236

Citizens League Report

New Formulas for Revenue Sharing In Minnesota

September 1, 1970

Public affairs research and education in the Twin Cities metropolitan area

CITIZENS LEAGUE REPORT

New Formulas For Revenue Sharing In Minnesota

To balance local government needs with overall state fiscal objectives

Prepared by:

Committee on Revenue Distribution

William J. Hempel, Chair

Approved by the Citizens League Board of Directors

September 1, 1970

CITIZENS LEAGUE
708 South Third Street
Suite 500
Minneapolis, Minnesota 55415
(612) 338-0791

TABLE OF CONTENTS

INTRODUCTION

Emphasis on Distribution

This is a report on revenue distribution . . . and not on "taxes" . . . quite deliberately.

We are compelled, now, to think about distribution because of the trend in this country toward assigning revenue-raising responsibility to higher and higher levels of government. This trend raises some serious difficulties . . . particularly as it increasingly makes some public officials responsible for raising revenues *they* will not spend, and some others responsible for spending revenues they do not raise. Yet this trend is, demonstrably, one of the clearest--and, we think, one of the most important--in American public finance. It will continue. Certainly it was dramatically accelerated in Minnesota by the tax revision in 1967. And we are--perhaps not this year, or next year, but almost certainly in a few years--about to begin the use of the revenue-raising capacity of the federal government for the *general* support of the states and local units. This is an acceleration of the trend which opens up a whole new dimension of urgency and complexity in the problem of distribution.

Basic Questions

This state has not thought about distribution with the care and the seriousness it requires. The issue involves enormous questions about the basic objectives in public programs, about the priority among programs and about the pattern of local government organization. There are the most difficult questions about the needs of local governments, and about their ability to finance their programs.

Traditionally, these questions have not been in the forefront of our discussion about public finance. We have tended, rather, to come at it from the tax-payer side, emphasizing such questions as "the tax climate", equity among taxpayers, and the philosophy of one tax source or another. Certainly this approach held, basically, even through the revision in Minnesota in 1967.

Increasingly since 1967, however, these other issues about the needs of the tax-spending units have been forcing their way to public attention. How can local revenues grow in an orderly way, with the growth of population? What limits should and can be set on the rate of this growth of public expenditure? Which functions of government have the greatest needs? Which *levels* of government have the greatest needs? And--increasingly--what about the growing differences, or disparities, in resources among the various units particularly at the municipal or school district level and particularly within an area such as the Twin Cities metropolitan area, where both the forces of the market and the thrust of public planning is tending to specialize certain parts of the area for certain residential, recreational, commercial or industrial purposes? Which levels, or units, should use or not use the property tax? And, as alternatives are increasingly sought for the property tax, at which level should non-property sales or income taxes be introduced?

A careful look at the way the state has moved, to date, with what is (though it may not be called) its revenue sharing program reveals the outlines of a policy on distribution . . . evolving and changing through the years. But it has been an incremental and piecemeal change . . . patching and remodeling and adding-on . . . substantially without any overall plan or sense of direction about the objectives of a well-thought-out state policy for the fiscal affairs of local government. There has accumulated, as a result--and particularly since 1967--a set of serious inequities and problems in the formulas through which the large sums now raised by the state for the benefit of local government currently pass out to schools, municipalities, counties, and other local units. A broad look--complex and difficult though this will be--is urgently needed.

It is needed particularly as preparation for the federal revenue-sharing that is coming. This is a program being drafted in Congress, and the formulas in it will be national formulas if no state presents a positive alternative for the use of the money within its borders. We believe it is imperative that Minnesota look carefully at the formulas being designed for the so-called "pass-through" to local government, and think deeply about how far those presently written into the various revenue-sharing proposals do, in fact, suit the policy of this state and the pattern of local government evolving here.

Limited Resources

There would be less reason to concern ourselves now about distribution if revenues were expanding so rapidly that the needs of local government were easily and fully being met. But this is not the case. Public revenues are, quite to the contrary, under increasing pressure. Though some will say that private spending can well afford to release more dollars for public services, the observable fact is that resistance is rising. And this political resistance to higher taxation is rising at precisely the same time that inflation and growing employee militance are beginning to speed up the increase of costs in this massive and highly-labor-intensive enterprise we call local government.

It is essential to understand the numbers . . . particularly with respect to the property tax. This is a tax which, in Minnesota, is currently producing more than three-quarters of a billion dollars a year . . . compounding itself, in recent years, in excess of 15 per cent per year. In the Twin Cities area, the annual *growth* in property tax collections has recently been the equivalent, roughly, of a penny additional sales tax. It would, clearly, take a massive (relatively) increase in non-property taxes simply to hold down the growth of the property tax . . . let alone to provide relief or to begin to fund the expensive new environmental, transportation, housing and other programs waiting--not so patiently--in line.

Reappraise Formulas

These pressures on "more dollars" compel a re-examination of our present system for providing dollars to local government programs and units . . . whether through the allocation to them of taxing authority or the allocation to them of tax revenue. Not all programs have the same capacity--legally and politically--to secure revenue . . . through taxes or through grants. Yet their needs and their costs will continue to increase. We must, therefore, reappraise the formulas by which our existing revenues are distributed, and the arrangements in which local taxing authority is presently allocated.

This need for closer attention to priorities, in turn, becomes a powerful argument for continuing the trend toward the concentration of revenue-raising authority that has been underway. Our traditional arrangements--which have distributed revenue-raising authority broadly among multiple levels of government, and which have dedicated certain revenue sources to certain functions--have made it virtually impossible to make the choices among programs and among units of government which are now essential. In particular, the structuring of education and of the increasingly expensive state and metropolitan capital development programs in special-purpose agencies, each with its independent access to the tax resources of the community, has emasculated the policy-making ability of government. Questions occur as "yes" or "no" . . . "progress" or "no progress" . . . rather than as "more of this program, or more of that program?"

It is essential, therefore, to build our way back . . . and to work consciously to strengthen the competence of the agencies of government with general jurisdiction over relatively broad geographic areas. We need, first of all, the capacity to make and to carry out a state fiscal policy. Specifically, we need a state fiscal policy that aims gradually at enlarging the proportion of local government revenues derived from state-collected sources. The argument for this, and the specifics of its implementation, form the subject of this report.

SUMMARY OF RECOMMENDATIONS. . . . . . .

I. Taxing Authority

A. Place Legislature in Central Role--The State Legislature should directly exercise its authority to determine (a) what levels of local government should be given power, under what circumstances, to levy what types of taxes, and (b) the extent to which local governments are allowed to set the tax rates themselves. Generally, the Legislature should reduce the amount of local discretion it now allows on these questions.

B. Recognize General Government--Units of government with general jurisdiction, not single-purpose units of government, should make the major decisions on the type and extent of taxation. Only general governments have the scope of responsibility to set priorities among competing programs. Increasing attention, too, should be given to the emerging level of regional general government.

C. Broaden Areas of Collection--We look to the broadest areas possible for collection of non-property taxes to avoid undesirable side effects of less-than-areawide taxation, such as restricting the benefit to a few units of government which have substantial local tax resources. Within the seven-county Twin Cities area, additional non-property taxes, as needed, should not be collected on less than an areawide basis.

D. Reduce Local Property Tax--Local use of the property tax should be reduced. Specifically, most of the locally-collected property tax for schools should be replaced by state-collected taxes. The state should develop effective, but equitable, restraints on the extent to which school districts levy property taxes.

II. Revenue Distribution

A. Give Cities, Villages, School Districts First Priority--Distribution formulas should give first priority to cities, villages and school districts. Taken as a whole, these types of units, because of their wide differences in local tax resources, are less able to finance their services from locally-raised revenue than are units which cover broader geographic areas.

B. Make Revisions in Major Aid Programs--The Legislature should give priority attention to improving the distribution of revenue to local government under its two largest aid programs: the grants under various provisions of the 1967 Property Tax Reform and Relief Act and the grants under the school foundation aid program.

C. Emphasize General Grants of Revenue--The Legislature should expand general grants of revenue to local government and de-emphasize categorical grants, which are intended for specific projects. But the Legislature should also insist that local governments institute effective review and evaluation to assure that the dollars are used efficiently and effectively for the particular purposes it has in mind.

. . . . F O R S T A T E F I S C A L P O L I C Y

D. Unify Formulas--Wherever possible the Legislature should distribute funds which are intended for the same purposes (for example, school district operating expense) from one unified formula. The Legislature should avoid fragmenting its grants of revenue to the same units of government for the same purposes in different formulas.

E. Avoid "Indirect" Grants--The Legislature should place greater emphasis on distributing grants directly to local government and move away from so-called "indirect" grants. Currently, the Legislature is distributing substantial amounts indirectly in the form of reimbursement to local governments for property tax revenue lost because certain taxpayers have been granted relief. Such grants do not represent a meaningful aid program to local government.

