



Minnesota Journal

Inside This Issue

A publication of the Citizens League

Building public leadership. — Page 2.

Trunk highway funding. — Page 4.

Confusion about remedial education. — Page 8.

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

by Joel Michael

Is Minnesota business tax structure so flawed or outdated that it needs to be completely or substantially rewritten?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 a 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.

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- The business tax structure is obsolete and does not reflect changes in the economy.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

Bill gives schools more resources, authority

by Ted Kolderie

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

Continued on page 6

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

by Ken Peterson
and David O'Hara

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.

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

League studying how to further build public leadership

Leadership is a tricky issue to discuss in Minnesota. We pride ourselves—whether consciously or not—on a broad populist tradition that often equates leadership with elitism. Yet, there can be little doubt that we need good leadership to help us find our way. We are at a critical time in our society, as we face major shifts in the economy and demography. If we want solutions to represent the public good—what will serve society as a whole over the long term—we must actively engage government, business and citizens.

The Citizens League, like other regional civic leagues across the country, provides a vehicle for developing and sustaining a cadre of civic leaders—not just activists who focus on issues of immediate concern to them, but true civic leaders who can see the big picture and keep the public good in mind. The key has been the involvement of citizen generalists who strive to leave their special interests at the door, delve into issues in depth and work for solutions.

The “core business” of the Citizens League has been the citizen study committee. As many *Journal* readers who have served on study committees know, participants listen to experts, deliberate on what the facts are, arrive at conclusions about what the problem is and, finally, make concrete recommendations for solving the problem at hand. The process requires months of meetings and piles of reading and produces not a few frazzled nerves along the way.

Minneapolis aims to foster growth center development

From The Minneapolis Plan: A Workbook for Citizen Comment, *Minneapolis Planning Department*, June 1997.

Today Minneapolis boasts three easily identifiable, concentrated regional job centers...Downtown, the University of Minnesota Twin Cities Campus and the Honeywell/Hospitals center in South Minneapolis provide unique employment opportunities to a large group of residents as well as inhabitants of the larger region...

What are the leadership benefits of all of this—both for individual volunteers and for the Twin Cities and Minnesota?

First, participating in an organization like the League that has successfully supported good public policies empowers citizens, who come to believe something can be done about significant public issues. A few successes can counteract the sense of powerlessness that discourages participation (even in tasks as straightforward as voting) and can energize citizens to take on greater leadership responsibilities.

Second, study committees educate people about the issues. If knowledge is power, leaders or potential leaders come away from the Citizens League committee process with more ammunition to take on tough issues.

Third, the committee process can provide invaluable networking among resource guests and the committee members themselves. These ties have proven invaluable to committee members who have gone on to hold formal leadership positions in elective office. Informal mentorship happens, too. Often younger people—or older ones, who are interested in public issues but less experienced in the public arena—are drawn into public leadership by a single, more “seasoned” person who cares passionately about public issues. Committee

members are likely to bump into such people in Citizens League study committees.

Finally, a study committee is itself a microcosm of a democratic society working through a complex issue. Analyzing information, generating and weighing options for action and finally arriving at a set of recommendations for action give members experience tackling complex problems with real people having many contending points of view. Practice in committee can be a good model for trying it out in the broader world.

The work of the Citizens League can help leaders in positions of formal leadership, too. For example, generating or adapting new ideas for solutions to public problems can help Minnesota respond to important challenges. Brave legislators get some “air cover” for good policy ideas that might otherwise be shot down. Not least, the insight that develops in the study committee process creates a market for effective public leadership by others, because citizens understand what it is that needs to be done.

In short, the study committee process of the Citizens League is one way for citizens to exert leadership that makes a difference.

The League recently began a major project to look at the state of public leadership in the Twin Cities today.

As the first step in the project, League board members are busy interviewing dozens of individuals who have direct experience with the challenges of public leadership. The questions: What are the most important public challenges that must be addressed in the Twin Cities? What are some of the barriers leaders encounter when trying to get something done today? What is the most important contribution the Citizens League could make to improve the quality of public leadership?

