a national and international economy, it must be aware of the impact that its taxes and other fiscal policies will have on the marketability of the state's products and services. On a per capita basis, Minnesota's taxes are higher than an average of all of the states, but its position has improved over the last 15 to 20 years. Minnesota's per capita expenditures have increased more rapidly than have the average of the other states. That is not necessarily bad, but there must be a constant watchfulness to provide a balance between (1) the demand for governmental services and (2) the limited ability to provide tax revenues.

For some time the legislature has been concerned about the impact of property taxes on the individual. It has responded in several ways: First, through the imposition of income taxes, it decreased the reliance on the property tax for the financing of state programs. Second, through the property classification system, it shifted tax payments from homesteaded property (individual homeowners) to commercial and industrial property and to renters. Third, after the introduction of the sales tax, the legislature provided that state-collected revenues be used to pay local governments for some of the taxes that they levied on property. These credits were available only to homesteaded property. A separate program of cash refunds (financed by state revenues) is available for low and middle income individuals, both owners of homesteaded property and renters.

During the late 1980s the legislature shifted its property tax concerns to the commercial and industrial property. With the current estimate of the state's budget problems, it is not clear whether the tax reduction trend has any momentum. There is an awareness that the relatively higher taxes on Minnesota's business community make it less competitive in the national and international economy than if those taxes were lower. The following paragraphs discuss a number of issues.

Balance Between Taxes

One of the philosophies of government is that all of those who can afford to pay taxes will assist in the financing of government. It follows that the major taxes should be levied against three separate bases: income, wealth and purchasing power.

Income whether from salaries, wages or investments, is subject to **income taxes.**

Wealth is taxed through the **property tax system.**

Purchases, and sometimes, services, are taxed through the **sales tax.**

If the three taxes become out of balance, there may be an inequity between taxpayers. Kleine and Shannon (*Reforming State Tax Systems,* National Conference of State Legislatures) identify balancing of tax revenues as one of the three most important criteria of an ideal state and local tax system. A well balanced system probably would receive about 30 percent of its revenues from each property, sales and income taxes, and about ten percent from the remainder of the state and local tax collections. Income tax and sales tax revenues have a tendency to swing with the economy, either up or down. The property tax base is more stable, thus it can be used to provide governmental financing when revenues from the other two major taxes are in shorter supply.

Tax collections for Minnesota in 1987 were reasonably balanced, as shown in Figure 3. Income taxes were 32 percent of the total state and local taxes ($2,716 million); sales, use and excise taxes provided 27 percent ($2,269 million); and property taxes were 29.5 percent ($2,485 million). Most of the additional taxes were collected by the state. The balanced revenue picture for 1987 was an improvement over 1981, when income tax revenue was nearly 50 percent higher than either of the other sources. It is important that a balance be maintained.

The Competition Between Minnesota's Taxes and Taxes of Other States

On a per capita basis, Minnesota's individual and corporate income taxes and property taxes decreased in relationship to those of the other states between the years 1968 and 1987. General sales tax revenues increased more rapidly than did those of the other states, but it should be kept in mind that 1968 was the first year of the program and the collection period consisted of something less than 12 full months. All of the per capita revenues remained higher than those of other states in 1987 with sales taxes (combined state and local) closest at 105 percent and individual income taxes showing the greatest difference at 174 percent of the U. S. average.

Minnesota's **individual income tax revenues** showed the greatest decrease between 1968 and 1987 as they dropped from 242 percent of the national average in 1968 to 174 percent in 1987 (Table 3). Figure 5 shows that the collections increased from $76 per capita in 1968 to $545 in 1987. Corporate income tax revenues increased from $18 per capita in 1968 to $100 in 1987, but they decreased from 145 percent of the national average to 117 percent.

General sales tax revenues (exclusive of excise taxes) increased from $31 per capita in 1968 (the first year of collection) to $346 in 1987; the revenues were 60 percent of the national average in 1968 and 105 percent in 1987. (In 1974 the collections were $89 per capita, 83 percent of the national average.)

Property tax revenues for the local governments were $166 per capita in 1968 and $571 in 1987; they decreased from 123 percent of the national average in 1968 to 119 percent in 1987.

Changes in Expenditure Relationships Between Minnesota and the Other States

The per capita expenditures of Minnesota **state government** were nine percent higher than the average of the other states in 1981 and 1987. This was a change from ten percent lower in 1974 and being the same as the U.S. average in 1968. Minnesota's **local governments'** per capita expenditures were 31 percent higher in 1987 than the average of the other states. In 1974 and 1981 they had been 23 percent higher. Both changed approximately nine percent over the 20 year period, but the change in state expenditures from 1974 to 1981 was 21 percent compared to 6.5 percent for the local governments from 1981 to 1987. The comparisons are taken from Table 4, which uses data from the *1990 Economic Report to the Governor.* The following paragraphs discuss some individual services:

> Education: The state's expenditures were 38 percent greater than the U.S. average in 1968, but the difference was reduced to 27 percent higher in 1987. The local governments' expenditures were approximately 20 percent higher than the other states in 1968 and 1987 but had been closer during the interim.
>
> Public Welfare: In 1968 Minnesota's expenditures for welfare were 92 percent below the U.S. average; by 1987 Minnesota's costs were five percent higher. The

Coordination Between Governmental Services and Funding (Accountability)

At the same time that there is testimony before the legislature concerning apparent gaps in some governmental services, it appears that there may be competition in other of the services that are being delivered (park services are provided at the state, region, county and city level; police and criminal investigation services are at the state, county and city level). Often policies are formulated at levels of government different from those providing the service. Funding may be provided by the government establishing policy or by the government providing service delivery or a combination of both. At times policy direction is accompanied by a mandate for service to be performed by a provider who does not have adequate revenue-raising authority to finance the service demands of the mandate; sometimes the authority is provided, but the capability to raise the revenues is not present.

Examples of services that are to be available equally to all people in the state are education, human services and court services. The legislature has recognized the necessity for equalized financing by ordering equal spending for all K-12 students by public school districts, and by providing for state assumption of certain human services costs and district court costs.

The basic school-aid formula provides for a coordination between state assistance and a levy on the local property tax base. But other revenue-raising authorizations or mandates for education (local levies for optional operating funds or for debt financing) tend to negate the per-student equity provided in the basic formula.

Equity issues are usually enforced best at higher levels of government. Accountability is strongest when fund raising and decision making are at the lowest levels of government. The basic questions that require answers are:

