State business activity tax could offer greater stability, neutrality, efficiency

Is Minnesota business tax structure so flawed or outdated that it needs to be completely or substantially rewritten? This seems to be the major premise of the proponents of business activity tax (BAT).

Business activity taxes apply to a broad measure of business operations in the state. All of the Minnesota proposals for BATs have been value-added taxes (VATs), or taxes on the increased value of the goods and services produced by the business.

by Joel Michael

BAT proposals have been an ongoing part of the tax policy debate in Minnesota. Since the early 1970s, BATs have been periodically considered by the Minnesota Legislature as replacements for the corporate tax. This year the Senate passed a BAT to fund part of its property-tax reform proposal.

Minnesota's business taxes generally include: (1) the corporate franchise (or income) tax; (2) the sales tax on business inputs (capital equipment, business supplies, etc.); (3) the property tax on business property; and (4) various special business taxes, such as the property tax on utility personal property and attached machinery, the insurance premiums tax, etc.

Should these taxes be restructured? Following are some of the tax policy arguments that have been advanced in the debate:

- The business tax structure is obsolete and does not reflect changes in the economy.

Continued on page 6

Twin Citians more confident about area economy, less concerned about crime

Twin Citians are more confident about the regional economy and their own personal financial circumstances, feel better about their governments and are less concerned with crime than a year ago. They also want education to be the state's top spending priority and have a lot of confidence in their local school systems. Those are some of the key findings of Metropolitan State's second annual Civic Confidence Poll of residents of the seven-county metropolitan area.

by Ken Peterson and David O'Hara

The poll's purpose is to measure citizens' feelings about the ongoing relationship between citizens and their government and the problems facing governments.

The poll's findings also pinpoint two problems for metropolitan governance. They are concerned about urban sprawl and the growing differences between the inner cities on one hand and suburban communities on the other, seen most clearly in the fear of crime.

Twin Citians are bullish on the region's economy. Thirty-five percent say it is improving, compared to 28 percent last year. Only 11 percent think it is getting worse, while 23 percent thought so last year. The other 52 percent think the region's economy is staying the same. Eighty-two percent say they are either satisfied or somewhat satisfied with their own financial situation, an increase from 73 percent a year ago. Also, fewer this

Continued on page 5

Bill gives schools more resources, authority

Would you believe: A report on Minnesota's 1997 education legislation that is not mainly about tax credits? Here it is!

First: There's more money. Quite a lot.

The session increased resources by around $860 million, or just over 14 percent, in the 1998-99 biennium over 1996-97, about the same 14 percent increase as from the previous biennium to the current. About a third of the increase will go to cover growing enrollment. About a quarter-billion goes to raise the per-pupil state aid amount to $3,530 by 1999. There's an additional $100 million targeted to the compensatory program for low-income students.

It is a big system. For the coming biennium Minnesota will spend over $12 billion on K-12 education—$4.5 billion that districts will raise through property taxes and another $6.7 billion from state income and sales taxes paid as "equalizing" aid to districts. (Additional local referendum property levies and federal aids make up the
League studying how to turn old public leadership

Mankato Free Press (July 8) that for top state administrators, “Nothing provides such a loyalty pledge — and for state government — as an oath at the Capitol. Group leaders said the oath is vital to state budgeting.

The Minneapolis Public Schools was the subject of a recent article by the Star Tribune. The article highlighted the challenges of public leadership and the importance of effective public leadership.

The process requires months of consideration and deliberation. For example, the League has been involved in the citizen study of Minneapolis. The League has been the citizen study committee for Minneapolis, and the committee has been tasked with studying the challenges of public leadership.

The process has produced not a few frazzled nerves. Meetings and piles of reading and research are a common sight. The process is straightforward as voting, but can help leaders in positions of leadership.

First, participating in an organization like the League that has such a dedicated membership working through a complex issue. Analysts and experts, generating and weighing options and finally arriving at a set of recommendations for action is tax-deductible.