The results of these interviews will help the League’s board choose topics for our next study committees. We also expect to wrestle a bit with a bigger and harder question: How can the League cultivate among its members and participants the kind of leadership qualities most urgently needed in the Twin Cities? Are there new programs—like the study committee process—by which the League can help the community address important problems and find, develop, inform, nurture and celebrate the leaders that will help Minnesotans navigate our future?

Stay tuned. We’ll be talking and writing about the leadership challenge more in the days ahead. In the meantime, readers are invited to write or e-mail (citizen@epx.cis.umn.edu) the League with your thoughts on the matter. We can’t promise to print every reply, but we will promise to consider your ideas as we plan the League’s next steps.

Lyle Wray is executive director of the Citizens League.

Editors urge higher pay for top state administrators

Mankato Free Press said (July 8) that for top state administrators, “More than a decade without a pay raise is enough...State government does not expect to fire and retain good administrators and employees without giving them competitive pay.” **St. Paul Pioneer Press** said (June 26) the pay raises are “badly needed to...ensure excellence in government service.” It said the fact that salary ranges for state commissioners haven’t been increased in 10 years is “ridiculous.” **Rochester Post-Bulletin** said (July 7), “It is clear that the state executive branch salaries must be upgraded. That should be done in the next special session.” **Duluth News-Tribune** said (July 5), “[V]oters should consider this a black mark against lawmakers if they fail to resolve it in the August special session.” **Star Tribune** said (June 24), “If Minnesota this summer has 280 employees at the same pay as their bosses, that’s a measure of state failure—and, on this issue, failure once again of the Minnesota Legislature.”

Fergus Falls Daily Journal praised (July 3) the approach of other states. Chase, new president of the National Education Association. Chase has said unions should use their clout to push for changes that improve quality. The organization is also offering to help school districts remove incompetent teachers from schools. **Fargo Forum** said (July 2) Gov. Arne Carlson should recognize that teachers’ unions

The Minnesota Journal

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On Balance

No brain drain in state newsrooms.

“are supposed to focus on money and benefits for their members, and that’s what the MEA does...In Minnesota most of the time, unions and teachers do their jobs well.”

Fargo Forum called (July 8) the K-12 education funding bill “a workable compromise that rewards schools, parents and students.” It warned that the funding package should “not be viewed by school districts [as] a windfall, but rather as an opportunity to invest carefully in public education.” **Fergus Falls Daily Journal** said (June 28) the spirit of compromise behind the bill is “laudable.” But, it said, the legislature cut funding in another area to increase the per-pupil funding—again “robbing Peter to pay Paul.” **West Central Tribune (Willmar)** said (July 1), “Providing financial incentives for families to invest in their children’s education is a worthwhile effort...There is much more room for change that would allow parents to have a greater say in education.” **St. Cloud Times** said (June 28) the new compensatory funding formula is “much-improved from previous years” when the state gave a lump sum to the school district. But it was bothered that the new funding process will force schools to

“hustle” eligible kids to sign up for free and reduced-price lunches.

Star Tribune congratulated (June 19) the Minneapolis school board for its choice of Carol Johnson as the district’s new superintendent. “Johnson brings qualities to the job no one else possibly could—instant credibility, continuity and a firm commitment to the agenda the board has developed with PSG [Public Strategies Group].” It called for (June 13) continued support for charter schools and lauded the Minnesota Academic Excellence Foundation’s Classroom Quality Pilot Project.

Duluth News-Tribune called (June 18) the news that about 20 percent of high school students in Minnesota don’t graduate with their class “alarming.” It said the good news is that “we now know how serious the problem is...Any district doing that poorly has to make fundamental changes within its means.” **Star Tribune** said (June 17) transience and homelessness are the main reason comparatively few urban students graduate with their classes. “[S]chools must take them in. Help with homework. Limit television. Feed them three meals a day. Make them take responsibility for their

rooms and cleaning kitchens and raking leaves.”

Star Tribune said (July 3) the voucher debate is pushing toward the question of whether Minnesota should “amend its Constitution to allow broad use of public funds for private and religious K-12 education?...The sooner and more fully that question is confronted and answered, the better.”

Duluth News-Tribune said (July 3) as long as the property tax is “a mainstay of local spending, the state must ensure that local assessors value property at what it would actually sell for.”