F. Set Amounts of Grants Directly--The Legislature should adopt distribution formulas which will set, directly, the amounts of dollars to be distributed to local government. This means the Legislature should discontinue formulas that have the effect of increasing the state's commitment to provide funds to local government in the absence of a conscious state policy to that effect.

G. Improve Measurements of Need, Ability to Pay, Effort--The Legislature should improve its current measurements of local government need for funds, ability to pay and local effort. Specifically, this means, for example:

1. Need--A school district's "need" should take into account its total operating expenditures, not only a portion of these expenditures, as at present. Also differences among pupils, in addition to differences in grade levels need to be recognized.

   A municipality's "need" should take into account the relative differences in requirements for services among various municipalities.

2. Ability to Pay--Income as well as assessed valuation now needs to be considered in measuring a school district's or municipality's ability to pay.

3. Local Effort--When local effort is measured, the extent to which other overlapping units of government have access to the same local tax base should be recognized.

H. Relate Federal Aids to State Policy--We look upon federal aids to local government as essentially another source of revenue for the state to use in providing funds for local government. We strongly support and urge approval of general federal revenue sharing with the states and local governments, with a guaranteed substantial share for local government. But so that a state can relate the federal aids to its overall state-local fiscal policy, we urge that the revenue flow into the state's own formulas specifying exactly which local governments are to share and to what extent This will permit differences from state to state in local government structures and responsibilities to be reflected. Pending action at the federal level the state should exercise initiative to consolidate federal grant applications in "packages" covering broader areas and to set priorities among various federal grant applications within the state.

FINDINGS AND CONCLUSIONS

The local government system in Minnesota encompasses 87 counties, about 480 school districts, 850 cities and villages, 1800 unincorporated areas (towns and townships) 150 special purpose districts and an emerging level of regional government.

All local governments derive their existence and their powers from the state government. Because all units of local government in the state are creatures of the state government these units derive their fiscal authority from the state government, too. State government does not prescribe the exact fiscal authority for every government unit but does establish the limits within which the fiscal authority will be exercised.

In effect, state government directly or indirectly has power to control all local government financing. This is accomplished essentially through two forms: a) the delegation by the state to local government of authority for the local government to raise revenue from its own sources and b) a direct allocation of state collected revenue to local governments. The combination of state and local revenue differs substantially among various units of government. These differences will exist not only among different types of units, (that is, between school districts and cities, for example) but also within a given level, such as among school districts.

I. Local Revenue-Raising Authority--The State Legislature has combined aid to local government with a fairly extensive grant of authority to local government to raise revenue from local sources on its own.

-- Property Tax Authority--The Legislature has given some property tax authority to almost every unit of local government. Some units are empowered to levy property taxes without limit. Others may levy only to the extent prescribed by the Legislature.

-- Non-Property Tax Authority--The Legislature has been more restrictive on the types of units of local government which are permitted to levy non-property taxes, but for those units which may levy such taxes there is no limit as to the rate. School districts and counties have no power to levy general non-property taxes such as sales or income taxes. Cities can give themselves such power in amounts they decide through their own home-rule charters. Villages are not permitted by state law to impose non-property taxes, but it is possible for villages to become cities without further act of the Legislature and then impose non-property taxes. Town governments can become villages and then cities without further act of the Legislature and impose non-property taxes, too. But town governments as such have no authority for non-property taxes.

Our review of the present division of local and state revenue-raising responsibility has led us to the conclusion that *the Legislature should expand the state's role in raising revenue for local government.* We reached this conclusion for the following reasons

A. Difficulty in Developing a Balanced Tax System--The Legislature has not centralized major decisions on the level of property, sales and income taxes in the state. Under the present system it is possible for the overall level of each tax to be determined by the individual actions of local governments as well as the state government. The property tax rate is set by the aggregate actions of the various local units of government. The state sales tax, with the exception of Duluth which has an extra 1% municipal sales tax, still is imposed at the uniform 3% rate statewide. There are no local income taxes yet. Minneapolis, St. Paul, Rochester, and West St. Paul are among communities which have considered local add-on sales or income taxes. Under such a system the Legislature is not able to effectively influence the overall level, and relative mix, of income, sales, property, and other taxes in the state.

B. Pre-empts Direct Policy-Making by the Legislature--By continuing to allow broad local taxing authority the Legislature is severely reducing its own options on establishing state-local fiscal policy and its own options on revenue sources for state purposes. If, for example, a substantial number of cities adopt local sales taxes, this will make it all the more difficult to increase the sales tax, should additional revenue be needed. In effect, under present state law, local governments, rather than the State Legislature, have the potential to exercise more influence over the future directions of state-local fiscal policy.

C. Distorts Local Development Objectives--If the Legislature permits or encourages broader use of locally-collected taxes, various communities--whether they want to or not--will be forced increasingly to adopt land use policies which are calculated primarily to improve the prospects for local tax revenue, regardless of the adverse effects on more rational growth patterns. For example, widespread use of local income taxes might well stimulate certain suburban communities--even more than today--to become havens for higher income persons, either to avoid a local income tax elsewhere or to impose one locally and retain all the benefits for these persons only.

D. Perpetuates Disparite Distribution of Resources--Locally-collected taxes work to the unfair advantage of those communities which are fortunate to have high-tax-producing developments. For example a locally-collected sales tax would provide no share of the revenue for the many municipalities without major regional shopping centers.

Locally-collected taxes which produce different levels of collection among communities undoubtedly will lead to major differences in levels of governmental services from community to community. This is particularly critical because the different levels of service will extend to areas where it is in the public interest to assure an adequate and uniform level of service in every locality, for example, education, highways or public safety.

E. Difficulties with Locally-Collected Property Taxes--The locally-collected property tax, which is the major local source of taxation for local governments in Minnesota, has resulted in wide differences in tax burdens from community to community because of the uneven distribution of assessed valuation. These differences show no signs of decreasing. The problem is most acute when the area over which a property tax levy is imposed is very small. In such situations it is more likely that there will be an abnormally large or abnormally small amount of assessed valuation relative to needs, resulting in either very low or very high tax rates. It is less likely that a small area will have a balanced tax base.

The property tax has been attacked, with justification, because it is difficult to administer and because it hits some taxpayers harder than others without sufficiently accounting for differences in ability to pay. But when the area over which the property tax is collected is small, this adds to the problems of the property tax.

II. Distribution of State Revenues to Local Government--We have reviewed in considerable detail the methods by which revenues are distributed to the various units of local government. Distribution of these revenues is particularly important to the interests of state government, if for no other reason than this is where most of the state funds go. In 1970 the amounts paid to local governments in school aids, sales tax sharing and property tax relief payments represent an amount equal to about 80 per cent of the total state income and sales tax collections combined. In addition local governments receive, under the constitution, 38 per cent of the Highway User Tax Fund, and also share in a number of miscellaneous aids totalling about another $26 million.

Under present state formulas, and normal extensions of these formulas (as have been made regularly by State Government) the state is committed to return to local government many millions of additional dollars.

Based on our review of the methods by which state revenue is distributed to local government, and in light of the fact that it is desirable for the state to increase its role as a collector of revenue for local government, we have concluded that major improvements must be made in the distribution formulas. We have reached this conclusion for the following reasons:

A. Over-Emphasis on Treating "Unequals" Equally--Generally the formulas of distribution have given more emphasis to treating units of government the same without distinguishing sufficiently between their relative needs for funds. For example, a per capita distribution plan is popular for municipalities, and a per student distribution plan (with only slight adjustments) is popular for school districts. These approaches are somewhat like a father giving the same weekly allowance to all of his children regardless of their needs.

B. Insufficient Measures of Ability to Pay--The most popular means of measuring local ability to pay is the amount of assessed valuation in a unit of government, which is insufficient because it does not consider the extent to which other units of government also have access to the assessed valuation, nor does it consider the ability of individual taxpayers to pay their property taxes.

C. Lack of Emphasis on State Aid for General Government Purposes--The vast majority of state funds distributed to local government is earmarked for specific purposes, such as schools, or shows up as a state payment to a local government in lieu of a property tax payment by a local taxpayer. Only a very small amount, about 6%, is available to to local government for general purposes, wherein a government can apportion the funds among competing demands.

D. Too Much Emphasis on "Indirect" Payments--A substantial amount of state dollars are distributed indirectly to local government in the form of payments by the state in lieu of property tax payments by certain taxpayers (business and farm personal property owners and homeowners). As far as local governments are concerned, these funds are regarded more as property tax relief payments than anything else and are not "seen" as state payments.

The chief problem with this situation is that local government does not believe it is receiving meaningful state aid when it receives state payments which really amount to nothing more than the state paying someone else's property tax bill. Consequently, local governments continue to seek additional revenue from state government, in spite of the fact that the state is increasing the payments substantially every year.

III. Specific Distribution Formulas--We have concentrated our review on the two largest types of state aids to local government: school aid and payments under the 1967 Property Tax Reform and Relief Act. Specifically, we have found as follows:

A. School Aid--Exclusive of payments under the Property Tax Reform and Relief Act, approximately $294 million was distributed to school districts in Minnesota from the state in the 1969-70 fiscal year. State aid to school districts makes up the largest state payment to local government.