A few successes can counteract the sense of futility that comes with derailing proposals that do not get anywhere. Even in cases as straightforward as voting and weighing options, the results can be positive.

The league of the Minneapolis has been working with the public schools. As many experts, deliberate on what the facts are, you get a more comprehensive picture of the situation.

The work of the Citizens League can help leaders in positions of formal leadership, as well as those who focus on issues of immediate concern. The league provides a forum for public education.

The fact that for top state administrators, “More than a decade without a pay raise . . .

True leaders, the league of the Minneapolis said (June 28), “It is clear that the measure of state failure-and, on its basis, the quality of public leadership, too. For example, the league of the Minneapolis.

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Projected funding inadequate for trunk highway needs

John A. Witte Jr.

March 1997.

By some accounts, highway infrastructure in Minnesota is in tough shape. Transportation spending has been a political high priority for state and local government spending over the last 20 or so years. But since 1972, back when transportation spending in Minnesota has shrunk from 100 percent of state and local government spending. Meanwhile, traffic on Minnesota’s roads and highways has increased dramatically. Some concerned groups also point to national data showing Minnesota’s trunk highways to be in much worse condition than the national average. In addition, the state and local governments in Minnesota generally spend about 40 to 60 percent more per capita on highways than the national average...

While trunk highways account for only nine percent of the miles of roads and highways in Minnesota, they are the “backbone” of the state’s road system. They carry the heaviest traffic and are the state’s traffic. The Minnesota Department of Transportation (MnDOT) is responsible for planning, construction, repair, and maintenance of trunk highways and, over the last 10 years, the state has spent $3 billion on trunk highway systems. Minnesota’s trunk highway system consists of about 12,000 miles of highways. Unlike Minnesota’s overall road network, the trunk highway system is not large by national standards. While Minnesota’s trunk highway system has grown in length, a significant portion of these trunk highways appear to be lower than spending per mile for a comparison group of midwestern states.

The Trunk Highway Fund is the principal source of support for the trunk highway system. There are three major sources of revenue for the fund: the state gasoline tax, motor vehicle registration taxes, and federal aid.

In the 1990s, overall revenues have been relatively stable, even though the gasoline tax was last increased in 1988. Growth in gasoline consumption has prevented gas tax revenue from declining substantially. Under recent state law, this state-aid formula is expected to sustain the spending levels anticipated during the 1997-99 period.

The typical trunk highway was in good to fair condition in 1996, but only a small percentage of pavements were in very poor or poor condition. According to recent state data, 70 percent of trunk highway miles were in fair to good condition, measured by MnDOT’s pavement quality index. About 24 percent were in fair condition, and only six percent were in poor condition.

“We think that Mn/DOT may have to increase the rate at which it resurfaces highways.”

While trunk highway spending has been able to sustain inflation and even population growth since 1974, the typical trunk highway has been able to sustain relatively stable construction prices during the 1980s and 1990s. Since 1990, MnDOT has been able to sustain the inflation rate for highway construction in Minnesota has been almost two percentage points lower than the rate experienced by state and local government for the nation as a whole during the first half of 1996 dollars.

Our conclusions conflict with other conclusions of state condition, have spent the past ten years developing the report. The typical trunk highway was in good to fair condition in 1996, but only a small percentage of pavements were in very poor or poor condition. According to recent state data, 70 percent of trunk highway miles were in fair to good condition, measured by MnDOT’s pavement quality index. About 24 percent were in fair condition, and only six percent were in poor condition.

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The Citizens League was instrumental in the development and passage of the 1985 open enrollment law and the 1991 charter schools law—initiatives that put Minnesota in the forefront of the school-choice movement nationally. In a pair of reports—Competitive School Choice Reform in 1995—the League advocated the improved school’s education system that education professionals did, not what is assumed if they exist.