Princeton Union-Eagle said (June 19) the state’s smaller communities are “not producing skilled workers fast enough to meet the demands of local industries that are riding the crest of the current economic wave...It behooves local civic leaders to check with the businesses in the community as to their five-year growth plans and need for workers and coordinate those accumulated needs with high school graduates going on for advanced training.” **Fergus Falls Daily Journal** said (July 7) small towns must “retain their available assets—their youth and recent immigrants—and utilize their existing resources, their elderly population.”

Correction

The name of Marcia Keller Avner, director of public policy for the Minnesota Council of Nonprofits, was misspelled in the June 24 issue of the *Minnesota Journal*. We apologize for the error.

Clarification

The article on tax-increment financing (TIF) in the June 24 *Minnesota Journal* discussed efforts by Rep. Ron Abrams (R-Minnetonka) to establish a tax abatement program as an alternative to TIF. In addition, but not mentioned in the article, Rep. Jim Rostberg (R-Isanti) introduced tax abatement bills during both the 1996 and 1997 legislative sessions. The final bill that became law in 1997 contained some elements of both Abrams’ and Rostberg’s bills.

the reliability of poverty estimates...

From Poverty Measurement: Issues in Revising and Updating the Official Definition, *U.S. General Accounting Office*, April 1997.

The choices or issues to address in developing a routinely available, reliable measure of a family’s economic resources include (1) whether to directly measure a family’s spending on basic necessities or use income and other economic resources as a proxy for their ability to buy these necessities, (2) which economic resources should be considered available for meeting a family’s basic needs, and (3) whether existing data sources are adequate (for whichever resource definition is selected) or should be modified to improve

Issues to address in developing a contemporary set of poverty thresholds to represent a “minimally adequate standard of living” for families in different circumstances include (1) what basis should be used to set the level of the thresholds, (2) whether to accommodate changes over time in standards of living as well as in prices, (3) how to quantify the differences in needs between families of different size and composition, and (4) whether and how to accommodate geographical differences in the cost of living...

Projected funding inadequate for trunk highway needs

From Highway Spending: A Program Evaluation Report, Office of the Minnesota Legislative Auditor, March 1997.

By some accounts, highway infrastructure in Minnesota is in tough shape. Transportation spending has been the slowest growing category of state and local government spending over the last 20 or so years. Since 1972, transportation spending in Minnesota has shrunk from 13 to 8 percent of state and local government spending. Meanwhile, traffic on Minnesota's roads has increased about 80 percent. Some concerned groups also point to national data showing Minnesota's trunk highways to be in much worse condition than the national average. However, data also indicate that 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 in Minnesota, they are the "backbone" of the state's road system and carry nearly 60 percent of the state's traffic. The Minnesota Department of Transportation (Mn/DOT) is responsible for the construction, repair, and maintenance of trunk highways and, over the last 10 years, has spent an average of about \$775 million annually (in 1996 dollars) on the trunk highway system...

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 spending per mile for state-administered roads has generally been above the national average, it appears 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 revenues 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 revenues from losing significant ground due to inflation as occurred during the 1980s. Over the next five years (1997-2001), we estimate average annual revenues (in 1996 dollars) to be within one percent of the annual average for the last 10 years.

In 1996, expenditures from the Trunk Highway Fund totaled \$808 million...[N]early half of the spending out of the Trunk Highway Fund in 1996 was for Mn/DOT's road construction projects. Close to one-fourth was for Mn/DOT's road operations, including snow and ice control and routine maintenance.

Although Trunk Highway Fund revenues have only increased 16 percent since 1974, Mn/DOT's road construction budget has benefited tremendously from relatively stable highway construction prices during the 1980s and 1990s. Since 1974, the average annual inflation rate for highway construction in Minnesota has been almost two percentage points less than the rate experienced by state and local governments. As a result, we estimate that inflation-adjusted spending on highway and bridge construction increased 52 percent from 1974 to 1996.

Other trunk highway spending increased 11 percent...