About $237 million of the $294 million was distributed through the state foundation aid formula. The balance was distributed as special grants for such purposes as transportation, vocational education and education for the handicapped.

The foundation aid formula was set up by the 1957 Legislature. Prior to that time each district received an equal per pupil dollar allotment of aid. The idea behind the foundation aid formula was to adjust the per pupil payment to each school district based upon that school district's wealth as measured by the taxable value of property in the school district equalized for differences in assessment practices. In effect, the higher the valuation the lower the grant of state aid. To a certain extent this formula enables one district to provide comparable expenditures to another district with no greater local tax burden even though its local assessed value may not be as great as the other.

As originally conceived, the comparable expenditure level was intended to represent 100% of the median operating expenditure per pupil unit in the state in the previous year. In effect, school districts would be able to receive equalization aid up to the median. Beyond that level the district would have to use only local funds. Operating expense includes expense for instruction, administration, plant maintenance but does not include capital expense.

We have examined the foundation aid formula in detail. In general we find that the goals of the foundation aid formula coincide with the goals we have for a school aid plan. Generally equal educational opportunity should be available to every child in every district in the state, regardless of a local district's wealth. The foundation aid formula represents a major step forward from the previous flat grant approach. The formula attempts to assure that adequate state resources will be made available where local resources are lacking. We have found, however, that the foundation aid formula in its present form is not assuring the same opportunity in every school district in the state. Specifically, we have found the following types of problems with the experience under this formula:

1. Inadequate Measurement of Local Wealth--We have found several problems with the definition of local wealth as the amount of taxable valuation in the district (with certain adjustments).

   First, there is no recognition of the extent to which other units of government, municipalities and counties, particularly, have access to the same tax base. If the extent to which these other units had access to the tax base were relatively the same from district to district, this would not present a problem. But as a matter of fact, the tax base is used more by other units of government in some school districts than in others. In such situations a school district does not have as much valuation available to it as might appear. In some school districts only 1/3 of the total tax levies are for non-school purposes while in other school districts 2/3 of the tax levies are for non-school purposes. A school district with a valuation which is used extensively by non-school units of government does not have as much wealth as it is given credit for in the formula. Consequently it gets less state aid. Put another way, its valuation for school purposes is artificially inflated.

   Second, the wealth, or ability to pay, of a school district is based only upon the assessed valuation of property. It is true, of course, that for local taxing purposes a school district may tax nothing but the local assessed valuation. The burden on taxpayers is more severe in some communities than in others, however. For example, two communities side by side have the same assessed valuation per pupil. But the income of residents in one may be higher than the other. This difference will not be reflected in the amount of state aid received by each district.

   Third, the valuation under the current formula is adjusted artificially by adding in the value of household goods in the last year in which they were taxable even though they are not taxable now. Such a practice bears no relationship to the way aid should be distributed.

2. Differences Among Pupils Not Adequately Considered--The foundation aid formula was designed to reflect differences in the cost of educating different kinds of students. Under the formula extra funds are provided for students in grades 7-12 on the assumption that it costs more to educate secondary students. Other, perhaps more important, differences were not taken into consideration. For example, the formula does not account for the higher costs which are or should be incurred in educating disadvantaged youth, whether rural or urban, white, black or Indian. Furthermore, the extra state funds

for secondary students do not accurately reflect actual differences in costs. Under the present formula a school district receives 40% more aid per pupil for a secondary student than an elementary student, even though the actual cost differences would make the percentage about 25%, if any difference at all is to be recognized. (Some educators argue that elementary education is so important that state aid should be the same as for secondary education.)

The foundation aid formula accounts for differences in pupils by the use of a factor called the "pupil unit." If each pupil enrolled in school were counted as 1 pupil unit, then the number of pupils enrolled would coincide with the number of pupil units. But a secondary student counts as 1.4 pupil units, a kindergarten pupil as .5 pupil units, and an elementary pupil as 1.0 pupil units. When aid is distributed a school district receives so many dollars per pupil unit, not just per enrolled pupil.

3. Too Many Special Adjustments--The inability of the foundation aid formula to reflect with sufficient accuracy the differences in need for funds and ability to pay among school districts was recognized implicitly from the start. The Legislature built in a "floor," which is a guaranteed amount of state aid per pupil unit regardless of a district's wealth, as presently measured. If this adjustment were not employed, certain school districts with high assessed valuation would receive little or no state aid.

   Also, because the foundation aid formula has not sufficiently considered the various differences in types of students, the Legislature has from time to time adopted special supplementary aid programs outside the foundation formula. The percentage of total state school aid in this form has increased from 22% in 1964-65 to 27% in 1970-71. The proliferation of these special aid programs has made it very difficult to assess the overall impact of the aid program. These special aids are a subject of constant debate; their presence is an implicit admission that the foundation aid formula does not work adequately.

4. Overly Complex--To accomplish equalization under the present formula the Legislature has adopted a practice whereby an artificial valuation for each school district is calculated and then an artificial mill rate is applied against this valuation to arrive at the amount of local effort that should be required. This is deducted from the overall state aid entitlement. The combination of using the artificial valuation and mill rates figure and the necessity to subtract the product from the state aid entitlement has made it very difficult for legislators and others to understand the formula, let alone propose meaningful changes.

5. Aid Based On Attendance, Not Enrollment--Aid is distributed now on the basis of the number of pupil units in average daily attendance. The problem in using average daily attendance is that a school district will be penalized if its students have a high rate of truancy. This is likely to occur more in school districts with high mobility of the population and in the lower socio-economic areas. It is precisely in these areas where added funds are needed. Using

average daily attendance works against an adequate supply of funds for these districts. Furthermore, use of average daily attendance means that a school district which chooses to operate school beyond the 175 day minimum prescribed by the Legislature can run the risk of reduction in state aid if the average daily attendance of students drops after the 175th day.

6. Levy Limitations Not Related to Aid Formula--Although it may not be widely known, most school districts in Minnesota are limited by state law on the extent to which they can levy local property taxes. Only in recent years have the tax levies of many school districts reached a point where the impact of the limit is felt. (A few school districts, including all school districts in suburban Ramsey County and the Golden Valley School District in Hennepin County, have received special legislation exempting them from the levy limits.) The levy limit is arrived at in a complex series of calculations. For school districts where the general levy limit law applies, a district is limited to a levy of $390 per resident pupil unit, adjusted for cost of living increases, for operating expenditures. A different procedure is used for the limit applying in suburban Hennepin County school districts, exclusive of the Golden Valley district.

   In addition to the obvious problems of different levy limits (or no limits at all in some school districts) from district to district, the basic problem with the general levy limit law today is that it is totally unrelated to the foundation aid formula. (The exception is the levy limit law for suburban Hennepin school districts, which is related to the formula.) A school district which receives very little state aid per pupil unit under the formula must have a much higher property tax levy per pupil unit than a district which receives a substantial amount of aid per pupil unit. Yet both types of districts have the same pupil unit levy limit. The effect is that those districts which are entitled to only a small amount of state aid are more restricted in the amount they can spend per pupil unit than are districts which receive large amounts of state aid. The latter districts are, in other words, much less affected by the limit.

7. Only Partial Equalization--A key policy decision by the Legislature in each biennium in updating the foundation aid formula is the decision on the foundation base figure. The foundation base figure originally was intended to approximate the statewide median pupil unit operating expenditure. The amount of state aid each district receives then is calculated, using this figure as a starting point. Every district receives less than the foundation base figure, with the relative amount depending upon the local valuation. In effect, equalization takes place up to the foundation base figure. The closer this figure is to the actual operating expenditure in each district the better the equalization.

   In the years immediately following adoption of the foundation aid formula the Legislature related the foundation base very closely to the median statewide operating expenditure. In 1957-58, for example, the foundation base figure was $240 per pupil unit, while the actual median operating expenditure in that year, statewide, was $266. Since then, however, the situation has become progressively worse.

Currently, the foundation base figure is only about 70% of the average operating expenditure, and the percentage is declining annually. In 1968-69, equalization was based on a figure of $355 per pupil unit, while the actual median, statewide, in that year was reported by the State Department of Education to be $506. (Moreover, the median was calculated on a district-by-district basis, without taking into consideration differences in size of districts. The median adjusted for differences in size of district, would likely be more than $506.

Each school district, regardless of its wealth, has to finance locally all the expenditures above the foundation base figure.

It would have been possible for the Legislature to increase the foundation base figure to the median operating expenditure each biennium, without necessarily providing more total state aid than actually was appropriated. However, there have been many forces working against increasing this figure. Increasing the foundation base figure without increasing the total amount of state aid means diverting substantial dollars of state aid from the higher-valuation districts to the lower-valuation districts.

B. Property Tax Relief Payments--The 1967 Legislature approved far-reaching legislation for local government finance. Every unit of local government was affected by the 1967 Property Tax Reform and Relief Act. The act imposes a 3% state sales tax. It also provides for three kinds of state payments to local government.