1. What services are needed?

2. Who needs the services and where are they located?

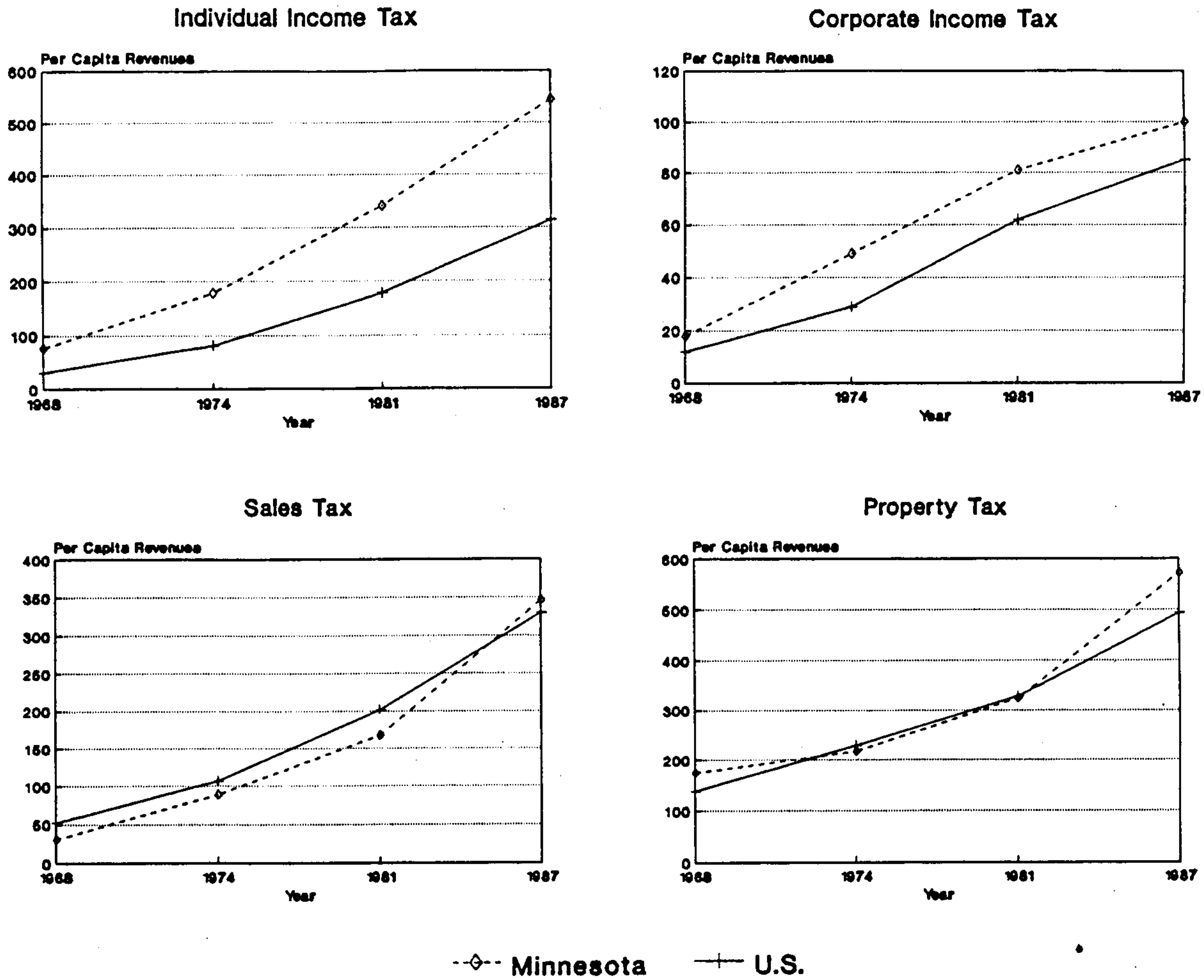
3. Who can best provide the services and where are the service providers located?

4. Who should establish the policy and who should pay the bill? Should it be the same entity, or may the policy makers and the financiers be different?

The basic discussion should not take for granted that the existing service and financing structures are the best, but it should start "with a clean sheet of paper." In the 1990s it is necessary to design the service, the financing systems and the governmental structure that will be used in the 21st century.

Figure 5

Minnesota'a Tax Revenue Compared to U.S. Average



local governments' costs were again as high as the other states in 1968 and rose to 174 percent higher in 1987.

Health and Hospitals: Minnesota dropped from 125 percent of the U.S. average to 113 percent while the local governments' trend increased from 83 percent to 107 percent.

Transportation: The state's expenditures decreased from 118 percent to 107 percent of the other states while local governments' costs increased from 172 percent to 184.

Public Safety: Minnesota's costs for all years were below those of the other states for both the state and the local governments.

Interest on Debt: The state's cost increased from 50 percent of the U.S. average to 82 percent in 1987, and the local governments' expenditures rose from 134 percent to 206 percent.

THE METROPOLITAN COUNCIL AND STATE TAX POLICY

As defined by state law, the Metropolitan Council's responsibilities lie within the seven-county Metropolitan Area. This paper is concerned with **state and local government taxes**, all of which are established for statewide purposes, not necessarily for regional purposes. Despite the geographical restriction on the Council's responsibility, state tax policy is a matter for Council concern for several reasons.

1. The majority of the state's tax base is in the Metropolitan Area; therefore, any legislation regarding statewide taxes has a significant impact on the Region. Less than half of the state aids are disbursed within the Region.

    The seven Metropolitan Area counties had 62.6 percent of the real estate taxable tax capacity as of January 1, 1988, compared to an estimated 52.2 percent of the number of households. The Region provided 64.2 percent of the 1987 sales and use tax liability and 62.9 percent of the gross sales. The federal adjusted gross income (IRS form 1040) of the Region for 1982 was 61.2 percent of the state's total; the Region's share of Minnesota gross income was 61.4 percent; and the personal income tax liability was 64.6 percent.

    Of those state revenues that are shared with the cities, counties and townships, approximately 46 percent were received by governments within the Region. The state revenues used in this process are substantially those from sales, income and motor fuel taxes.

2. There is economic interdependence between the different parts of the state of Minnesota. The economy of the Metropolitan Area benefits the total state; so does the agricultural and tourist economy that primarily exists in Greater Minnesota. In most aspects, the borders of the Metropolitan Area are more imaginary than real.

    The Region is not bordered by any major natural barrier such as a large body of water or a mountain range. The state boundary does not restrict economic transfers. Within the state, there are no restrictions to travel or transportation for people who wish to live in one region and work in another, or to the use of any state or local government services. The legislature has removed New Prague, Hanover and Northfield from the responsibility of the Metropolitan Council although there are parts of those cities physically located within the seven counties that make up the Region.

3. The Council has review responsibility for the metropolitan systems. Substantial state and federal funding are invested in the operating and planning agencies.

    State and regional highways are financed by state and federal motor fuels taxes, motor vehicle excise taxes and motor vehicle registration taxes. The Metropolitan Airports Commission is a recipient of funding based on collections of airflight property taxes and aircraft registration taxes. The Metropolitan Council receives regional park operating and capital funds which are paid from state-collected taxes. Solid waste programs receive state funding. Transit operations and light rail transit planning are financed with state revenues.

OBSERVATIONS

Several matters of concern are discussed in this report:

1. **Competition.** Tax revenues per capita are higher in Minnesota than the average for all of the United States and for the average of the Midwestern states, but the difference is narrowing.

2. **Balance, Diversification.** During the 19th and early 20th centuries the state and local governments had a history of great reliance on the property tax. As of the late 1980s, the collections of property, sales and income taxes are close to being in balance. (Approximately 30 percent of the revenues are received from each of (a) income taxes, (b) property taxes and (c) the combination of sales, use and excise taxes.) In the near future, it appears that property tax revenues may pull ahead of the other two sources.

3. **Accountability.** There is some concern that the total structure of the government service delivery system in Minnesota is not operating as efficiently as it could be.

The staff recommends that the Council monitor the Legislative Commission on Planning and Fiscal Policy and its task force, and contribute to their work. The particular areas of Council experience are:

1. **Levels of Service.** The Council has experience in planning for the delivery of human services and physical facilities. Its experience can be useful to the process of debating the responsibilities between the state, the economic development regions and the local governments, particularly when the issues are specific mandates and the revenue raising ability of those who deliver the services.

2. **State and Local Fiscal Relations.** The Council has performed studies in many phases of local government fiscal matters, including funding programs provided by the state and federal governments. The comprehensive plans of the local governments provide a resource for studying future service needs and capital financing plans. The Council should be available to present the needs of the governments within the region when the legislature is examining city, county and school district funding.

3. **Regional Agencies.** Because of its role in the review and approval process of the plans for services and facilities of the regional agencies, the Council is experienced in the specific assignments of these units of government, and should be an active participant in any debate regarding the agencies. In particular, revenues for both operating and capital purposes have become significant issues in recent years.

NJW0263A/5-15-91

APPENDIX A

GUIDELINES FOR SPECIFIC TAXES AND TAX ADMINISTRATION

A. Personal Income Tax
B. Sales Tax
C. Property Tax
D. Business Taxes
E. Excise Taxes
F. Severance Taxes
G. User Charges
H. Tax Administration

Robert J. Kleine and John Shannon ("Characteristics of a Balanced and Moderate State-Local Revenue System," *Reforming State Tax Systems,* National Conference of State Legislatures) provide guidelines for specific taxes---the personal income tax, the sales tax, the local property tax, and the general field of business taxes and excise taxes. They are especially concerned about (1) the competitiveness of taxes between taxing jurisdictions (tax rates should reflect the rates of similar taxes in neighboring states), and (2) the balancing of various taxes and tax bases (the **total** of these taxes provide a **balanced system**). Excessive reliance on one tax, or the ignoring of one, may seriously threaten the stability of the revenue structure and, possibly, a substantial share of the users of government services would pay an unfair share of the costs. The following remarks are those of Kleine and Shannon with italicized comments by the author.