[T]runk highway expenditures have fluctuated from year to year. Construction spending, which is more dependent on federal aid, has varied the most. In 1996, construction spending was about 20 percent below the peak reached in 1988. Total spending in 1996 was about 12 percent below its 1988 peak...

Under the Governor's proposal, the amount of spending for construction and other purposes is expected to receive a boost during the 1997-99 period by the use of the available fund balance, which totaled \$147 million at the end of 1996. However,

er, by the end of 1999, the fund balance is estimated to be only \$3 million. As a result, the Trunk Highway Fund may not be able to sustain the spending levels anticipated during the 1997-99 period.

The typical trunk highway was in good condition in 1996, and only a small percentage of pavements were in poor or very poor condition. We estimate that about 70 percent of trunk highway miles were in good to very good condition as measured by MN/DOT's pavement quality index. About 24 percent were in fair condition in 1996,

while only about six percent were in poor or very poor condition. These measurements came prior to the winter of 1996-97, which may have taken an unusually harsh toll on Minnesota's roads, including its trunk highways.

Our conclusions conflict with characterizations of Minnesota highway conditions made by Mn/DOT and the Federal Highway Administration...

Based on our assessment of the data on pavement quality, we do not think Mn/DOT has a backlog of pavements in poor condition. However, a backlog would develop if Mn/DOT reduced the average amount of resurfacing work it does annually. In fact, we think that Mn/DOT may have to increase the rate at which it resurfaces highways...

Mn/DOT's pavement Management System (PMS)...predicts that between 13 and 28 percent more miles of resurfacing activity annually will be necessary than were actually done from 1986 to 1995.

This increased need may be the result of the aging of Minnesota's trunk highways. The average pavement age on trunk highways increased from 32 to 40 years from 1985 to 1995...

Trends show very slight changes in the condition of trunk highway bridges since the mid-1980s. The

systemwide average bridge sufficiency rating is an all-purpose indicator that measures structural adequacy, functional obsolescence, and essentiality for public use. Bridge condition ratings, which focus on structural condition, have declined slightly...

The typical trunk highway bridge is in good to fair condition, but there is a backlog of bridges that are classified as having structural deficiencies.

Mn/DOT data indicate that 240 of the 4,614 trunk highway bridges had structural deficiencies which would cost an estimated \$100 million to correct. This figure is more than twice the average annual amount Mn/DOT spent on bridge replacement, preservation, and safety improvements between 1991 and 1995. Mn/DOT also estimates that there are an additional 116 bridges for which both condition and functional problems exist...

While trunk highway spending has been able to outpace inflation and even population growth since 1974, spending has not been able to keep pace with the significant growth in traffic on Minnesota's highways. Between 1974 and 1996, the amount of traffic on all of Minnesota's roads increased an estimated 80 percent, and traffic probably increased even more on the trunk highway system. This increase in traffic was well in excess of the 52 percent increase in the trunk highway construction budget and the 11 percent increase in other spending out of the Trunk Highway Fund...

Despite the difficulties we had in arriving at any precise estimate of trunk highway funding needs, we think that projected funding is probably not adequate to address all of Minnesota's trunk highway needs...

We think the executive and legislative branches need to cooperate to ensure that Minnesota is not "penny wise and pound foolish." It may take an increase in taxes in order for Mn/DOT to implement practices and projects which more than pay for themselves by generating benefits in excess of their costs.

Poll

Continued from page 1

year than last have cut back their spending due to uncertainties in the economy.

More of the region's residents agree that government officials are responsive to their needs, 59 percent as opposed to 53 percent a year ago. Interestingly, their relatively low view of the honesty of elected officials is about the same as last year. Only 51 percent believe they are as honest as average Minnesotans, while 46 percent believe elected officials are either less honest or actually dishonest.

In terms of trust, local governments get the highest ratings. When asked which level of government they trust to do the right thing most often, 60 percent said local government, 28 percent said state and 12 percent said federal government. Residents are also more satisfied with the quality of services provided by local governments and school districts than those offered by larger federal or state governments.

Citizens like local government services, as any elected official who has faced the quandary of raising taxes or cutting services will tell you. Libraries, garbage/recycling, parks, 911 service, road repair and snow plowing got citizen approval ratings of 80 to 90 percent. Law enforcement received a slightly lower satisfaction rating, at 67 percent.