The League outlined five "design principles" for building a K-12 reforms—strategy—including "target government subsidies directly to people who are financially needy" and "one competition and other market forces to align institutional and individual interest with the public interest."

A 1997 report, Straight A’s for Minnesota’s Schools, recommended that the districts reduce the funding. The report also included a call for a statewide, uniform system for assessing students’ core knowledge and skills and for evaluating the performance of schools and school districts.

For copies of these reports, call the League office at 338-0791.

The next session also offered more authority to the schools to that unlike charter schools—do continu- to be owned by the district.

With the approval of the district board, schools who are ready can now take much more responsibility for more meaningful improvement and program can get the control over money and staff they need to help them improve. And charter schools’ freedom to purchase the best learning programs they can find will not be limited.

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With the approval of the district board, schools who are ready can now take much more responsibility for more meaningful improvement and program can get the control over money and staff they need to help them improve. And charter schools’ freedom to purchase the best learning programs they can find will not be limited. Board approval will still be required: Whether boards will be more eager to give schools additional control over their own affairs and whether the public will see that the change is needed.

Schools with low-income students will have more resources. The extra constitutional amendments were first voted by the Legislature in 1971 (largely at the urging of the Citizens League) for low-income students must now be allot- to the school their kids attend. That means the extra money was paid to the dis- tricts to allocate as they

The important first question in the BAT debate is whether Minnesota business taxes need major reform. If so, a new BAT is probably in order. BAT could be a little more complicated than a pure VAT. But the benefits of eliminating the complexity of current taxes may be offset by the new burdens on filters now outside of the system.

Legislative tinkering. A "pure" VAT has significant advantages over a corporate profits tax. But the 20 years it takes to deliver results may end up being more complicat- ed and less competitive or stable than a pure VAT. This argument is particular to the Michigan experience.

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State policy unclear on higher ed remedial instruction

Should Minnesota’s public colleges and universities provide remedial instruction to students who don’t have basic reading, writing and math skills? And if so, how and where should such instruction be provided—and who should pay for it? Two little-noticed sections of bills passed during the 1997 Legislative session provide ample evidence that consensus on the answers is a long way off.

The omnibus higher education bill includes a description of the Legislature’s view of the proper missions of Minnesota’s various public postsecondary institutions. The Legislature said the community colleges shall—among other functions—offer “...remedial studies, for students transferring to baccalaureate institutions and for those seeking associate degrees.” The mention of remedial instruction is conspicuously absent from the missions of the state universities and the University of Minnesota.

It turns out that a virtually identical mission description first appeared in 1991. It seems a pretty clear expression of the Legislature’s view of where remedial instruction belongs in the postsecondary system—yet we don’t recall any mention of it during last year’s flap over the proposed closing of General College at the University. A University task force, convened in the wake of that controversy, expects to make recommendations to the Board of Regents in September about the University’s role in assisting underprepared students.

—Janet Dudrow.

The 1997 K-12 bill contains an intriguing, if somewhat confusing, provision called the “high school diploma warranty coverage.” The law allows any public postsecondary institution to provide remedial instruction to students whose reading, writing and math ability don’t “rise to the level that is a necessary prerequisite to minimally acceptable comprehension of entry-level courses or programs at the institution.” The institution’s determination is confirmed if a student scores below the 12th-grade level on a standardized test in those subjects.

Here’s the kicker: The higher-education institution may charge remedial instruction costs back to the high school from which the student graduated—but only if the student failed a standardized test of 8th-grade competency.

Put all this together and what do we get? A lot of confusion about what constitutes adequate preparation for college, and ambivalence about what should be done about it.

But the notion that the schools—not just the kids—should be accountable for the basics of high-school graduates is worth more discussion. And with a total of $17.8 million spent on remedial education in Minnesota’s postsecondary institutions in 1995, the stakes are high. —J.D.