First, ¼ of the receipts from the state sales tax are dedicated directly to cities, villages, unincorporated areas (that is, towns) and school districts.

Second, payments are provided to all local governments, cities, villages, unincorporated areas, school districts, counties, and special districts as reimbursement for property tax relief granted to owners of certain business and farm property.

Third, payments are made to all local governments as reimbursement for property tax relief granted to homeowners. In the aggregate, an amount greater than the total receipts from the state sales tax is paid annually to local government under this act. In 1970, the payments are $48 million* for direct sales tax sharing, $80 million for replacement of business and farm personal property, and $106 million for homestead reimbursement, a total of $234 million. Estimates of state sales tax receipts for 1970 are slightly less than $200 million.

As with the school aid formula legislation of 1957 this act represented a milestone in state-local fiscal relationships. Perhaps the outstanding feature of this act, from a local government standpoint, is the new direction established whereby the state assures to local government a share of state sales tax receipts, whatever these receipts happen to be. This means that the revenue to local government will increase automatically as the receipts from the state sales tax increase. For years local government had been in urgent need of an alternative revenue source, with built-in growth, to the property tax. The state sales

---

*Exclusive of additional payments to compensate for underpayments in previous years.

tax sharing is not subject to reappropriation every two years. This is a very important and vital new direction for state local fiscal policy.

We have paid particular attention to the provisions of the Property Tax Reform and Relief Act because they are likely to form the basis for any new direction in state-local fiscal policy and because, in addition to state school aid, the payments make up the largest state payments to local government. Specifically in our analysis we have found as follows:

1. Per Capita and Per Census Child Sales Tax Payments--The one-fourth of the sales tax receipts is distributed in this manner: first, a per capita share is set aside for the three cities of the first class, Minneapolis, St. Paul and Duluth. Within each of these three cities the funds are split 2/3 for the city government and 1/3 for the school district. Second, the balance of the funds are split 50-50 between all the other municipalities plus town governments and all the other school districts. The municipalities and town governments share on a per capita basis and the school districts, on a per census child basis. A "census child" is every person between 6 and 16, inclusive, who resides in the school district, regardless of whether he attends public or private school.

   A straight per capita distribution fails to account for substantial differences in needs of different communities. In 1967, according to the Minnesota Public Examiner, municipal expenditures per capita in the state's largest cities averaged twice the per capita expenditures of the smallest cities. The average for all municipalities in the state was $74 per capita, while the figure in Minneapolis and St. Paul was about $103 and for municipalities under 2,500 population, the figure was $53.

   Per census child as a method of distribution is inadequate because it does not relate to the numbers of pupils enrolled in school. But more important, the inclusion of school districts in direct sharing of the state sales tax is an implicit recognition of the shortcomings of the present foundation aid formula. Assuming, therefore, that the present foundation aid formula needs changing, and is changed, we cannot justify a separate aid payment of this magnitude to school districts. If the foundation aid formula accurately reflects the differences in need and ability to pay from district to district, such a separate aid problem can only dilute whatever equalization is intended in the foundation aid formula.

   Under the present distribution towns are treated just as cities and villages, which assumes, incorrectly, that these unincorporated areas have the same types of services to finance as do cities and villages. To the extent that all units of government receive a share, simply because they exist, this reduces the amounts that can be made available to those units with the greatest need for the funds.

2. Farm and Business Property Replacement--Certain farm and business property, formerly taxable, has been made tax exempt under the 1967 Property Tax Reform and Relief Act. The exemption applied to all farm livestock and machinery and to a business' inventories or

equipment, as each business may choose. All jurisdictions which levy property taxes (municipalities, towns, counties, school districts and special districts) are reimbursed from state funds for loss of revenue because of the property now exempt.

The state paid approximately $57,300,000 in 1968 and again in 1969 for personal property replacement. During 1970 and again in 1971 the payment will be approximately $80,000,000.

These payments were intended to be neutral, merely reimbursing local government for tax revenue they otherwise would have received. But this is not the case.

Under the act the state payment to each unit of government is a percentage of its current property tax levy. In effect, each unit of government is allowed to send the state a bill for part of its local property tax levy. *There is no limit to the amount to be paid by the state in future years.* It will simply be a percentage of the local levy. Moreover, that percentage varies widely from community to community (from zero to 34% in the metropolitan area and from zero to 65% statewide). *The percentage is based only on the relationships between the 1967 levy on the now-tax-exempt property and the total levy in that year. None of the changes in location or value of the now-tax-exempt property since that year are reflected.* Some communities receive substantial amounts and will continue, under present law, to receive even greater amounts in future years, while others receive very little. *Put another way, each local government can tax the state, without limit, except that some local governments can apply a much higher rate than others.*

We do not quarrel with the fact that local governments needed to be reimbursed for loss of revenue at the time the farm and business property was first made tax-exempt. Also, this reimbursement in the first years had to be related to the amount of exempt personal property in each community. Consequently, some received more than others. But it is unreasonable to allow a permanent automatic escalation of payments in such a manner, with each community's share dependent upon the location and value of property before it was made tax-exempt.

3. <u>Homestead Reimbursement</u>--A third major part of the 1967 Act provides that the state will reduce homestead taxes by paying local governments for 35% of the first $714 of homestead property tax, for purposes other than debt retirement. (Actually, the law states that the credit shall be 35% of the non-debt tax, with a maximum allowable credit of $250 per homestead. The $250 is 35% of $714.)

   The state payment to local governments under this provision is approximately $106 million in 1970. There are approximately 818,000 homesteads in the state. The total state payment, assuming the same number of homesteads, will in future years approach a maximum annual payment of $205 million.

   Because the state payment does not cover the portion of the tax bill for debt retirement, state payments to local governments with heavy debt obligations are relatively lower than to others. We do not believe it is equitable to give higher payments, proportionately, to local governments with low debt obligations, at the expense of others, nor to penalize homeowners in communities with heavy debt obligations.

Furthermore, because of the way in which the payments are made, lower income families in less expensive homes receive relief more slowly, than do higher income families in more expensive homes.

We also have serious reservations about the commitment, in present law, to double the total homestead credit in future years from $106 million to approximately $205 million. The additional $100 million could be used much more effectively by the state in other aid programs. Finally, we question giving additional aid to homeowners and not to renters. We do not believe it is sound public policy to subsidize home ownership by an additional $100 million beyond the present level.

RECOMMENDATIONS

I. Municipal Finance

Our recommendations here build on the actions of the 1967 Legislature to provide municipal governments with a non-property source of revenue to finance general municipal services. We are suggesting a way to increase substantially the total amount for municipalities. We are further proposing that the revenue be distributed among municipalities in a way which more accurately reflects their differential need for funds.

A. Units to Share

1. We recommend that an entire one-fourth of the state sales tax receipts be dedicated to cities, villages and county governments. The effect of this recommendation would be approximately to double the total amount for municipal government. For purposes of explanation, the one-fourth of the sales tax receipts could be called the Municipal Aid Fund.

2. We recommend that county governments, which now do not share (other than for the insignificant amount for unorganized territory) receive the amounts attributable to unincorporated areas (towns). Unincorporated areas no longer would share directly in state sales tax payments.

3. We recommend that school districts, which now receive approximately one-half of the direct sales tax payments should receive all their state aid from an improved foundation aid formula, as recommended elsewhere in this report. A direct sales tax payment to school districts distributed outside the state foundation aid formula distorts the extent of equalization which is intended in the formula.

B. Distribution

1. We recommend that, with certain adjustments as outlined below, the Municipal Aid Fund be distributed to each city and village according to the proportion which its locally-raised revenue bears to the total locally-raised revenue of all cities, villages and unincorporated areas.

   We would accept the definition of locally-raised revenue as used by the U.S. Bureau of the Census, which includes revenue from all local taxes, special assessments, licenses, fees, permits, and so forth, but excluding receipts from utility operations, such as municipal water, municipal electricity and municipal liquor stores. Locally-raised revenue would not include, either, property tax relief payments for personal property replacement and homestead credit from the state to the locality. County governments would share in the Municipal Aid Fund by receiving the amounts attributable to unincorporated areas.

2. We recommend that the state Municipal Aid Fund be divided first between the seven-county Twin Cities region and the rest of the state according to the proportion which the locally-raised revenues of all cities, villages and unincorporated areas in the region bear to the total locally-raised revenues of all cities, villages and unincorporated areas in the state.

3. Next, to reflect differences in local tax resources and needs, we recommend that each city's and village's entitlement in the Twin Cities region be adjusted using two factors, weighted equally, in a composite index. The factors would be: (1) Assessed valuation per capita, as equalized for differences in assessment practices, and (2) individual adjusted gross income per dwelling unit, using adjusted gross income from Minnesota income tax forms.

   A municipality's share of the fund would be adjusted up or down depending upon whether its valuation per capita and income per dwelling, in the aggregate, were above or below average for the entire region. A below-average valuation or income would contribute to a larger share, while an above average valuation or income would contribute to a smaller share. (See Chart I in Appendix.)