(By comparison, in a national Harris poll done earlier this year, only medical doctors and computer companies got similarly high rankings. Banks and car makers were in the 70 percent range, life insurance and oil companies in the low 60s and health insurance and managed-care companies in the low 50s.)

Welfare reform was one of the

biggest changes in government services in the last year. Satisfaction with administration of welfare programs is up from 52 percent to 56 percent this year. Perhaps this increase is a modest endorsement of the changes underway in the welfare system.

Public employees are held in reasonably high regard by metro residents. Sixty-seven percent think they do as good a job as other Twin Cities employees and seven percent think they are better.

The poll was conducted in early May before the end of the legislative session so we asked what the top priority for spending the state's surplus should be. We believe that the surplus was a good proxy for understanding citizens' priorities. Education was ranked first by 33 percent of the respondents, an income tax rebate by 22 percent, property-tax reform by 17 percent and infrastructure improvements and health care by 12 percent each.

Only three percent thought the budget surplus should be spent on a new stadium for professional sports teams. This is consistent with the findings of other polls over the last year showing very little support for public stadium financing.

Not only do Twin Citians support additional spending on education, they are satisfied with the work of their local school districts and have a great deal of confidence in them. Seventy-two percent are either satisfied or somewhat satisfied, as well as have a lot or some confidence in their local school district. These are high ratings, considering that education is the state's largest and most scrutinized expenditure.

This deep level of satisfaction and confidence has undoubtedly made it more difficult to win public support for vouchers or other proposals for comprehensive change in education finance. Paradoxically,

local school districts were the only level of government that a significant number of residents, 26 percent, believe do not provide enough services.

The metropolitan area's biggest worry remains crime, though there is less concern this year than last. When asked in an open-ended question to identify the area's most serious problem, 42 percent of residents ranked crime at the top, a significant decrease from a year ago, when 68 percent ranked it first. These findings are consistent with a recent *Star Tribune* poll and national polls. Other problems facing the metro area were traffic congestion (ranked first by 10 percent), taxes (seven percent), education (six percent), operations of government (six percent) and urban sprawl (five percent).

We believed the findings in our first poll a year ago were very positive. They are even more encouraging this year. Declining crime rates certainly have led to less concern about crime. More important, our robust economy, both regionally and nationally, undoubtedly has helped provide an improved sense of regional well-being and satisfaction.

In turn, that sense has contributed to good feelings toward government. When an economy is working, governments have less need to increase tax rates or cut services. Consequently, citizens have fewer complaints and, presumably, public employees perform their jobs better without fear of cutbacks.

However, the poll points up at least two significant problems for metropolitan governance, neither easy to solve.

The first is urban sprawl, ranked as the metro area's biggest problem by five percent of the respondents this year. When added to the related category of traffic and transportation, cited to be most serious by 10 percent, it is clear that a growing number of residents are concerned about maintaining the convenience and livability of the metropolitan area. In fact, 13 percent say convenience is what they like best about living in the metro area.

Last year's poll showed little public backing for toll roads and, though discussed for years, there never has been much political support for

1997 Metropolitan State University Civic Confidence Poll

The State of Minnesota is projecting a budget surplus of approximately \$2.3 billion. Which of the following should be the top priority for use of the surplus? (Choose one.)

Education	33%
Income tax rebate	23
Property tax reform	17
Infrastructure	12
Health care	12
Professional sports	3

What is the metropolitan area's most serious problem?

Crime	42%
Traffic congestion	10
Taxes	7
Education	6
Operations of government	6
Urban sprawl	5

light rail transit or tighter limits on growth. Still, it is likely we will have to pay in one fashion or another to restrict urban sprawl and retain our convenient lifestyles.

A second problem is bridging the gulf between inner-city residents' experiences and views and those of suburbanites. Fear of crime is a good indicator of this disparity. It is not a particularly important factor for suburbanites, but it is a fundamental concern for inner-city dwellers. When asked whether there were places within one mile of their home where they would be afraid to walk at night, only 30 percent of suburbanites said there were such places, while 78 percent of Minneapolis and St. Paul residents said there were.