A. Personal Income Tax

The income tax is called the "cornerstone" of the tax system, the fairest of taxes because it is related to income. It responds to growth in the economy by producing larger revenues.

1. A personal income tax should provide 20 to 30 percent of all state-local tax revenue.

2. The rates of an income tax, whether graduated or flat, should not be markedly higher than rates in surrounding taxing jurisdictions. Taxes may become a factor in the location decisions of taxpayers. High taxes disillusion potential savers. Most states employ graduated rates that cause those people with higher incomes to provide a larger proportion of the revenues.

   An excessive number of steps in the rate schedule tends to weaken the fairness that is inherent in a single rate structure. *(Note: In addition to a rate that includes all taxpayers, the best schedules appear to be those that contain one or two steps that exclude a substantial majority of the payers, but that produce sufficient additional revenue to be an effective source. Personal exemptions or credits, used with one or two rates, can provide a substantial amount of progressivity.)*

3. An income tax should offer personal exemptions or credits at least as generous as the federal income tax exemptions. Exemptions or credits should be high enough to shield those below the poverty line from any income taxes.

4. The number of deductions that are allowed should be minimized. The federal government (and the state by virtue of adopting the federal definition of taxable income) has mater-

ially reduced the number of deductions, many of which had been translated by practice from legitimate deductions to "loopholes." All deductions narrow the base; therefore, the final decisions on the use of deductions should evaluate the loss of revenue that is expected to result. When studying deductions, it is essential to prevent unequal treatment. *(Note: The state, by adopting the federal government's definitions of income, exemptions and deductions, simplified its tax return form and its compliance measures. However, it also bought into any errors in the federal plan and any inequities that are caused because the cross section of taxpayers of the state may be different from those of the total nation.)*

5. Income taxes should be indexed for inflation. This includes rates, exemptions and credits, especially if the rate structure is relatively flat. The goal should be to prevent taxpayers from being pushed into a higher bracket simply because of inflation.

6. A state should share the proceeds of the income tax with local units of government or permit local income taxation, thus relieving the burden on the less progressive property tax. A shared system appears to be most favored. If there is a local tax, it should be administered by the state.

B. Sales Tax

The general sales tax is the largest state revenue source nationwide, accounting for 23.4 percent of all state-local revenue in 1984. Although somewhat reflective of economic variations, it is less subservient to those fluctuations when it is applied generally across the economy than are income and property taxes. Most public opinion surveys find it to be the least unpopular of the three taxes because it is perceived to be voluntary. In that the sales tax is payable by anyone making a retail purchase in the state, it is exportable to nonresidents.

The following criteria are suggested when evaluating a sales tax:

1. It should provide 20 to 30 percent of all state-local revenue.

2. The tax rate should not be out of line with rates in surrounding states.

3. Food, drugs and utilities should be exempted from the tax base. A much better option is to employ a tax credit for the taxes on these items to relieve the regressivity.

4. The tax should include most services. Kleine and Shannon state that "all forms of consumption should be taxed to avoid distorting consumer choices." A tax base including services will reduce regressivity, increase the growth of the base and simplify tax administration by the vendor.

5. It is preferable that the state share the proceeds of the tax with the local governments rather than permitting them to levy their own sales tax. A local tax would double the administration costs (unless piggy-backed on the state tax) and would encourage competition based on tax rate differentials, not on business efficiencies.

6. A strong audit and enforcement program should be maintained to protect the integrity of the tax base. Ineffective enforcement will cost a substantial amount of revenue and is unfair to those vendors who do manage the process correctly.

C. Property Tax

Nationally, in 1970, property taxes provided 64 percent of local government revenues except for grants. By 1984 the share had been reduced to 47 percent. The authors assign the reduction to four factors: (1) self-imposed local government discipline in response to the concern that individuals and businesses were leaving because of property taxes; (2) voter-imposed limitations such as the California and Massachusetts referenda; (3) greater elasticity of other revenue sources; and (4) increased state aid for education. *(Note: Factors 1, 3 and 4 appear to be pertinent to Minnesota.)*

Although the tax is criticized as regressive, penalizing improvements and encouraging intercity migration, it will continue to be a major revenue source because (1) it is very stable, (2) it is productive, allowing for considerable local independence, (3) it is a method of taxing absentee property owners who probably are escaping other major taxes, (4) it is the only major tax that can recoup for the community some of the property value that has resulted from the provision of good public services, and (5) there is a varying amount of fiscal accountability when viewing the taxes against the local schools and city services.

Certain safeguards should be required:

1. The tax should provide 20 to 30 percent of all state-local tax revenue. Because of its regressivity and its visibility, it should not be exceptionally dominant in the revenue mix.

2. The state and local governments should work together to ensure that the property tax burden does not become excessive. The state should assume the costs of those functions for which it provides a substantial amount of operating direction such as welfare and education. The state should share the general revenues that it collects with the local governments on a basis that reduces the existing fiscal disparities between them. The state may authorize local income and sales taxes, primarily on a substate or multi-city level.

3. The state should finance a "circuit-breaker" property tax relief program to shield low-income home owners and renters.

4. Property should be assessed on average at no less than 80 percent of market value. State sales ratio studies should be made to monitor the integrity of the system.

5. Property tax laws should include a mechanism to prevent automatic increases in revenue from inflation-induced assessment increases.

6. The property tax should be administered fairly and equitably by professionals.

D. Business Taxes

Kleine and Shannon state: "A fundamental issue in business taxation is whether states would do better to strive for a uniformly applicable, comprehensive and nondiscriminatory business tax system or whether they should seek to tax businesses differently and selectively based on the inelasticity of demand for their outputs, or the inelasticity of their supply of inputs, or on the basis of their inability to relocate." Should states tax all businesses uniformly, or should tax policy vary for those businesses whose market, supply of raw materials or labor is not reduced because of taxes? What about tax policy in regard to mining, gas and petroleum? Those facilities cannot be relocated if taxes become onerous.

There are some practical considerations to be taken into account, namely (1) distribution of the tax burden, (2) revenue production, (3) tax neutrality (taxes will have a minimal effect on the market), (4) responsiveness to economic growth, (5) ease of administration and compliance, (6) stable fiscal environment, (7) relationship between business and nonbusiness taxes, and (8) tax exportability. Some specific criteria are:

1. A business tax system should be broad based with some consideration of ability to pay.

2. The tax structure should be applicable to all forms of business organization.

3. It should provide immediate write-off for capital investment and dispense with special tax inducements.

4. The number of separate taxes within a business tax system should be kept as small as possible.

5. A stable tax base, relatively unhampered by swings in the business cycle, should be used.

6. Inventories should not be taxed as personal property.

7. Rates for general business taxes, for unemployment insurance and for workers compensation should be competitive with neighboring states.

E. **Excise Taxes**

Typically the taxes are on sales of alcohol, tobacco, gasoline, and motor vehicles. Nationally, these taxes account for less than 10 percent of all state-local revenue, and, even with rate increases, are not showing much growth as the use of alcohol and tobacco declines and automotive engines become more fuel efficient. Because excise tax rates are at record highs and revenues are stable with a potential to decrease, Kleine and Shannon recommend that states abandon excise taxes and shift to sales taxes.

As excise tax rates have increased, it has become more lucrative to do business in smuggled and stolen cigarettes and liquor, thus avoiding substantial amounts of taxes. A program of law enforcement and auditing as vigorous as those dedicated to the larger revenue producers should be administered because the tax avoidance opportunities are much greater in the excises and the consequent inequities are more severe. *(Note: In broad terms, an excise is a tax on a specific commodity, service or product rather than on its value or selling price; therefore, as the volume decreases, the tax decreases, even though the cost/selling price may be increasing. This forces rate changes if the revenue is to be maintained. One side effect might be a determination that the cost of administration, auditing and enforcement may exceed the value of the tax proceeds, and that these commodities should be shifted to a sales tax program or exempted from any taxation.)*

F. **Severance Taxes**

These taxes are especially lucrative for those states in which extractive industries are a major part of the economy---mineral production, quarrying, natural gas and petroleum---because they are largely exported to other states. *(Note: It is conceivable that water resources may become the subject of severance taxes.)*

G. User Charges

The use of user charges has increased in recent years. The largest increases have come in public utilities, but also in special assessments and permits. The advantage of user charges is that the recipient of the service pays for it. *(Note: In Minnesota the change has been from 8.3 percent of state and local revenues in 1957 to an estimated 11.45 percent in 1987, an increase of $1.8 billion. In some instances the benefit is to the property---special assessments, building and other permit fees--rather than to the specific payer---as are sewer and water operating charges and recreation fees---and the cost of those property benefits may be transferred to future owners.)*

H. Tax Administration

Kleine and Shannon have made references to tax administration throughout the previous discussion. This section contains observations in addition to those of Kleine and Shannon.