   We have not reviewed whether it is desirable to reflect differences in assessed valuation and income in apportionment to cities and villages outstate. It would be possible to distribute to each of the 11 economic regions of the state, as we have recommended for the Twin Cities region, and then to increase or reduce each city and village's entitlement in each outstate region as we have recommended for the Twin Cities region.

   We have found it extremely difficult to obtain accurate information that would enable us to analyze the impact of these specific adjustment factors as proposed here. Based on the information we were able to obtain, they appear reasonable. However, we want to stress that our suggested adjustments may not be the only ones to reflect differences in ability-to-pay and effort. As additional information becomes available, it might be desirable to review these proposed adjustments as to their overall impact on various communities.

   We also recognize the problems of writing a formula into law which may be difficult to change in coming years as conditions change. We would not be averse to charging the Metropolitan Council with monitoring the operation of the formula and preparing recommendations, as necessary, to the Legislature for changes in distribution of the funds to municipalities in the Twin Cities region. If and as any add-on non-property taxes are imposed at the regional level in the Twin Cities region the same approach should be followed for distribution of those funds.

   Further, we believe it is desirable for the Legislature to require periodic review of all distribution formulas by an appropriate arm of state government, perhaps the State Department of Taxation.

   (See Pages 33-36 for more detailed discussion of these recommendations.)

II. <u>School Finance</u>

A. <u>Level of State Support</u>--We recommend that the Legislature provide state financing of elementary and secondary education up to the average per pupil unit operating expenditure in each region of the state. We believe this goal could be reached in 1971.

   The overall state-local tax burden in Minnesota need not necessarily be an issue with state financing up to the level of the average operating expenditures of the public schools. To the extent the state increases support for education, the amount of local taxation needed for schools goes down. If all or substantially all of the expenditures are financed by the state, the local school property tax levy becomes minimal. In the year ending June 30, 1969, approximately $270 million in property taxes was levied by school districts to finance operating expenditures. If this amount were to be financed by state taxes, the State Legislature, appropriately, would make the policy decision on the overall mix of property, sales, income, and perhaps even some new type of tax, such as a value-added tax. A statewide mill rate of approximately 100 mills would raise $270 million. There now is no state mill rate. The state sales tax raised $195.5 million in the year ending June 30, 1970, and the state income tax, $415.6, according to preliminary figures from the Minnesota Department of Taxation.

(See Pages 36-37 for more detailed discussion of this recommendation.)

The question of a higher aggregate level of support (including both local and state funds) for elementary and secondary education is not faced in this report. Our recommendations are concerned with revenue distribution. We are specifically neutral on the question of whether the aggregate level of support should be increased for education or for reducing support.

E. <u>Foundation Aid Formula</u>--We recommend a new approach to the foundation aid formula which will relate to actual expenditures (not only a portion, as at present), which will reflect more important differences in the costs of educating pupils (not just grade levels, as at present), and which will provide more accurate measures of local ability to pay and effort.

Our recommendation will be basically the same, at full state support of the operating expenditures or at some lower level, except that with full state support it will be unnecessary to apply steps in the formula which take into account differences in local ability to pay and effort.

We recommend that state aid to each school district be determined essentially in the following manner (See also Chart II in appendix):

<u>Step 1</u>: Multiply the pupil unit expenditure (as calculated below) by the number of pupil units (as calculated below).

<u>Step 2</u>: (Unnecessary with substantially full state support.) Multiply the result in Step 1 by the overall percentage of local school operating expenditures which the Legislature decides will be paid by the state.

<u>Step 3</u>: (Unnecessary with substantially full state support) Multiply the result in Step 2 by a variable support index, as calculated below, which essentially will increase or decrease a school district's entitlement based on its taxpayers' ability to pay and local tax effort.

1. <u>Pupil Unit Expenditure</u>--The pupil unit expenditure, the base figure from which the actual aid to each school district is determined, should be 100 per cent of the previous year's average per pupil unit of operating expenditure in each of the 11 economic regions of the state, adjusted

for cost of living changes. The present foundation aid formula is particularly deficient in that the foundation base figure represents only about 70 per cent of operating expenditures. This is not how much state aid is paid; it is only the base from which aid is determined. In effect, equalization is only taking place to that extent. With our proposal, equalization would cover the total operating expenditure.

In a school district where the average pupil unit expenditure is below the regional average, the basis for payment (that is, the base figure from which actual aid to each school district is determined) should be the district's actual pupil unit operating expenditure. However, such a district should be entitled to additional funds up to the average if it can show a demonstrated need, perhaps by petition to the State Board of Education.

2. Number of Pupil Units--We recommend that the following differences in pupils be reflected in determination of the number of pupil units:

-- Pre-kindergarten
-- Kindergarten
-- Grades 1-6
-- Grades 7-12
-- Socio-economic disadvantaged
-- Other differences now reflected in categorical appropriations to each school district (physically handicapped, mentally handicapped, high school vocational)

The weighting should be based upon actual per pupil expenditure in the previous year in each region. The State Department of Education should be empowered to obtain the necessary information from school districts to develop the appropriate weighting. Information we have received indicates it is reasonable to give a double weighting for students identified as socio-economic disadvantaged. Disadvantaged students, as defined in Title I of the federal Elementary and Secondary Education Act, would be an acceptable definition. A double weighting means that if an elementary student were given a pupil unit factor of (1), then a disadvantaged student would be given a pupil unit factor of (2). In effect, a district would receive twice as much state aid for each student identified as disadvantaged. The extra weighting for disadvantaged pupils should be adjusted downward, as necessary, to offset federal payments to school districts under Title I. An easier approach would be to deduct from a district's total state aid allotment the amounts received under Title I from the federal government. However, we understand this is not possible under present federal law, regardless of the extent to which a state may be reflecting the costs of educating disadvantaged youth in the regular foundation formula.

(See Page 39 for further discussion of this recommendation.)

If the number of pupil units is adjusted to account for what expenditures should be, rather than what they actually have been, the pupil unit expenditure in the formula needs to be adjusted proportionately, or else certain school districts will not receive their full entitlement of aid. For example, the total number of pupil units could be increased artifically to reflect what expenditures should be in educating disadvantaged youth. This would tend to decrease artifically the overall pupil unit expenditures on education. Consequently, a school district without disadvantaged youth would receive less state aid unless the pupil unit expenditures were adjusted upward accordingly.

a. Intra-district Differences--School districts with more than one school should be required to report per pupil unit expenditures by school, and explain differences in the expenditures, to the extent they exist. This would enable the state to determine the extent to which funds are being distributed within the school system to account for pupil differences upon which state aid is based.

b. Categorical Aids--Special categorical aid programs can be discontinued to the extent that pupil units are weighted to take account of the pupil differences, which now are handled with special aids. We believe that almost all of the special aid programs can be eliminated in this process. An exception might be transportation, because costs of transportation vary so widely in the state. If transportation is to be continued as a separate categorical aid, the aid should be made available to all school districts which incur transportation costs and not be limited to those above a certain geographic area, as at present.

c. Post-secondary Students--We believe that post-secondary area vocational school students, now included as part of the per pupil weighting, should be removed from the regular foundation aid program. Aid for these students should be handled by separate appropriations to the post-secondary institutions.

3. Average Daily Membership--We recommend that the aid be calculated on the basis of average daily membership, which would not penalize districts whose students have poorer attendance records or districts which choose a longer school year with the risk of poorer attendance. The state would have to establish procedures to assure that students who actually have withdrawn from school are not kept on the membership rolls.

4. Variable Support Index--(Unnecessary with substantially full state support). If the level of state support continues at substantially below the average operating expenditures of the public schools, we recommend that the amount of aid to which a school district is entitled be adjusted by taking into account three factors: (a) The total net property tax levy per pupil unit, including special assessments and levies for all units of government within the school district, (b) the assessed value per pupil unit, as adjusted for differences in assessment practices, and (c) adjusted individual gross income per pupil unit, as reported on state income tax returns. The three factors should be merged in a composite index which will give equal weight to each. (See Chart IV in Appendix.) A district's aid entitlement would be increased or decreased depending upon whether the levy per pupil unit, valuation per pupil unit and income per pupil unit were above or below the regional average per pupil unit. Factors which would contribute to an increase in the state aid entitlement would be an above average levy, a below average valuation and a below average income. It is important to recognize that with the variable support index a school district's entitlement conceivably could be greater than the average pupil unit expenditure, adjusted for cost of living changes. We believe that, in no event, should a school district receive more than the regional pupil unit expenditure, adjusted for cost of living changes.

We have found it extremely difficult to obtain accurate information that would enable us to analyze the impact of these specific adjustment factors as proposed here. Based on the information we were able to obtain, they appear reasonable. However, we want to stress that our suggested adjustments may not be the only ones to reflect differences in ability-to-pay and effort. As additional information becomes available, it might be desirable to review these proposed adjustments as to their overall impact on various communities.