Despite somewhat declining crime rates, inner cities do have more high-crime areas than most suburban communities. In fact, a common reason for suburban living is to get away from crime and other strains of inner-city life. However, we cannot afford to depopulate our cities. So finding ways to further reduce crime and the perception of crime will continue to be an important task for policymakers.

Ken Peterson is associate professor of public administration and David O'Hara is assistant professor of economics, both at Metropolitan State University. This year's Civic Confidence poll had a margin of error of 4.5 percent. Call 341-7567 for a summary of the poll's results.



Education

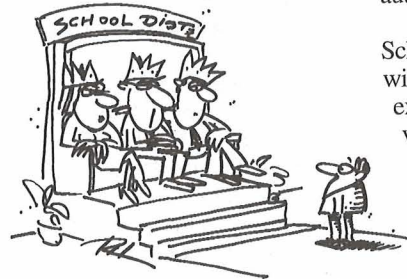
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rest.) The education committees left in place a scheduled increase of \$125 million in the local property tax share for 1998. But the tax committees used part of the state surplus not only to wipe out that scheduled increase, but to further reduce education property taxes payable in 1998—an election year—by \$135 million below the 1997 level.

There are also some interesting policy changes.

Measuring—and comparing—student performance now seems here to stay. In addition to the testing involved in the state's (still-forthcoming) graduation standards there will be testing for kids in grades three, five and eight for informational purposes. This seems to mark the end of the districts' long fight against the reporting and comparison of scores on standardized tests.

Equally important, some think: There was no serious effort this session to put off the graduation rule, to fudge the decision that students who do not meet standards will not get diplomas. This year's and last year's tests do show high proportions of eighth graders performing poorly. And this makes people very nervous, both about how many students can be denied diplomas, politically, and about whether the system can reduce



"Sure, sure, your school has more autonomy... but you still have us to deal with!"

failure levels enough, fast enough (and honestly). But Minnesota now seems committed to performance.

In its search for ways to bring about improved performance the Legislature again this year expanded options for students, in ways that will give districts and schools incentives (reasons *plus* opportunities) to do better.

Amendments this year should increase the interest of teachers and others in setting up new and improved learning programs under the charter law. These autonomous, accountable schools will have more money, too. And for the first time they will have aid for facilities they lease. There will be state grants available for start-up costs. Applicants will now be able to approach postsecondary institutions, as well as districts, for the OK to operate. And charter schools' freedom to purchase the best learning programs they can find will not be restricted.

The '97 session also offered more autonomy to the schools that—unlike charter schools—do continue to be owned by the district.

With the approval of the district board, schools that decide they are ready can now take much more responsibility for their own improvement program and can get the control over money and staff they need to make this work. Board approval will still be required: Whether boards will be more eager than in the past to delegate *real* authority remains to be seen.

Schools with low-income students will have more resources. The extra compensatory money first voted by the Legislature in 1971 (largely at the urging of the Citizens League) for low-income students *must now be allocated to the school those kids attend*. In the past the extra money was paid to the districts to allocate as they

The Citizens League was instrumental in the development and passage of the 1988 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—Minnesota's Budget Problem in 1993 and Choose Reform in 1995—the League said the main impediment to improving the state's education system was that education providers did not face consequences if they failed or significant rewards if they excelled.

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

A 1997 report, Straight A's for Minnesota's Schools, recommended that the Legislature take several tangible steps to put the reform ideas into motion. 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 districts.

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

chose. This provision may increase the resources available to some inner-schools by \$1 million.

This effort to put more authority and resources into the schools can be seen as a response to the two major demands for resources and performance coming out of the central cities.

The Minneapolis NAACP and the St. School district had gone to court to force the state (among other things) to provide more money for poor students. In the spring, after scores showed 90 percent of African American eighth graders failing the statewide reading test in Minneapolis, a forceful statement by Gary Sudduth, president of the Minneapolis Urban League, focused attention on what districts were doing with the compensatory money they already had.

So where does this year's legislation leave those lawsuits? Both cases have been ordered to trial next spring. But the Legislature's actions to target resources and to stimulate performance may strengthen the state's case that it is doing enough. The state is now, in effect, renewing its effort with the Supreme Court to get the complaints dismissed.