If a tax system is badly administered, the costs of administration can confiscate a substantial part of the collected revenues. (For example, the residents of a certain jurisdiction in Missouri apparently were billed for taxes and various governmental fees and charges through 27 separate statements.) It is essential that a system of administration be established that is effective, is not duplicated within the state and whose cost is a small percentage of the collected revenues. The costs of collecting taxes and monitoring the collection process are more directly related to the number of taxpayers than to the amount of taxes collected, thus are duplicated if a parallel local tax system is established.

It is more efficient and equitable to administer the income and sales tax programs at the state level than to have a multitude of local administrations. Additionally, a program of sharing the taxes with the local governments provides the opportunity to distribute the tax revenues on the basis of need rather than on the point of collection only, thus insuring a better statewide balance between revenues and spending needs.

An effective monitoring, auditing and enforcement program is necessary to the integrity of any tax collection system so that it can be shown that all taxpayers and tax collectors are treated uniformly. It is tempting to permit laxity in the monitoring program if no problems have been uncovered for a period of time, or if there appears to be a competing need for those funds that are required to support monitoring. If no problems have been discovered, the monitoring process should be reviewed to be certain that it is investigating all important possibilities for mismanagement, and to determine if there may be opportunities to improve (make more efficient and more equitable) the tax collection system. In times of budget pressure, the monitoring system should be strengthened because a greater than normal risk to the system may be present.

APPENDIX B

MINNESOTA STATE AND LOCAL TAXES

Following is a brief survey of Minnesota taxes, including statutory references and some basic information about tax history, current rates and current revenues. The revenues are for the fiscal years 1986, 1987 and 1988 in most instances. Rates of some other states are provided for a comparison.

The information has been largely lifted from the *Minnesota Tax Handbook, A Profile of State and Local Taxes in Minnesota, 1987 Edition,* prepared by the Tax Research Division of the Minnesota Department of Revenue, January 1988, and including a January 1989 supplement (an updated edition of the *Handbook* will be published late in 1990). Data for 1989 are not included. Changes in the laws that took place during 1989 and 1990 have been reviewed for inclusion. Some data have been obtained from various reports of the State Auditor.

A. Individual Income Tax
B. Corporation Franchise Tax
C. Estate Tax
D. Sales and Use Tax
E. Motor Vehicle Excise Tax
F. Motor Fuels Taxes
G. Alcoholic Beverage Taxes
H. Cigarette Tax
I. Tobacco Products Tax
J. Controlled Substances Tax
K. Mortgage Registry Tax
L. Deed Transfer Tax
M. Charitable Gambling Tax
N. Pull-Tab Tax
O. Pari-Mutuel Tax
P. Telephone and Telegraph Gross Earnings Taxes
Q. Taconite Railroad Gross Earnings Tax
R. Rural Cooperatives Gross Earnings Tax
S. Insurance Premiums Tax
T. Royalty Tax
U. Occupation Tax
V. Net Proceeds Tax
W. Motor Vehicle Registration Tax
X. Airflight Property Tax
Y. Aircraft Registration Tax
Z. Hazardous Waste Generator Tax
AA. Metropolitan Solid Waste Landfill Fee
BB. Unemployment Insurance Tax
CC. General Property Tax
DD. Tree Growth Tax
EE. Auxiliary Forest Tax
FF. Mining Production Tax
GG. Severed Mineral Interests Tax
HH. Unmined Taconite Tax
II. Local Sales and Excise Taxes
JJ. Local Gross Earnings Taxes
KK. Sand and Gravel Occupation Tax

A. Individual Income Tax - MSA 290.03

The individual income tax was initiated in 1933 with rates from one to five percent. It is collected from individuals, trusts and estates and is based on income within the State of Minnesota. Tax rates were increased to a high of 18 percent in 1977, and surtaxes were added and repealed at various intervals. For 1988 and following years, the **rates are six, eight and 8.5 percent** depending upon the amount of taxable income and filing status. Taxable income equals federal taxable income plus or minus a few state modifications. This tax provides revenue to the State General Fund. Withholding, imposed in 1961, increased the revenues that, in fiscal years 1986, 1987 and 1988, totaled $1.9, $2.3 and $2.6 billion, respectively. Following is a listing of tax rates of some other states: California is from one percent to 9.3 percent on income over $23,950; Illinois is 2.5 percent; Iowa is from .4 percent to 9.98 percent over $45,000; Michigan is 4.6 percent; New York is two percent to 8.75 percent over $23,300; North Dakota is 2.67 percent to 12 percent over $50,000; Wisconsin is $50 plus 4.9 percent to 6.93 percent over $20,000 (joint).

B. Corporation Franchise Tax - MSA 290.02

The corporate income tax was enacted in 1933 with rates from one to five percent, and the bank excise tax was started in 1941 with a single rate of eight percent. In 1971, tax rates reached a high of 12 percent for corporations and 13.64 percent for banks. In 1987 both taxes were replaced by the corporation franchise tax with a **rate of 9.5 percent** of the taxable net income. After 1989 a surtax at a rate to be determined by the Commissioner of Revenue is to be imposed on corporations. Corporation income taxes were $326.1 million in 1986 and $403.6 in 1987. Bank excise taxes were $41.2 million and $19.4 million, respectively. In 1988, the corporation franchise taxes were $411 million. These taxes provide revenues to the State General Fund. Rates of other states: California is 9.3 percent of net income, the bank tax rate is 11.058 percent; Illinois is 6.5 percent of net income plus a franchise tax of .1 percent on certain capital and surplus; Iowa is six percent to 12 percent on net income over $250,000, banks are five percent of net income; Michigan has a single business tax rate of 2.35 percent of adjusted tax base that includes business income, compensation paid employees, interest payments, and depreciation of tangible assets; New York is nine percent of net income with some variations; North Dakota is three percent to 10.5 percent over $50,000, banks are seven percent of net income; South Dakota has no corporate income tax but banks pay six percent of net income; Texas has no tax on income but .525 percent on capital stock, surplus and undivided profits; Wisconsin is 7.9 percent of net income.

C. Estate Tax - MSA 291.01

An inheritance tax was adopted in 1905 with rates varying from 1.5 percent to five percent. A gift tax was added in 1937 and inheritance tax rates were increased to a maximum of 60 percent (not to exceed 35 percent of the value of the property). In 1979 the inheritance and gift taxes were replaced by the estate tax with rates from seven to 12 percent. Currently, **the tax is equal to the Minnesota portion of the federal estate tax credit for state taxes.** For fiscal years 1986, 1987 and 1988 the revenues were $15.3, $21.6 and $13.2 million, respectively, to the State General Fund. Rates of other states: New York is two percent to 21 percent for taxable amount over $10.1 million; California, Illinois, North Dakota and Texas are the same as Minnesota.

D. Sales and Use Tax - MSA 297A.02, 297A.14

The tax is based on the sale and rental of tangible personal property at retail. The basic rate is **six percent** with exceptions for liquor and beer (8.5 percent), capital equipment for new or expanding industries (four percent), farm machinery and logging equipment (two percent), food consumed off the premises, clothing, medications, gasoline, textbooks, material consumed in agricultural or industrial production, residential heating fuel and water (untaxed). Under certain conditions, out-of-state retailers are required to register and collect the Minnesota use tax. The tax was enacted in 1967 at a three percent rate, increased to four percent in 1971, to five percent in 1981 and to six percent in 1982. Revenues were $1.4, $1.5 and $1.7 billion in 1986, 1987 and 1988, respectively. The revenues are assigned to the State General Fund except for those from club dues. Other states' tax rates: California is 4.75 percent; Illinois and Wisconsin are five percent; Iowa, Michigan, New York and South Dakota are four percent; North Dakota is 5.5 percent; Texas is six percent.