5. <u>Local Levy Authority</u>--We recommend that the Legislature discontinue the current practice of prescribing different kinds of levy limits for different school districts. A similar restraint should be imposed equally on all school districts. The limit should not be imposed in such a manner as to be more severe on those school districts which receive the least amount of state aid, as currently is the case.

   We recognize and respect the strong feeling of local school districts to be allowed to spend at what level they desire. At the same time we recognize the need, from a statewide standpoint, to keep expenditures in line, both as to total and as to differences from district to district, and to develop incentives for better utilization of dollars. We recommend an approach to accomplish both objectives.

   We recommend that the Legislature not impose any direct levy limit on any local school board. Instead, the Legislature should provide an incentive for school boards not to levy substantially more than others. To accomplish this objective, we recommend as follows:

   If a school district chooses to levy local taxes which, in combination with state aid, produce a per pupil unit operating expenditure substantially above the previous year's regional or statewide average per pupil unit expenditure (adjusted for cost of living changes), whichever is higher, a school district's state aid should be reduced accordingly. We do not know exactly at what point above the average expenditure per pupil unit state aid should begin to be reduced or at what rate the reduction should take place. Perhaps the Legislature will have to experiment with some figures, determined more or less "arbitrarily", in the first few years. It would not appear unreasonable to us to allow a school district to have a pupil unit expenditure up to 10% above the regional or statewide average (adjusted for cost of living changes), whichever is higher, before it begins to lose state aid. This would mean, for example, that if the average expenditure were $600 per pupil unit, the school district could levy an amount sufficient in combination with state aid, to spend $660 per pupil unit before any reduction in state aid would take place. It would also not appear unreasonable to us to provide a reduction of 50 cents in state aid for every dollar of expenditure above this level. Continuing the example above, assume a district desired to increase its pupil unit expenditures to $700, which would be $40 above the point at which a reduction in state aid would begin. Without a reduction in state aid, the district would simply levy an additional $40 per pupil unit locally. But because state aid would be reduced by 50 cents for every dollar of additional expenditures, this means state aid would be reduced by a total of $20 per pupil unit. Consequently, the school district would have to levy locally an additional $60 per pupil unit to finance an additional $40 of expenditures. This proposal is workable at full or partial state support of the previous year's average pupil unit operating expenditure. (See pages 39-42 for more detailed discussion of this recommendation.)

6. <u>Capital Expenditures</u>--Although our recommendation on the basic school aid formula covers only operating expenditures, we believe state aid should

also be provided for a portion of capital expenditures. Because of the uneven timing of capital expenditures from district to district, we recommend that state aid for this purpose be provided in a separate grant program and not be integrated with the basic school aid formula. The State Department of Education should be required to obtain an inventory of investment in buildings by school districts throughout the state, adjusted for obsolescence, and update the inventory annually.

Perhaps dollars for capital expenditures could be appropriated to the State Department of Education for elementary and secondary schools. The Department could apportion the construction funds based on demonstrated money needs of various districts.

7. Supplementary Aids--It should not be necessary to distribute any other state aids to school districts for operating expenditures, outside the basic formula as we have proposed. The state dollars now used for these supplementary aids should be used to help finance the basic formula. Supplementary payments only serve to distort the equalization accomplished in the regular formula. Supplementary aids to be discontinued should include the district sales tax sharing for school districts and aids paid to school districts for taconite property or excessive railroad, airport or other property-tax-exempt land in the district. If some other form of general school aid, such as federal impacted area aid, is paid to a school district, that district's state aid entitlement should be reduced by that amount.

8. Educational Objectives--Each local school board needs to receive, from its instructional staff, an annual report of the educational objectives of the school system and the extent to which those objectives were reached during the year *in each school*, using measurements as determined by the instructional staff. We recommend that such reports be required and that copies be submitted to the State Department of Education.

III. Property Tax Relief Payments

A. Replacement for Property Made Exempt

We recommend as follows:

1. The Legislature should place a ceiling at the present $80 million level, on the current distribution of payments for farm and business property made exempt. No unit of government should receive more in future years for replacement of exempt property than it now receives.

2. The state revenue which otherwise would be needed in future years to finance higher reimbursement payments for exempt property (the increase was $22 million between 1969 and 1970) should be used instead to help finance an improved school aid formula. This would offset the loss in

state payments to school districts under our previous recommendation that the direct sales tax share which now goes to school districts be channeled into the Municipal Aid Fund.

3. As 1967 recedes farther into the past, the distribution of the $80 million will become less and less representative of the actual location and value of exempt property. The Legislature should gradually change the method by which the $80 million is distributed to local government in line with other recommendations in this report.

(See Page 42 for additional discussion of these recommendations.)

B. Homestead Reimbursement

We recommend as follows:

1. The state should keep the homestead credit reimbursement payment at its present level of $106 million and not distribute an additional $100 million in homestead credits in future years, as it is presently committed to do.

2. The formula for distribution of the $106 million should be changed to provide more immediate, continued relief for lower income homeowners. This can be accomplished by changing the formula from 35% of the first $714 (for non-debt purposes) to 50% of the first $250 of the homestead tax (for both debt and non-debt purposes). Such a credit could be given to all homesteads in Minnesota without exceeding the present $106 million. In fact, it is possible that in the first few years the percentage could exceed 50% of the first $250 without increasing the state's obligation beyond $106 million, because there are a number of lower-valued homesteads which do not have a gross tax of $250.

3. The additional $100 million, rather than going for homestead credit, should be used to help finance increased state support of education, which will reduce the need for local property tax to finance school districts.

4. If further homestead tax credits are desirable, they should be handled through credits or deductions on the state income tax, as presently provided for renters and senior citizens.

(See Pages 42-43 for additional discussion of these recommendations)

IV. Federal Revenue Distribution

Federal revenues have become increasingly important in recent years as a major component of the state-local fiscal system. In fact, it might be better to refer to the system as the federal-state-local fiscal system.

In the year ending June 30, 1957, total federal revenues provided to state and local governments in Minnesota was $89 million. In the year ending June 30, 1968 the figure had grown to $365 million, according to the Minnesota Public Examiner. (Even this amount is small relative to total outlays of federal dollars in Minnesota for all purposes, including social security payments, salaries for federal employees working in MInnesota, and so forth. In the year ending June 30, 1968, that figure totaled $3.1 billion in Minnesota, according to a report prepared by the Office of Economic Opportunity.)

The federal government has about 400 separate aid programs through which its grants are made. We have had extensive discussions with federal, state and local officials who are intimately involved with the grant-in-aid system. We have concluded that a key problem with the system is that -- given the tight requirements as to how funds are to be handled -- decision-making is fragmented among a number of different agencies, which severely restricts the flexibility of general policy-makers at the state and local level. Further, there is considerable overlapping among different aid programs administered by different agencies for essentially the same purposes.

Some beginning steps have been taken to improve the system by giving state government a greater role in setting priorities and by packaging aid programs in block grants. But forces that do not want general government to exercise policy discretion and that have benefited from certain narrow grant programs are even fighting these beginning steps.

In an attempt to broaden the focus of the federal grant-in-aid system, an entirely new approach is now under consideration -- an approach which would not replace but would supplement categorical grants-in-aid. That approach is called general federal revenue sharing.

A number of proposals now are before Congress to dedicate a certain percentage of federal taxes directly to the states and local governments for general purposes. There appears to be broad bi-partisan support for the idea. The specific plan has yet to be agreed upon. Among the issues are: How much authority should be given to state governments in distributing funds; what portion of the funds should be guaranteed to local governments; what local governments should be eligible to share, and what formula to use in determining each local government's share.

Federal revenues increase at a rate of $15-20 billion a year, without any increase in tax rates, which is a much better growth revenue source than those presently available to states and local governments.

A. <u>State Initiative on Categorical Grants-in-Aid</u>--We support and urge Congressional approval of proposals to consolidate grants-in-aid on a broad scale. And we urge that Congress resist proposals to re-fragment grants-in-aid where consolidation has occurred, such as in criminal justice and health planning.

   But equally important, we believe it is not necessary for Minnesota to wait for further federal action to improve the distribution of categorical grant-in-aid funds within the state. The state itself should exercise every opportunity to take initiative, because federal changes are likely to be slow. Accordingly, we recommend as follows:

   1. The Legislature should instruct the regional (such as the Metropolitan Council) and state agencies which now are charged with review of federal grant applications (under regulations of the federal Bureau of the Budget) to attach priorities for funding of applications, as well as to review applications for conformance to regional or state planning. The federal government has no way to make an effective judgment on the relative needs

of one community against another. This evaluation only can take place within the state and the region. Even though federal regulations may not require a statement as to priorities, it is likely that federal agencies could not escape taking the recommendations very seriously, if not accepting them. Such procedures might well avoid a repeat of decisions such as occurred recently on a sewage grant in the Twin Cities area. The grant was awarded to a community with a substantial amount of local taxable value at the same time another grant was being rejected for another community, one with much less local taxable value.