The new incentives being introduced for districts to "do better" may be as important in what happens as the additional resources.

Boards of education now may, if they wish, turn over the running of schools to others: to schools they charter or put into site-managed status. This will free the board and superintendent to concentrate on student performance. And getting out of the business of "running schools" may, in fact, enable the districts to secure improvement in their learning program (and, thus, in student performance) that they could never secure as owner and operator.

In a way the Legislature is asking: What role do we want for boards of education? But it's also a question for the board themselves: Which role do we *want* to be in? For the moment, at least, most all the boards still seem to see themselves as in the school-operations business, arguing the need for more resources. Tom Fabel, attorney for the St. Paul school district, says he has heard nothing from his client to suggest the district does not want to still pursue its suit.

Ted Kolderie is contributing editor of the Minnesota Journal.

BAT

Continued from page 1

● The taxes make Minnesota uncompetitive.

● Business taxes have declined as a revenue source.

● Revenues from Minnesota business taxes are unstable.

● Minnesota's business taxes are not neutral.

What tax should a BAT replace? The discussion of a state BAT has assumed the tax would replace one or more of the existing business or other taxes. It has not generally been considered as a new source of state revenue.

Some of the possible taxes a BAT could replace include:

● The entire corporate franchise tax (i.e., the corporate income tax);

● Only the supplemental parts of

BAT

Continued from page 6

the franchise tax (i.e., the alternative minimum tax and the minimum fee);

● The sales tax on some or all business purchases;

● Part of the property tax on commercial and industrial real estate or utility personal property.

One approach would be to phase in a BAT. For example, it could be imposed at a very low rate initially to replace the corporate alternative minimum tax and minimum fee. This could be an experiment to develop better information about the tax base, as well as to uncover difficulties with the tax. Later, the rate could be increased to replace the rest of the corporate franchise tax. Further increases could be phased in to replace parts of the sales tax that fall on capital inputs.

Other states have used or proposed BATs to replace or supplement their business taxes. Michigan uses its Single Business Tax in place of corporate franchise or income tax. New Hampshire, the only other state with a value-added tax (VAT), uses it as a supplement to its corporate franchise tax, similar to the alternative minimum tax and minimum fees in Minnesota. It was used to finance a reduction in the corporate profits tax rate from eight to seven percent. Texas Gov. George Bush proposed a VAT to supplement or replace business property taxes for school funding.

What type of VAT?

The Minnesota proposals for BATs have all been value-added taxes, or VATs. There are three basic types of VATs:

● Gross domestic product VAT, which taxes consumption, income and gross investment. This allows no deduction for capital, either in the form of depreciation or gross capital investment.

● Income VAT, which taxes consumption and income. This type of VAT, which is the type New Hampshire has, allows deduction for depreciation.

● Consumption VAT, which taxes

consumption only. This tax allows a full deduction for gross investment when it is made or for expensing of investment. This is the type Michigan imposes and the type proposed for Minnesota in this year's Senate omnibus tax bill.

How should the tax be apportioned for multistate businesses?

A BAT must include a mechanism that ensures that it applies only to the value added fairly attributable to or apportionable to Minnesota. This can be done in either of two ways:

● The tax could apply to actual Minnesota value added (e.g., compensation paid to Minnesota-based employees, rent paid on Minnesota property, depreciation, etc.).

● The tax base could be apportioned using a formula similar to that used under the corporate franchise tax. This is the approach most people assume will be used if Minnesota adopts a VAT-style BAT.

The choice of an apportionment formula is very important for at least three reasons: (1) it affects the incidence of the tax; (2) it determines the competitive effects of the tax; and (3) it may affect the constitutionality of the tax.

Who bears the tax?

Business firms remit taxes, but they do not "pay" them or bear their ultimate burden. The economic incidence of the tax must fall on a real person, such as the persons who own the firm or other means of production (capital), work for the firm (labor) or buy from (consumers) or sell to (suppliers) the firm. The legal incidence of a tax is only the starting point in determining economic incidence, as actors in private markets adjust their prices to shift or to attempt to shift the real tax burden to others.