E. Motor Vehicle Excise Tax - MSA 297B.02

The tax is **six percent** of the purchase price of any vehicle required to be registered in Minnesota. It was initially enacted in 1971 at a rate of three percent, which, later in the same year, was changed to four percent; to five percent in 1981 and to six percent in 1982. Prior to 1985 and in 1986 and 1987 the revenues were placed in the State General Fund. In 1985, 1988 and following they are shared with the Highway User Tax Distribution Fund and the Transit Assistance Fund.

Beginning in fiscal 1989, revenues are assigned 70 percent to the General Fund, 22.5 percent to the Highway User Tax Distribution Fund and 7.5 percent to the Transit Assistance Fund. Revenues were $207.6 million in 1986, $225.4 million in 1987 and $235.9 million in 1988. Rates of other states are: South Dakota at three percent; Iowa, Michigan and New York at four percent; Illinois and Wisconsin at five percent; North Dakota at 5.5 percent; California and Texas at six percent.

F. Motor Fuels Tax - MSA 296.02, 296.025, 296.026

The tax was enacted in 1925 at two cents per gallon, increasing at intervals to **20 cents** per gallon effective May 1, 1988. The taxpayers are those who use the motor fuels. Collections for 1986, 1987 and 1988 were $336.2, $357.0 and $391.7 million, respectively, for highway fuels and for aviation fuels. The receipts are paid into the Highway User Tax Distribution Fund except that 1.5 percent is assigned to water recreation, .75 percent to snowmobile trails and enforcement, and .15 percent for purposes of all-terrain vehicles. Owners of motor vehicles propelled by natural gas and propane are required to purchase an annual permit. Rates in other states: California, nine cents on highway fuels and two to seven cents on other fuels; Illinois, 13 cents on gasoline and 15.5 cents on diesel fuel; Iowa, 16 cents on gasoline, diesel at 17.5 cents, gasohol at 15 cents; Michigan, gasoline at 15 cents, diesel fuel at 18.5 cents and aircraft fuel at three cents; New York, gasoline at eight cents and diesel fuel at ten cents; North Dakota, gasoline and certain special fuels at 17 cents; South Dakota, gasoline and diesel highway fuel at 13 cents and other fuels varying from four to 11 cents; Texas at 15 cents; Wisconsin at 20 cents.

G. Alcoholic Beverage Tax - MSA 297C.02

The tax was enacted in 1934. The rates have varied over the years and in 1987 were changed to: **Distilled spirits at $5.03 per gallon, wine (depending on alcohol content) varying from 30 cents to $3.52 per gallon, 3.2 percent beer at $2.40 per 31 gallon barrel and strong beer at $4.60 per gallon.** Tax collections are deposited in the State General Fund and, for 1986 to 1988, were as shown in Table 5. Rates for distilled spirits per gallon for other states are as follows: California at two dollars per gallon for less than 100 proof and four dollars per gallon for higher than 100 proof, Illinois at two dollars per gallon, Iowa at 15 percent of price, Michigan 12 percent on-sale and 13.85 percent for off-sale, New York at one dollar for less than 24 percent alcohol and $4.09 per gallon in excess of 24 percent, North Dakota at $2.50, South Dakota at $3.93, Texas at $2.40, Wisconsin at $3.25.

Table 5
Alcoholic Beverage Tax Collections

	1986	1987	1988
Distilled Spirits	$36,513,000	$38,619,000	$
Beer	11,408,000	12,321,000	
Wine	3,585,000	3,636,000	
	$51,506,000	$54,576,000	$55,745,000

H. Cigarette Tax - MSA 297.02, 297.22

The tax was enacted in 1947 at three cents per pack; currently it is **38 cents** per pack of 20 cigarettes. The disposition of the proceeds of the tax are diverse: paid first is the debt service on specified bond issues, two cents per pack are assigned to the Minnesota Resources Fund, four cents per pack are paid to the Minnesota Water Pollution Control Fund less any amount paid for the debt service mentioned previously, two cents per pack to the Public Health Fund and the balance to the State General Fund. The revenues were $97.7, $109 and $150.2 million in 1986, 1987 and 1988, respectively. The tax rate per pack in other states: California is ten cents, Illinois is 20 cents, Michigan and New York are 21 cents, South Dakota is 23 cents, Iowa and Texas are 26 cents, North Dakota is 27 cents, Wisconsin is 30 cents.

I. Tobacco Products Tax - MSA 297.32

The tax was enacted in 1955 at a rate of 15 percent on the sale of tobacco products other than cigarettes. Currently the rate is **35 percent of the wholesale price.** The State General Fund receives 85.7 percent of the receipts and 14.3 percent is assigned to the State Water Pollution Control Fund. Collections for 1986, 1987 and 1988 were $3.9, $3.4 and $5.7 million, respectively. Rates in other states: Iowa is 15 percent of the wholesale price, North Dakota is 20 percent of wholesale, Texas is 28.125 percent of factory list price and Wisconsin is 20 percent of manufacturer's list price.

J. Controlled Substances Tax - MSA 297D.08

The tax was enacted in 1986 and is based on marijuana or a controlled substance that is held, possessed, transported, transferred, sold, or offered to be sold in violation of Minnesota law. The rates are **$3.50 per gram of marijuana, $200 per gram of a controlled substance or $400 on each 10 dosage units for controlled substances not sold by weight.** Revenues to the State General Fund were $65,000 in 1987 and $291,000 in 1988.

K. Mortgage Registry Tax - MSA 287.05

The tax was enacted in 1907 at 50 cents per $100 of principal debt; currently it is at **23 cents per $100 of principal debt.** For 1986 and 1987, 95 percent of the tax collections were deducted from the county welfare expenses reported to the state. Presumably five percent was retained by the counties. For later years, the state receives 97 percent and three percent is retained by the county. No collection amounts are available. The New York rate is one dollar per $100 of principal debt. California, Illinois, Iowa, Michigan, North Dakota, South Dakota, Texas and Wisconsin have no similar tax.

L. Deed Transfer Tax - MSA 287.21

The tax was enacted in 1961 at a rate of 55 cents for each $500 of consideration; currently at **$1.65 for each $500.** For 1986 and 1987, 97 percent of the tax collections were deducted from the county welfare expenses reported to the state; three percent was retained by the counties. No collection amounts are available. The rates in other states are as follows: California is 55 cents per $500 consideration after the first $100, Illinois is 25 cents per $500, Iowa is 55 cents per $500 after the first $500, Michigan is 55 cents per $500, New York is two dollars per $500 after the first $100, South Dakota is 50 cents per $500, Wisconsin is 30 cents per $100, North Dakota and Texas have no tax.

K. and L. Mortgage Registry and Deed Transfer Tax

The welfare offset for 1986 was $34,043,000 and it was $47,212,000 for 1987.

M. Charitable Gambling Tax - MSA 349.212

The tax was enacted in 1984 and is **10 percent of the gross receipts that a licensed organization receives from lawful gambling less prizes actually paid out.** The collections for 1986 were $6.4 million, $7.7 million for 1987 and $15.3 million for 1988, including pull-tab tax collections for all except the first six months of 1987. Tax collections are receipted to the State General Fund. Illinois has a three percent tax; North Dakota's tax is five percent; Texas and Wisconsin have a two percent tax; California, Iowa, Michigan, New York and South Dakota do not have a tax.

N. Pull-Tab Tax - MSA 349.212

The tax was enacted in 1986, at which time the gambling tax was removed from pull-tabs; tip-boards were included in 1988. The tax is **10 percent of the face resale value of the pull-tabs** less any tax that may be paid. For the first six months of 1987, the receipts were $3.2 million and were assigned to the State General Fund.