The Legislature also should instruct the regional and state agencies to prepare and publish rules of procedure for recommending priorities. Although their own plans for regional or state development may be incomplete, their guidelines on priorities would be based on more information than would be available to the federal government.

2. To assure that state and regional agencies fully utilize the potential of "packaging" grant applications to the federal government, even where grants-in-aid have not been officially consolidated, we recommend that the Legislature require that each grant application by a state or regional agency, when submitted for review before transmittal to Washington, carry with it a statement on the extent to which other agencies were consulted on the application for possible conflicts and the possibility of combining the application with others having similar goals.

3. The Legislature should require the appropriate state agency, perhaps the State Planning Agency or the Minnesota Public Examiner, to prepare an annual report on federal grants to every individual unit of government and agency in the state. Some federal aids are distributed first to the state and then to local units of government. Others go directly to the local units of government. It currently is impossible to know how much federal aid goes to which units of government for what purposes.

B. Federal Revenue Sharing--We support and urge Congressional approval of federal revenue sharing with states and general units of local government. With revenue sharing, general units of local government will be making choices among competing programs, which produces more incentives for economy than do categorical-type aids which are earmarked for only one function, usually narrowly defined. Moreover, revenue sharing represents an urgently needed source of revenue for hard-pressed states and local government. Based on our review of the various plans for revenue-sharing, we recommend as follows:

1. We recommend that a substantial portion of the dollars for revenue-sharing be guaranteed for local government, even though the funds might be channeled through state government. This is known as a "mandatory pass-through."

2. We recommend, however, that the decisions as to how the "pass-through" share should be apportioned among the various levels and units of government below the state be left to state discretion because of wide differences in responsibility of local government from state to state. This is in line with our earlier policy recommendations that the Legislature must make the basic revenue allocation decisions for state and local government. The federal interest should be satisfied if there is a

guaranteed and substantial pass through to local government as necessary to assure adequate attention to urban problems. States could be required to report to the federal government annually on how funds were distributed to local government to meet urban problems.

3. If the federal government is to specify what local units of government are to share -- as most proposals would do -- we believe direct sharing should be limited to incorporated general units of government. If the federal plan provides that unincorporated areas are to share directly, as proposed in some plans, we believe that other state payments to unincorporated areas should be adjusted to offset the federal payments. School districts should not share directly, but a significant portion of the dollars which are not directly passed through to local government should be used by the state for elementary and secondary education.

4. We have recommended earlier that the distribution of state sales tax funds to municipal government be based on locally-raised revenue as a percent of total locally-raised revenue, with adjustments made for local ability to pay. One federal revenue-sharing plan under serious consideration proposes that the funds be distributed to each unit of government based on its locally-raised revenue as a per cent of total locally-raised revenue for all the units, but with no adjustments made for local ability to pay. Without the adjustments, some units of government, without substantial need for funds, would receive much more than other units of government where needs are greater. Some suburban areas, particularly, would be short-changed. We believe that, if the locally-raised revenue approach is to be used in the federal sharing formula, adjustments be permitted, at least on a state option basis, for differences in ability to pay.

(See Page 43 for additional discussion of these recommendations.)

V. Constitutional Amendment on Tax-Exempt Property

A constitutional amendment giving the State Legislature broader authority to determine what shall constitute tax-exempt property will be voted on in the November 1970 general election.

The constitution now provides as follows: "Public burying grounds, public school houses, public hospitals, academies, colleges, universities, and all seminaries of learning, all churches, church property and houses of worship, institutions of purely public charity, and public property used exclusively for any public purposes shall be exempt from taxation."

The proposed amendment would add the following language: "The Legislature may by law define or limit the property exempt under this section, other than churches, houses of worship, and property solely used for educational purposes by academies, colleges, universities, and seminaries of learning."

The amount of tax-exempt property varies considerably from community to community, having major effect on local tax base in some localities and negligible effect in others.

We endorse the constitutional amendment as opening possible additional revenue sources for local governments. We have not reviewed the question of what types of property the Legislature should remove from tax-exempt status should this amendment be approved.

DISCUSSION OF RECOMMENDATIONS

What are the implications of dividing the responsibility for raising revenue from the level of government which ends up spending it?

This question arises at whatever level of government revenue distribution takes place. Local government officials tend to feel that control over operational decisions will be assumed by the higher level of government which provides the funds. Officials at the higher level of government tend to feel that local officials won't be as careful in spending the money they get from other sources as they are with money they raise directly from local taxpayers.

Both the state and federal government, of course, already provide substantial funds for lower levels of government. The Minnesota Taxpayers Association reported in its fiscal review of the 1969 Legislature that nearly 52% of all state expenditures in the 1969 biennium will be distributed to local government.

We believe a shift in the state-local fiscal policy under which the Legislature distributes more revenue but less local revenue-raising authority to local government is desirable for these reasons:

* The state has better revenue sources, with built-in growth, than do local governments. The state sales and income taxes are far more responsive to changes in the economy than the property tax, which is the major source of local revenue-raising authority given by the state to local governments.

* A grant-in-aid system can be much more adaptable to differential needs for funds than the accidental distribution of tax base among different communities.

* Locally imposed taxes, particularly in urban areas with many independent units of government, such as the Twin Cities area, tend to benefit the few communities which happen to have the tax resources located within their borders at the expense of others. Furthermore, a fragmented tax system can contribute to unsound developmental decisions. Communities are likely to give more encouragement to those kinds of development which produce good tax base, regardless of other implications of such decisions, such as impact on land use.

* State revenue distribution can contribute to a more uniform level of service in those functions for which it is desirable, from a statewide standpoint, to work toward uniformity, for example, elementary and secondary education.

* A more uniform distribution of revenues among units of local government by the state can be a significant factor in producing economies. When there are wide differences in tax resources available to neighboring communities, the "whip-saw" effect can occur. Under this effect, the tax-rich communities can set the pace, say, on salary levels for public employees, forcing the tax-poor communities to fall in line, even though they can't afford it. With a more uniform distribution of revenues, the formerly tax-rich communities won't be as disposed to set such high levels.

* With state revenue distribution, state government will have the opportunity, as it desires, to use revenue distribution to accomplish other, though related, ends, such as modernization of local government.

* Only in one place, the State Legislature, is it really possible to establish the balance of taxation among the different types of tax sources. Only in the Legislature, too, should the major decisions be made on the overall level of taxation in the state.

What would this package of proposals cost the state in the first year if they all went into effect?

We are not recommending in this report that the aggregate level of taxation, at the state and local level combined, be increased or decreased. As we said earlier, we are specifically neutral on this question. We are, however, in a very real sense placing the State Legislature in a stronger position than now to influence the aggregate level of taxation.

Our recommendations on changing the distribution of funds under the Property Tax Relief and Reform Act do not involve the question of additional commitments of state dollars. In fact, our recommendations on the property tax relief payments represent a way of stopping certain commitments by the state which otherwise would escalate automatically.

Our recommendations on shifting the responsibility for financing the operating expenditures of public schools clearly involve cost implications for the state government. Our recommendations mean that revenues raised directly by the state will increase, but this will be offset by a corresponding decrease in the local revenues levied by school districts. In the year ending June 30, 1969, local school districts levied about $270 million for operating expenditures for schools, an amount which under our recommendation would have been collected by the state and distributed back to school districts.

Some persons may say that our recommendations on school finance will require more funding because of the encouragement offered to districts now spending below the average amount per pupil unit. Others may say that we are too severe in holding down obligations by the state to finance school districts now spending above the average.

How do these proposals affect individual communities?

It is very difficult, given the information we have available, to predict in dollars and cents terms the overall impact of these proposals. It is possible, though, to indicate relatively where most of the benefit will be concentrated.

Both the school and the municipal aid formulas are intended to provide greater state aid to those communities with higher-than-average costs and less-than-average local wealth.

All communities in the state would receive a substantial decrease in the local property tax rate (by one-third or more, depending upon the community) if the state finances the average operating costs of the public schools. We must keep in mind, of course, that correspondingly state-collected taxes (property or non-property, or some mix thereof) would increase by the amount of the decrease in local taxes.

On the municipal government side, all municipalities would receive large increases in their shares of the state sales tax. At the same time, the escalation in payments to local government for exempt business and farm property would cease.

These two actions in the aggregate would balance each other, but some municipalities would receive more than others in accord with the "need" formula as we propose. The halt in escalation of the replacement payments hardly would be noticed by those units which haven't been receiving much in the past. For those who have, they no longer would be able to count on large increases.

Why give greatest priority to cities and villages in sharing of state sales tax receipts?

We seriously considered various options on the question of which units of government should share directly in the state sales tax. We concluded that cities and villages should receive the major shares, with county governments receiving the amounts attributable to unincorporated areas. We fully appreciate the tendency to want to treat all units of government "equally," but that usually means giving all units of government a share simply because they exist. State and local tax revenues, naturally, will always be scarce resources. They must be placed where they can be used most effectively.