That old, familiar grinding of the parking meter—and the chance that a quarter might cause the meter to lurch ahead, say, 45 minutes or even an hour in a 30-minutes-for-a-quarter zone—will soon be a thing of the past in Minneapolis. By the end of the summer, 3,000 new, highly accurate, digital meters—plunk! 30 minutes precisely—will be installed downtown. Right now the downtown installation is about 50 percent complete, according to Tim Blazina of the city’s transportation division.

The city has 6,500 parking meters and is purchasing 1,500 new replacement meters annually. The replacement is scheduled to take about four years. Each new meter costs $275.

Blazina said the city did a 50-meter test and concluded that the new digital meters would increase meter revenues by five to 10 percent annually by ensuring the city gets its fair share—a quarter’s worth of time for a quarter—and by greatly reducing the opportunity for fraudulent manipulation of meters—use of slugs, etc. The new meters will also improve collection control, since the collector removes a closed coin vault from each meter, keeping the coins inaccessible.

Parking meter revenues amount to around $3.5 million annually, so a five to 10 percent increase would net the city a sizable amount of change.

Blazina points out that parkers will also benefit from the new meters, since they will keep accurate time and not short a customer three to five minutes as the old meters could do when a gear rusted out—sometimes resulting in a ticket.

The new meters are outfitted to accept debit cards, which are not yet available, but will be tested in September and be broadly available by late fall, Blazina said. Customers will purchase the plastic card encoded for a certain amount of money—possibly $50—and then insert it into a special slot in the meter until it registers the appropriate amount of time. The cards are expensive to produce, Blazina said, and will probably require a $12 to $15 deposit. They can be recharged and reused when the original cash amount is exhausted. And they’re a lot lighter than a pocketful of quarters.—Dana Schroeder.

Dictionary: We recently came across some useful public affairs definitions. Conservative pundit Don Larson referred to ethanol as “a mixture of corn, gasoline and your tax dollars.” Twin Cities Business Monthly called those weird little hills in front of the new federal building in downtown Minneapolis “grassy knolls.” And Governing magazine reported a new acronym: CAVE people. That’s “citizens against virtually everything.”—J.D.

The 1997 Legislature appropriated $5 million for repair and maintenance of state government buildings in the Capitol complex. The appropriation isn’t enough to cover all the repair work the Department of Administration says is needed. But several major projects, including a new roof for the State Office Building, will be underway soon. Sen. Leonard Price (DFL-Woodbury) led the effort to get the backlog of Capitol repairs addressed.

To be sure, the 1997 omnibus state government appropriations bill also contains plenty of what can only be called pork: a $200,000 grant to the Hockey Hall of Fame in Eveleth, $450,000 for the City of Waubasha for a new American Bald Eagle Center, $110,000 for a new memorial in Park Rapids honoring war veterans, $75,000 to study the feasibility of constructing an indoor amateur tennis facility in St. Paul.

Want proof of how hard it is to be a legislator? Imagine weighing funding requests like those against projects like fixing the windows in the Capitol or plugging foundation cracks in the Veterans Services building. It may not get cheers from the voters back home, but taking care of the public’s physical infrastructure is important work.—J.D.

With artful understatement, the Brookings Institution’s direct mail promo for Metropolitics—Rep. Myron Orfield’s (DFL-Minneapolis) new book—read: “Includes color maps.”—J.D

“Take Note” contributors include Minnesota Journal and Citizens League staff members.

**Let Note**

"A merely well-informed man is the most useless bore on God's earth."

—A.N. Whitehead

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**Citizens League**

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**Minneapolis, MN 55415**

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July 22, 1997
Eight directors elected to League Board

Eight Citizens League members were elected to three-year terms on the League Board of Directors. Nearly a third of the League’s membership voted in the election of the Board class of 2000, held on Monday, June 30.