O. Pari-Mutuel Tax - MSA 240.15

The constitution was amended in 1982 to permit pari-mutuel betting and legislation was enacted in 1983. The tax is **six percent on the amount withheld from all pari-mutuel pools** by the licensee, which goes to the State General Fund and **one percent of the total amount bet** to the Minnesota Breeders Fund. A **six percent tax on paid admissions** goes to the State General Fund. The collections for 1986 were $5.4 million, for 1987 they were $7.5 million and for 1988 they were $6.1 million. Taxes of other states: California has a license fee of 1.5 percent to 7.5 percent imposed on the total pari-mutuel handle; the Illinois tax is two percent in Cook County and one percent on the first $400,000 each day in the rest of the state plus two percent after the first $400,000, plus 15 cents per person admissions tax; Iowa's rate is six percent of the gross sum wagered; Michigan is six percent of the total daily handle as a maximum; New York has a two percent rate for thoroughbreds with other breeds varying from 1.25 percent to 10.25 percent plus a four percent admissions tax; North Dakota tax was not set as of the publication date of the 1987 edition of the *Handbook;* South Dakota has a greyhound tax of three to seven percent of the daily handle and 2.25 to three percent on horses.

P. Telephone and Telegraph Tax - Gross Earnings Taxes --- MSA 294, 295

This tax was enacted in 1887 at a rate of two percent and is based on the gross receipts of the business. Tax rates **for rural telephone subscribers and those in fourth-class cities are 1.5 percent for 1990 and one percent for 1991, for all other business they are three percent for 1990 and 2.5 percent for 1991. The rates are four percent in 1990 and two percent in 1991 for telegraph.** Collections were $56.3 million for 1986, $114.9 million for 1987 and $99.9 million for 1988, and are receipted to the State General Fund. The taxes will expire after 1991. California, Illinois, New York, North Dakota, South Dakota, Texas and Wisconsin impose gross earnings taxes in various forms.

Q. Taconite Railroad Tax - Gross Earnings Taxes - MSA 294, 295

This tax was enacted in 1955 at a rate of **five percent** on the gross receipts of the business. The tax is repealed for 1990. Collections were $1.2 million for 1986, $.9 million for 1987 and $1.5 million for 1988, which are assigned to the State General Fund. Other states are discussed under Telephone and Telegraph Tax.

R. Rural Cooperatives Tax - Gross Earnings Taxes - MSA 294, 295

Original enactment of the tax was in 1939. The rate is **$10 per 100 members** and is paid into the State General Fund. The collections were $42,000 for 1986 and $44,000 for 1947. The revenues for 1988 are included with those of thc Taconite Railroad Tax. Other states are discussed under the Telephone and Telegraph Tax.

S. Insurance Premiums Tax - MSA 60A.15, 60A.198, 69.54, 299F.21

This tax, enacted in 1868 and based on the gross premiums less return premiums received on all business in Minnesota, is paid into the State General Fund. Collections for 1986, 1987 and 1988 were $97.2 million, $107.1 million and $126.8 million, respectively. The rates are:

1.0 percent on domestic and foreign companies' premiums.
5.0 percent on underwriting profit on ocean marine insurance.
3.0 percent on surplus line agents.
0.5 percent for fire marshal tax on fire premiums.
2.0 percent as a surcharge on fire premiums for property located in cities of the first class.

Rates of other states: California is 2.35 percent, Illinois is two percent on foreign companies, Iowa is two percent, Michigan is two to three percent on foreign companies, New York is .8 percent to 1.2 percent, North Dakota is two percent for life insurance and 1.25 percent for other insurance, South Dakota ranges from .5 percent to 2.5 percent, Texas varies from 1.1 to 3.5 percent, Wisconsin varies from .5 to 3.5 percent.

T. Royalty Tax - MSA 299.01, 299.013

This tax, based on royalties received in connection with the exploration and mining of various minerals, was enacted in 1923 at a rate of six percent. It expired for 1990. The part of it concerned with taconite was authorized by the 1964 taconite amendment to the Minnesota Constitution. The amendment expired in 1989. The taxes, paid into the State General Fund, were $415,000 on iron ore in 1986 and $244,000 in 1987. The taxes on taconite were $3.7 million in 1986 and $2.1 million in 1987, and on other minerals they were $3,000 and $4,000 in 1986 and 1987, respectively. All of the royalty taxes for 1988 were $2.4 million. None of the comparison states imposes a separate tax on mineral royalties.

U. Occupation Tax - MSA 298.01

The tax was enacted in 1921 and is based on the value of iron ore and taconite concentrates mined or produced in the state. Beginning in 1990 the tax is imposed on taxable income in the same manner and at the **same rates as the income tax (six, eight, or 8.5 percent) or franchise tax (9.5 percent).** The taconite amendment expired in 1989.

Fifty percent of the tax is assigned to the State General Fund (including one cent per ton to the Iron Range Resources and Rehabilitation Board), 40 percent to elementary and secondary schools and 10 percent to the University of Minnesota. The revenue from iron ore taxes in 1986 was $531,000 and $197,000 in 1987. In 1986 there was a net refund of $961,000 of taconite taxes, and a collection of $3,418,000 in 1987. The revenue for 1988 was $2,927,000. Michigan, North Dakota and Texas have taxes on natural gas and crude oil varying from four to 7.5 percent of market value; South Dakota and Wisconsin have taxes of two to 15 percent on minerals; Wisconsin taxes processed petroleum products at a rate of five cents per ton.

V. Net Proceeds Tax - MSA 298.015

This tax, enacted effective with calendar year 1987, is based on the net proceeds from mining or extracting mineral and energy resources in Minnesota at a rate of **two percent**. The payment is due in June 1988 based on proceeds in 1987; no revenues from this source are shown in 1987.

The revenue from resources mined outside of the taconite tax relief area are dedicated to the State General Fund. The revenue from resources mined within the taconite tax relief area are allocated as follows:

City or town where the resources are mined or extracted	5%
Taconite municipal aid account	10%
School district where the resources are mined or extracted	10%
Qualifying group of school districts	20%
County where the resources are mined or extracted	20%
Distributed as taconite homestead credit	20%
Iron Range Resources and Rehabilitation Board	5%
Northeast Minnesota Economic Protection Trust Fund	5%
Taconite Environmental Protection Fund	5%
	100%

W. Motor Vehicle Registration Tax - MSA 168

This tax was first enacted in 1911 when the rate was set at $1.50 per vehicle. The tax is based on motor vehicles using the public streets and highways. The current rate for **passenger cars, pick-up trucks and vans is $10 plus 1.25 percent of the base value based on the age of the vehicle with a minimum of $35.** The rate for trucks, tractors and buses is based on type, weight and age of the vehicle with a minimum for each type of vehicle. Revenues to the Highway User Tax Distribution Fund were $223.3 million in 1986, $241.7 million in 1987 and $251.2 million in 1988. The rates of other states for commercial vehicles are shown in the *Handbook*. Passenger car rates of other states: California is $23 plus two percent of market value, Illinois is $48, Iowa is one percent of value plus 40 cents per 100 pounds, Michigan is $24 to $90 based on weight for models before 1984 and $30 and up based on list price for models after 1983, New York is $12 to $65 based on weight, North Dakota is $26 to $251 based on weight and age, South Dakota is $20 to $180 based on weight, Texas is $65.50 to $83.50 plus 60 cents per 100 pounds, Wisconsin is $25.

X. Airflight Property Tax - MSA 270.072

The tax, enacted in 1945, is based on flight property of air carriers engaging in air commerce. The rate is a **mill rate** that is determined annually to yield the statutorily specified revenue. Factors included in the calculation are the value of airflight property, tonnage of passengers and freight, plane hours and revenue ton miles modified by factors for quiet aircraft and companies using primarily turboprops. Revenues to the State Airports Fund from this tax were $4.8 million in 1986, $6.2 in 1987 and $7.5 million in 1988. In general, states that tax air flight property use the average property tax rate statewide. California, New York and North Dakota do not impose an airflight property tax.

Y. Aircraft Registration Tax - MSA 360.531

This tax was enacted in 1945 and is based on the value of noncommercial aircraft that regularly use the airspace over, and the airports in, Minnesota. The rate is **one percent of the value** with deductions for depreciation after the first year. The revenue to the State Airports Fund for 1986 was $1.3 million, $1.6 million in 1987 and $1.5 million in 1988. Michigan imposes an aircraft weight tax of one-half cent per pound.