National VAT taxes are usually assumed to ultimately fall mainly on consumers, rather than owners of capital. The limited analysis that has been done of the incidence of the state value-added taxes suggests the following observations:

● The choice of a method of apportionment is crucial to the incidence of a state VAT.



"It stands for 'Business Activity Tax'...but obviously, it does bring the stadium issue to mind, doesn't it?"

● To the extent the tax is apportioned using the sales factor, the incidence is on consumption.

● To the extent that payroll and/or property apportionment is used, the tax will fall mainly on labor and (to a much lesser extent) on land or other immobile capital.

Advantages, disadvantages
● **Stability of revenues.** Revenues from a BAT will be much more stable across the business cycle than a corporate profits tax.

● **Revenue growth.** Despite significant rate and base increases in the last 30 years, the corporate franchise tax has declined as a revenue source for the state. A VAT-type business tax may provide more long-term revenue growth than a profits-based tax levied on C corporations.

● **Neutrality and efficiency.** Most economists would agree that a VAT is a more neutral and efficient business tax. The tax applies to all types of business and firms need not make a profit to pay the tax.

● **Competitiveness.** A BAT, by reducing taxes and shifting the incidence of the tax to local consumption, may increase the competitiveness of Minnesota businesses. This is particularly true if the revenues are used mainly to reduce the tax burden on local producers who sell their output in national markets.

● **Incidence.** A BAT likely will shift some of the burden of business taxes from capital to consumers. This would make the tax more regressive.

● **Nexus.** A VAT would probably not be subject to the federal statute that limits states' ability to tax out-of-state manufacturers. This would broaden the tax base and reduce the competitive advantage out-of-state manufacturers have in Minnesota.

● **Simplicity.** A BAT could make the corporate franchise tax simpler. But the benefits of eliminating the complexity of current taxes may be offset by the new burdens on filers now outside of the system.

● **Legislative tinkering.** A "pure" VAT has significant advantages over a corporate profits tax. But the Legislature is prone to tinker with and may undercut these advantages. For example, the actual tax may end up being more complicated and less competitive or stable than a pure VAT. This appears to be the experience in Michigan.

The important first question in the BAT debate is whether Minnesota business taxes need major reform. If so, a pure VAT-style BAT has some advantages over a profits tax. But can the Legislature be expected to enact and maintain a pure VAT? Or will compromises over time undercut the advantages of a BAT?

Joel Michael is a legislative analyst at the Minnesota House of Representatives Research Department. This article is adapted from a presentation to the June 30 annual meeting of the Minnesota Taxpayers Association. The complete version of his presentation will be available at the Citizens League's World Wide Web site: <http://freenet.msp.mn.us/ip/pol/citizen>.

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 reme-

“A merely well-informed man is the most useless bore on God's earth.”
—A.N. Whitehead

dial 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 basic skills 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 Wabasha 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—noted: “Includes color maps.”—J.D.

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

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Minneapolis, MN 55415**

PERIODICALS
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Citizens League Matters

July 22, 1997

News for Citizens League Members

Welcome New and Returning Members

Peter Bruce
Julie A. Bunn
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Markwardt, Jr.
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Nikki Newman
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Arthur Walzer
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Please visit our web site at:
<http://freenet.msp.mn.us/ip/po/citizen>

The Citizens League promotes the public interest in Minnesota by involving citizens in identifying and framing critical public policy choices, forging recommendations and advocating their adoption.

Suggested dues for membership are \$50 for individuals and \$75 for families. For more information please contact the office at the numbers and location listed above.

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 Freilich, Partner, Freilich, Leitner and Carlsisle, St. Louis MO
Tony Nelessen, President, A. Nelessen Associates, Princeton NJ
Gene Bunnell, Assistant Professor, Department of Urban and Regional Planning, University of Wisconsin-Madison

BUILDING COMMUNITY: PART TWO—FROM NEIGHBORHOOD TO REGION

Gary Laurent, President, Laurent Builders
Matthew Ramadan, 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, Ass't. Commissioner, MN Dept. of Human Services
Marcia Keller Avner, 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 Vanderpoel**, 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.