This year’s electees are:
- John S. Adams, Professor, Planning and Public Affairs, University of Minnesota; Mike Christenson, Executive Director, Allina Foundation; Sally Evert, Director, Intergovernmental Relations, Metropolitan Council; Lani Kawamura, Manager, Encore Women’s Wellness, YWCA of Minneapolis; Gene Merriam, Chief Financial Officer, ECM Publishers, Inc.; Tony Morley, Editorial Consultant; Emily Anne Tuttle, Retired, Hennepin County Commissioner, 1992-95; and Jane Vanderpoel, Research Consultant, House DFL Caucus Research.

Adams, Christenson, Evert and Vanderpoel were all elected to their second consecutive three-year term. Gene Merriam is currently finishing a one-year appointment. Emily Anne Tuttle returns to the Board after a ten year absence. Although no strangers to the League, Lani Kawamura and Tony Morley are new to the League Board.

The newly elected members join returning Board members: Jim Dorsey, Peter Hutchinson, Barbara Lukermann, Herman Milligan, Connie Morrison, Randy Peterson, Robert Vanasek whose terms end in 1998; and Mary Anderson, Cal Clark, Suzanne Fuller-Terrill, Peter Gove, Marie Grimm, Pam Neary, Matthew Ramadan and Chris Roberts whose terms expire in 1999.

League bylaws stipulate that the 24 elected Board members may appoint up to 10 additional directors plus four officers. The officers and additional directors for 1997-98 will be appointed at the annual Transitional Board Meeting scheduled for Monday, August 25 at Pam Neary’s house in Afton.

A distinguished group of directors have completed their three-year terms. They include Bill Johnstone, Sarah Janecek, Shef Lang and Steve Young. Bill Johnstone served as League President in 1994-95 and leaves the Board after two consecutive three-year terms. These retiring Board members provided great service to the Citizens League and the community. Their contributions will be missed.

Thanks to this year’s Election and Nominating Committees

The Citizens League Board of Directors election couldn’t happen without the work of two very important committees. The Nominating Committee is chaired by the immediate past president and is made up of two members of the board whose terms are not expiring and three people who are not members of the Board. The committee recommends and recruits candidates to run for the Board and ensures that ballots are mailed to all League members at least five weeks before the election. Members of this year’s Nominating Committee were: Barbara Lukermann, chair; Jon Bacal, Suzanne Fuller-Terrill, Sara Gavin, Tony Morley and Bob Vanasek.

The Election Committee takes over after all the ballots have been received by the League office. In recent years, the League office has taken on a festive atmosphere on election day as a core group of regulars renew old friendships and catch up with the staff. Repeat ballot tabulators from last year, Peggy Alnes, John Knutson, Patricia Leary and Bill Tarbell were joined by “newcomer” Larry Kelley. Thanks to all who participated in the 1997 Board election.
Mind-Openers conclude another successful season

The Mind-Opener meetings are on summer break—so let’s look back at the 1996-97 season. From September to May, the Citizens League sponsored 8 different Mind-Opener series, featuring 28 different meetings and 33 different speakers—experts from places as far away as Portland, St. Louis, and Indianapolis, as well as numerous local luminaries.

Topics for these meetings were far reaching, and more than 1,200 people participated in the 1996-97 Mind-Opener season. The Citizens League extends a heart-felt thank-you to members who moderated one or more of the meetings. Moderators for the year were:

Mike Christenson, Sarah Janecek, Sean Kershaw, Marie Grimm, Jean King, Shef Lang, Dan Cornejo, Sally Evert, Dan McElroy, Dan Salomone, Bob de la Vega, George Latimer, Tom Swain, Pam Neary, Yusef Mgeni and Linda Ewen.

And special thanks to all the people listed at right who contributed their time and expertise as speakers.