Z. Hazardous Waste Generator Tax - MSA 115B.22

Enacted in 1983, this tax is based on volume and destination of hazardous waste generated. The rates are **32 cents per gallon or $32 per cubic yard (half price for treated waste).** The revenues to the Environmental Response, Compensation and Compliance Fund were $1 million in 1986, $1.1 million in 1987 and $1.4 million in 1988. California, Iowa and New York impose taxes or fees on varius categories; for information, contact the Tax Research Division in the Minnesota Department of Revenue.

AA. Metropolitan Solid Waste Landfill Fee - MSA 473.843

This tax is based on the amount of solid waste disposed of at a solid waste disposal facility in the Metropolitan Area at a rate of **50 cents per cubic yard.** Enacted in 1984, this tax has produced $3.2 million in revenue in 1986, $3.3 million in 1987 and $3.1 million in 1988 equally divided between the Landfill Abatement Fund and the Metropolitan Landfill Contingency Action Fund. None of the comparison states imposes a fee.

BB. Unemployment Insurance Tax - MSA 268.03 to 268.24

The tax, enacted in 1936, is based on a wage base of $11,200 in 1987 and $11,700 in 1988. The **standard rate for new employers is 2.8 percent. Experience ratings vary from .8 percent to eight percent** (1988). Revenues to the Minnesota Unemployment Compensation Fund were $352.3 million in 1986 and $372.7 million in 1987. Other states have the following new employer rates and bases: California is 3.4 percent on the first $7,000; Illinois varies from 3.9 to 5.2 percent, $8,500; Iowa is 2.3 percent, nine percent for construction, $12,000; Michigan is 2.7 percent, four percent for construction, $9,500; New York is 3.7 percent, $7,000; North Dakota is 3.25 percent maximum, $11,000; South Dakota is 3.5 percent, $7,000; Texas is 2.7 percent, $8,000; Wisconsin is 3.6 percent, 7.2 percent for construction, $10,500. Experience ratings determine the actual rate paid in subsequent years.

CC. General Property Tax - MSA 272.01

The tax is based on a system of tax capacity rates that are applied to the market value of the property. It is assessed against all property that is not specifically exempted. Rates vary depending upon a complex classification system. Collected by the county, the tax is paid to counties, cities, townships, school districts and other taxing authorities according to the levies that each has adopted. The state does not levy property taxes although it has done so in the past. The Department of Revenue reviews property sales to monitor the equalization of property valuations between jurisdictions. The gross taxes levied in 1986 and 1987 were $3.1 billion and $3.3 billion, respectively. Various credits reduced the net taxes to $2.2 billion and $2.4 billion, respectively, and to $2.9 billion in 1988.

General rate comparisons cannot be made due to the complex and differing property tax systems among states. The following information for 1986 is gleaned from calculations made by the ACIR in regard to existing single-family homes with FHA insured mortgages: California taxes are 1.06 percent of market value, Illinois 1.59 percent, Iowa 1.96 percent, Michigan 2.26 percent, **Minnesota 1.03 percent,** New York 2.22 percent, North Dakota 1.37 percent, South Dakota 2.31 percent, Texas 1.44 percent, Wisconsin 2.27 percent.

DD. Tree Growth Tax - MSA 270.32

This tax, enacted in 1957, is intended to encourage reforestation and is levied in lieu of general property taxes. The rate is **30 percent of the value of the annual growth;** credits are available for large tree lots. The owner must receive approval from the county to qualify for this program. The proceeds of the tax are distributed in the same manner as the general property tax. Collections in 1986 and 1987 were $.4 million in each year.

EE. Auxiliary Forest Tax - MSA 88.50

Two rates apply in this tax program, an annual land tax of **10 cents per acre and a yield tax of 40 percent to 10 percent of the value of the timber.** The owner must have had county board approval to enter this program. No new contracts or contract extensions have been permitted after June 30, 1974. The proceeds are distributed in the same manner as the general property tax. Collections in 1986 and 1987 were $61,000 and $20,000.

FF. Mining Production Taxes - MSA 298.24, 298.35, 298.61

A tonnage tax on iron ore of one cent per ton was enacted in 1881. The current production tax program has several parts:

> (1) Taconite and iron sulphides at **$1.90 per ton.** Beginning with 1988, the rate will be increased by the implicit price deflator unless more than 34 million tons are produced.
>
> (2) Semi-taconite is taxed at **five cents per gross ton if the ore is sintered in Minnesota or 10 cents per ton of crude ore if it is sintered outside of Minnesota.** High quality ore demands a higher rate. The last production of semi-taconite was in 1979.
>
> (3) Copper-Nickel ore is taxed at **2.5 cents per gross ton of crude ore plus a surtax on high quality ore.** No production has occurred to date.
>
> (4) There is an additional tax of **10 cents per ton of taconite tailings produced that are not deposited on land in accordance with specified permits.** Current depositions are according to permits.

All taconite taxes are distributed to local governments and agencies in northeast Minnesota. Proceeds of any production tax derived from copper-nickel and semi-taconite would be distributed to the State General Fund (six percent) and to the various taxing districts in which the ores are located by formula: cities or towns receive 22 percent, school districts 50 percent and counties 22 percent. Collections in 1986 and 1987 were $65.1 and $48.7 million, respectively. Tax rates of other states are as follows: North Dakota is 77 cents per ton for coal, Texas is $1.03 per long ton for sulphur and 2.75 cents per hundredweight for cement. California has a per barrel charge for crude oil and a uniform rate per thousand cubic feet for natural gas, but specific rates are not included in the *Handbook*. Iowa, Illinois, Michigan, New York, South Dakota and Wisconsin do not impose a production tax.

GG. Severed Mineral Interests Tax - MSA 273.165

This tax was enacted in 1973 and is based on the mineral interests in real estate owned separately from the interest in the surface of the land. Exempted are mineral interests that are taxed under other mineral taxation laws. The tax rate is **25 cents per acre** and the proceeds are distributed to the State General Fund (20 percent) for the Indian Business Loan Account and 80 percent in the same manner as the property tax. Collections for 1986 and 1987 were $528,000 and $424,000, respectively.

HH. Unmined Taconite Tax - MSA 298.26

This tax was enacted in 1941 and is based on forty-acre tracts of taconite or iron sulphides land from which the production of iron ore concentrate is less than 1,000 tons in that year. The rate is the **local mill rate multiplied by the assessed value of the taconite or iron sulphides with a**

maximum tax of $10 per acre. Collections were $397,000 and $310,000 for 1986 and 1987, respectively. The proceeds are distributed in the same manner as the property tax.

II. Local Sales and Excise Taxes - Various items of special legislation

Various cities, counties and townships have levied local option sales taxes, some with specific legislation, others by the authority granted under the provision that pemits a three percent tax on transient lodging for tourism promotion. Some local sales taxes are on the same base as the state sales tax; others are more specific such as transient lodging, food, liquor and beer, or admission to spectator events. Taxes for 17 cities for 1986, 1987 and 1988 totaled $18.8, $21.3 and $22.6 million *(Report of the State Auditor of Minnesota on the Revenues, Expenditures and Debt of the Cities in Minnesota for the Fiscal Years Ended December 31, 1986, 1987 and 1988).*

JJ. Local Gross Earnings Taxes - MSA 295.37, 451.07

The tax base is the gross earnings of trust companies and utilities operating in those cities and counties which have instituted such a tax. Franchise taxes in those specific cities were $30.8, $28.2 and $32.4 million in 1986, 1987 and 1988 *(same Reports of the State Auditor, 1986, 1987 and 1988).*

KK. Sand and Gravel Occupation Tax - MSA 298.75

This tax, collected by counties, is based on aggregate material removed from gravel pits or deposits, with a tax rate of **10 cents per cubic yard or seven cents per ton** of aggregate material. The disposition of the tax is 60 percent to the county road and bridge fund, 30 percent to the city or township for road and bridge purposes and ten percent for restoration of abandoned pits. The city portion of this tax averaged approximately $200,000 per year for 1986, 1987 and 1988.