ELECTION 96: CAMPAIGN REFORM
Pat Forciea, Marketing Consultant to the U of M and the Minnesota Twins; Advisor to Sen. Wellstone’s 1990 campaign
Tom Mason, Editor, Twin Cities Business Monthly; Campaign Manager for Rudy Boschwitz’s 1990 Senate campaign
Tim Penny, Senior Fellow, Humphrey Institute of Public Affairs
Lee Lynch, President, Carmichael Lynch Advertising

MARKETS DO THE FUNNIEST THINGS: HIGH PERFORMANCE PUBLIC SERVICES
Peter Hutchinson, Public Strategies Group
Michael Williams, Chief Financial Officer, Department of Capital Asset Management, City of Indianapolis
Barbara Roberts, former Gov. of Oregon; Director of Senior Executives in State and Local Government, JFK School of Govt.

BUILDING COMMUNITY: PART ONE—DOLLARS, SENSE AND VISION
Robert Freitag, Partner, Freilich, Leitner and Carslisle, St. Louis MO
Tony Nelessen, President, A. Nelessen Associates, Princeton NJ
Gay Laurent, President, Laurent Builders

BUILDING COMMUNITY: PART TWO—FROM NEIGHBORHOOD TO REGION
Gary Laurent, President, Laurent Builders
Matthew Ramadun, Executive Director, Northside Residents Redevelopment Council
Curt Johnson, Chair, Metropolitan Council
Sharon Sayles Belton, Mayor, City of Minneapolis
Jean Harris, Mayor, City of Eden Prairie

PROPERTY TAX REFORM
Dan Salomone, Executive Director, MN Taxpayers Association
Bill Blazar, Senior VP, MN Chamber of Commerce
Mel Duncan, Exec. Dir., Minnesota Alliance for Progressive Action
Sen. William Belanger, Jr. (R-Bloomington)
Sen. Steve Novak (DFL-New Brighton)
Rep. Bill Macklin (R-Lakeville)
Rep. Dee Long (DFL-Minneapolis)

REGENT SELECTION
Gerald Christenson, Chair, UM Presidential Search Advisory Cmte. and former Chancellor, State Community Colleges
John French, Co-Chair, UM Alumni Association Citizens’ Committee on Regent Selection
Rep. Tony Kinkel (DFL-Park Rapids); former Chair, Higher Education Finance Division

CLOSING THE EDUCATION GAP
Ted Kolderie, Director, Center for Policy Studies
Curman Gaines, Superintendent, St. Paul School District
Hubert H. Humphrey III, Attorney General, State of Minnesota
Art Serotoff, Program Director, Sabathani Community Center

WELFARE REFORM: MAKING IT WORK
Sen. Don Samuelson (DFL-Brainerd)
Deborah Huskins, Asst. Commissioner, MN Dept. of Human Services
Marcia Keller Atten, Public Policy Dir., MN Council of Non-Profits
Carole Mae Olson, Exec. Director, Episcopal Community Services

U of M “summer school” starts July 22

The Citizens League committee looking at the quality of the University of Minnesota’s graduate research and education programs is scheduled to start on Tuesday, July 22.

Thirty people have signed up for the committee. As usual, the committee will start with a general overview of the topic and will feature a host of resource speakers, including former University President Ken Keller, who will give a general talk on the changing dynamics of research universities in the 21st century, and how "quality" is best defined in research institutions.

Other topics expected in the first few weeks of resource testimony include: the debate over basic versus applied research; the connection between University research and economic development in the state; and relations between business and the U.

The committee is co-chaired by current Board member Jane Vanderpauel, research consultant for House DFL Caucus Research, and past president Carl (Buzz) Cummins III, an attorney for the Workers Compensation Reinsurance Association and former member of the Higher Education Coordinating Board.

The recent appointment of Mark Yudof as President of the University presents a timely opportunity for the League to emphasize the statewide importance of a strong University, and determine what needs to get done to bolster and ensure long-term quality at the state’s flagship university.

The group’s charge will be to identify the roles and responsibilities that various stakeholders—faculty, administration, the Legislature, business, citizens—have regarding the University’s graduate research and education programs. The goal is to create a strategy by which each of these stakeholders can contribute to an atmosphere conducive to continual improvement at the University.