APPENDIX C

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APPENDIX D

REAL ESTATE TAXABLE TAX CAPACITY (NET OF CREDITS) RELATED TO HOUSEHOLDS AND TO POPULATION, 1988
(Dollars)

Ranking	Counties	County Seat	January 1, 1988 Net Tax Capacity	1988 Households	1988 Population	1988 Net Taxable Capacity per 1988 HH	per 1988 Pop.
5	Hennepin	Minneapolis	1,217,545,243	410,705	989,956	2,965	1,230
6	Washington	Stillwater	130,630,247	45,452	136,880	2,874	954
7	Dakota	Hastings	257,971,180	91,159	252,690	2,830	1,021
10	Scott	Shakopee	46,405,319	18,502	55,727	2,508	833
11	Carver	Chaska	38,273,193	15,565	44,597	2,459	858
14	Ramsey	St. Paul	454,178,690	187,314	472,683	2,425	961
16	Anoka	Anoka	182,424,743	76,779	229,648	2,376	794
	Metro Counties		2,327,428,615	845,476	2,182,181	2,753	1,067

	Counties	County Seat	January 1, 1988 Net Tax Capacity	1988 Households	1988 Population	1988 Net Taxable Capacity per 1988 HH	per 1988 Pop.
1	Sherburne	Elk River	55,050,527	11,738	38,277	4,690	1,438
2	Kittson	Hallock	8,186,976	2,464	6,460	3,323	1,267
3	Goodhue	Red Wing	47,880,023	14,904	40,829	3,213	1,173
4	Cook	Grand Marais	5,280,827	1,728	4,245	3,056	1,244
8	Traverse	Wheaton	5,519,136	1,992	4,961	2,771	1,113
9	Wilkin	Breckenridge	8,235,353	3,053	8,027	2,697	1,026
12	Itasca	Grand Rapids	37,030,477	15,114	42,834	2,450	865
13	Cass	Walker	19,805,256	8,152	21,188	2,429	935
15	Marshall	Warren	10,934,683	4,553	12,359	2,402	885
17	Norman	Ada	8,068,421	3,473	8,882	2,323	908
18	Jackson	Jackson	11,502,524	5,000	12,900	2,301	892
19	Wright	Buffalo	53,206,698	23,195	67,369	2,294	790
20	Murray	Slayton	9,097,141	4,019	10,566	2,264	861
21	Martin	Fairmont	20,726,445	9,343	23,679	2,218	875
22	Crow Wing	Brainerd	37,801,801	17,321	44,141	2,182	856
23	Cottonwood	Windom	11,628,195	5,339	13,487	2,178	862
24	Aitkin	Aitkin	11,719,132	5,443	13,332	2,153.06	879
25	Renville	Olivia	16,142,593	7,499	18,969	2,152.63	851
26	Grant	Elbow Lake	5,813,093	2,758	6,957	2,108	836
27	Hubbard	Park Rapids	12,736,832	6,059	15,602	2,102	816
28	Faribault	Blue Earth	14,462,571	6,952	18,141	2,080	797
29	Redwood	Redwood Falls	14,503,987	7,037	18,209	2,061	797
30	Polk	Crookston	25,581,078	12,703	33,727	2,014	758
31	Olmsted	Rochester	75,181,274	38,829	101,974	1,936	737
32	Waseca	Waseca	13,047,628	6,825	18,848	1,912	692
33	Watonwan	St. James	8,887,422	4,685	11,451	1,897	776
34	Blue Earth	Mankato	35,779,699	18,929	52,917	1,890	676
35	Lac Qui Parle	Madison	7,257,303	3,935	9,796	1,844	741
36	Chisago	Center City	18,755,060	10,185	29,868	1,841	628
37	Yellow Medicine	Granite Falls	9,267,605	5,043	12,405	1,838	747
38	Stearns	St. Cloud	69,877,023	38,043	118,957	1,837	587
39	Lyon	Marshall	17,121,304	9,429	25,704	1,816	666
40	Stevens	Morris	7,181,878	3,966	11,054	1,811	650
41	Lincoln	Ivanhoe	5,317,448	2,980	7,671	1,784	693
42	Douglas	Alexandria	20,467,596	11,478	30,285	1,783	676
43	Pope	Glenwood	7,891,821	4,495	11,629	1,756	679
44	Meeker	Litchfield	13,582,578	7,743	21,181	1,754	641
45	Steele	Owatonna	19,460,463	11,141	31,087	1,747	626
46	Dodge	Mantorville	9,248,283	5,303	15,237	1,744	607
47	Benton	Foley	17,058,763	9,835	28,434	1,734	600
48	Kandiyohi	Willmar	25,230,466	14,687	40,542	1,718	622
49	Sibley	Gaylord	9,659,591	5,682	15,369	1,700	629
50	Red Lake	Red Lake Falls	3,006,752	1,785	4,942	1,684	608
51	Nobles	Worthington	13,332,297	7,955	21,410	1,676	623
52	Chippewa	Montevideo	9,631,066	5,751	14,318	1,675	673
53	Brown	New Ulm	17,526,874	10,473	28,161	1,674	622
54	Nicollet	St. Peter	15,994,292	9,613	28,810	1,664	555
55	Pine	Pine City	12,407,764	7,486	21,363	1,657.46	581
56	Roseau	Roseau	8,781,950	5,300	14,621	1,656.97	601
57	Rice	Faribault	26,026,621	15,790	48,220	1,648	540

APPENDIX D (Continued)

REAL ESTATE TAXABLE TAX CAPACITY (NET OF CREDITS) RELATED TO HOUSEHOLDS AND TO POPULATION, 1988
(Dollars)

	Counties	County Seat	January 1, 1988 Net Tax Capacity	1988 Households	1988 Population	1988 Net Taxable Capacity per 1988 HH	per 1988 Pop.
58	Morrison	Little Falls	16,729,303	10,188	30,478	1,642	549
59	Rock	Luverne	6,587,881	4,024	10,339	1,637	637
60	Le Sueur	Le Center	13,912,790	8,534	23,660	1,630	588
61	Otter Tail	Fergus Falls	33,126,669	20,802	55,453	1,592.48	597
62	Swift	Benson	7,593,677	4,769	12,096	1,592.30	628
63	Freeborn	Albert Lea	21,063,104	13,369	34,674	1,576	607
64	Wabasha	Wabasha	10,912,259	6,962	19,381	1,567	563
65	McLeod	Glencoe	17,981,446	11,486	30,914	1,566	582
66	Clay	Moorhead	26,218,158	17,072	49,724	1,536	527
67	Lake of the Woods	Baudette	2,452,301	1,604	3,941	1,529	622
68	Becker	Detroit Lakes	17,946,239	11,779	31,428	1,524	571
69	Winona	Winona	25,052,849	16,526	47,325	1,516	529
70	Clearwater	Bagley	4,890,742	3,230	9,009	1,514	543
71	Carlton	Carlton	15,591,172	10,324	28,600	1,510	545
72	Big Stone	Ortonville	4,325,283	2,898	7,491	1,493	577
73	Mahnomen	Mahnomen	2,892,054	1,940	5,576	1,491	519
74	Mower	Austin	22,379,803	15,202	38,860	1,472	576
75	Isanti	Cambridge	12,771,720	9,154	26,991	1,395	473
76	Kanabec	Mora	6,584,135	4,742	12,989	1,388	507
77	Pennington	Thief River Falls	6,883,287	4,986	13,522	1,381	509
78	Beltrami	Bemidji	15,499,127	11,346	34,102	1,366	454
79	Mille Lacs	Milaca	9,376,603	7,066	19,033	1,327	493
80	Fillmore	Preston	10,300,043	7,868	21,354	1,309	482
81	Pipestone	Pipestone	5,662,840	4,375	10,980	1,294	516
82	Lake	Two Harbors	5,145,628	4,003	11,075	1,285	465
83	Todd	Long Prairie	10,658,408	9,035	25,353	1,180	420
84	St. Louis	Duluth	87,761,815	74,606	200,027	1,176	439
85	Houston	Caledonia	8,313,375	7,094	19,221	1,172	433
86	Wadena	Wadena	5,520,466	4,965	13,741	1,112	402
87	Koochiching	International Falls	6,090,723	5,871	15,637	1,037	390
	Greater Minnesota		1,388,118,490	773,025	2,124,369	1,796	653
	Minnesota Total		3,715,547,105	1,618,501	4,306,550	2,296	863