Here are some of the issues we faced:

-- Need for Revenue--Municipalities appealed without success to the 1969 Legislature for additional non-property sources of revenue to meet ever-increasing costs. While the 1967 Property Tax Relief and Reform Act provided a beginning, the amounts were not sufficient, partially because the funds were distributed among so many units and levels of government, thereby diluting their overall impact. Although the average per capita expenditure by municipal government is about $70 statewide, municipalities now receive only slightly more than $6 per capita from the state sales tax. Under our proposal, the per capita on the average would double, with the higher-cost municipalities receiving even more.

-- Possibility of Municipal Non-Property Taxes--Some municipalities, particularly the central cities of Minneapolis and St. Paul in the Twin Cities region, are seriously exploring possibilities of enacting their own municipal non-property taxes. Such steps, while perhaps serving to meet some short-term needs, would have serious detrimental effects on the overall system. Certain municipalities would find it very profitable to enact non-property sales or income taxes, while others, with similar needs, would find it almost impossible because of lack of local tax resources. Municipal non-property taxes in the Twin Cities area would set up further barriers to rational growth plans.

The Legislature must provide additional revenue to municipalities to dissuade those who, in urgent need of revenue, are considering the go-it-alone approach.

-- Level of Government Where Property Tax Relief is Most Desirable--With additional state sales tax revenue a local government will be able to reduce its reliance upon the property tax. While the need to reduce such reliance exists with every unit and level of government, the need is far greater at the municipal level than the county level. The property tax base is distributed far more differentially among municipalities. County government can benefit from growth in the property tax base throughout a county. The broader the area over which the property tax is imposed, the less disparate is its impact. Given this fact, property tax relief can be accomplished much more effectively if non-property revenues are distributed more at the municipal level than at the county level. Furthermore, counties already receive a substantially larger share (29%) of state highway user funds than do municipalities (9%). Also, it should be remembered that under our proposal county governments would receive the amounts attributable to unincorporated areas. That amount is $5.7 million in 1970. Currently, county governments receive no direct share of the sales tax funds, except by receiving the very small amounts attributable to unorganized territory.

-- Role of Unincorporated Areas--We can find little justification other than their existence to give unincorporated areas (towns and townships) a direct share in the state sales tax, because this means taking revenue which is much more urgently needed by other governments. The average property tax rate for town government in 1969 was 18 mills, compared to 97 mills for municipal government. If there are certain unincorporated areas becoming urbanized, it is better that they incorporate as municipalities and thereby become eligible for direct sales tax sharing. A direct share to unincorporated areas only serves to reinforce a form of government which probably is appropriate for sparsely populated areas, but hardly is the type suited for complex urban services.

-- Patchwork School Aid--The granting of school districts a direct share in the state sales tax could be justified originally because the present foundation aid program is not adequate. But such a patchwork system of school aids is fundamentally defective. We are recommending a major overhaul in the present school aid formula, which will eliminate any need for a separate aid for school districts on some other basis.

Why distribute state revenue to municipalities on the basis of locally-raised revenues as a percentage of total locally-raised revenues, with adjustments for ability to pay?

We reviewed many possibilities for distribution of funds to the various cities and villages. It is most difficult to identify all their differences in need for funds, local effort and ability to pay, then measure these differences and finally incorporate them into a distribution formula.

Here are some of the issues we faced:

-- Use of Locally-Raised Revenues as Basis for Distribution--Probably the most popular, and easiest understood, form of distribution is per capita. A per capita distribution appears to carry with it an implicit fairness, giving every unit of government the same amount. But a per capita distribution gives more funds than needed to certain localities and denies enough to others.

We chose locally-raised revenues as the base for sharing because it reflects a certain degree of effort by the municipality, it avoids giving an unnecessarily large amount of dollars to communities with low expenditures, and it assures the state's largest cities of an adequate share.

We would accept the definition of locally-raised revenue as used by the U.S. Bureau of the Census, which includes revenue from all local taxes, special assessments, licenses, fees, permits, and so forth, but excluding receipts from utility operations, such as municipal water, municipal electricity and municipal liquor stores. (Locally-raised revenue would not include, either, property tax relief payments by the state to the locality.)

The Minnesota Public Examiner could be charged with gathering and reporting locally-raised revenues on an annual basis for purposes of this distribution plan. Only slight modifications in the Public Examiner's current reports would be necessary. The Public Examiner also should be given an appropriation sufficient to assure these reports will be published much quicker than the present 2½-year lag.

-- Adjustments for Ability to Pay--We concluded that it is not enough simply to distribute funds according to locally-raised revenues. One of the problems is that certain communities with substantial tax resources are able to raise much more in local revenue with less effort than communities with fewer resources. We found that we can adjust for ability to pay by taking into consideration assessed valuation and income of the community. These adjustments appear to have only slight effect on the amounts for the largest cities, but they provide a way to shift dollars to certain suburban areas, particularly those with low tax base, which could not be accomplished simply by using locally-raised revenues. In making adjustments for assessed valuation and income, we suggest that an index be developed to give equal weight to each. (See Chart I in Appendix.)

For assessed valuation, we recommend that the official assessed valuation be equalized for differences in assessment practices, which can be accomplished by using sales ratio data in the State Department of Taxation. Assessed valuation is the most direct measure of a municipality's ability to pay, because every municipality has authority to levy property taxes on the assessed valuation.

For income data we recommend using individual adjusted gross income from Minnesota income tax forms. Taxpayers would be required to place their municipality of residence on state income tax forms, and the State Department of Taxation would be required to report such income, in the aggregate, by municipality annually. We discussed extensively whether use of income is a desirable measure of ability to pay, because cities and villages do not now impose income taxes nor do they receive direct shares of the state income tax based on the amount raised in their borders. We concluded, on balance, that income should be used as an adjustment because of the particularly heavy burden of the property tax on lower-income families. If only assessed valuation were used as an adjustment for ability to pay, this would fail to take account of the property tax burden on lower-income families: The Twin Cities Metropolitan Area Tax Study in 1966 reported that property taxes as a per cent of income ranged from a high of 10.6% for a family of four with an income from $2,000 to $2,999, to a low for 1.9% for a family with an income over $15,000. To state the problem another way: Merely the presence of a certain amount of assessed valuation within a community does not define the capacity of a local government to levy property taxes on that valuation. The income of the people who pay those property taxes also must be taken into consideration.

In measuring these factors, we suggest using valuation per capita and income per dwelling. A combination of per capita and per dwelling reflects not only the population of the community, but, to some extent, the different types of families, such as the elderly. Furthermore, income per dwelling is a far better measurement of income than income per capita. The Metropolitan Council should be required by law to prepare annual estimates of population and number of dwelling units. This would merely ratify the Council's present practice. Dwelling unit as defined by the Metropolitan Council is the same as the U.S. Census definition, which basically is a house, apartment or room occupied as separate living quarters.

Why shift substantially all of the authority and responsibility for financing the operating costs for local school districts to the state?

This is a very fundamental question, one which is being debated extensively at the local, state and national level. We concluded that state financing of education is necessary for the following reasons:

-- State's Responsibility--The state constitution charges the Legislature "to establish a general and uniform system of public schools." (Article VIII, Sec. 1) The Legislature can more effectively carry out this responsibility by directly providing financing for substantially all of the operating costs of the public schools.

-- Adequate Educational Opportunity--So long as the responsibility for financing education is divided between the state and local school boards, we see essentially perpetual disparity in the quality of education from district to district. The accident of where a pupil resides in the state should not be the determining factor in the type of education he will receive. Differences of two-to-one in expenditures per pupil are not uncommon now. State formulas for equalization are designed to offset the differences in local tax resources, but however equitable a formula may be when proposed, there are almost insurmountable political problems in the Legislature in giving more state funds to some school districts and less to others. It is never possible to accomplish the amount of equalization needed.

-- Fixing Responsibility for Educational Expenditures--The State Legislature is showing considerable interest in influencing the expenditures of local school boards because legislators feel they, rather than local boards, are more politically accountable. We have no quarrel with this, and believe that it is all the more reason to give the Legislature essentially full accountability for the level of educational support, and we have no reason to believe the Legislature won't provide adequate funds for quality education.

Imagination and innovation will not be stifled with full state support, but in some respects a school district can accept the challenge to be more imaginative in getting the most mileage from the dollars as appropriated by the Legislature.

Some concern has been expressed about loss of local control. But, for example, the state already is financing between 90 and 97% of the costs of many area vocational schools, which are controlled by local school districts. We see no evidence that school districts don't have as much control over these institutions as they would like.

-- Balancing Education with Other Pressing Programs--Every school district in Minnesota is independent of general government. Mayors may be held accountable by some citizens for the actions of school boards, but mayors and city councils have no responsibility for schools. Only at the level of the State Legislature is it possible to integrate educational expenditure needs with other pressing programs. Only at the level of the State Legislature is it possible to place the major decisions in the hands of elected policy-makers with general responsibility.

-- Developing a Balanced Tax System--In many communities today school property taxes make up the largest chunk of total local government property taxes. It has become increasingly recognized in this state that the relationship between property and non-property taxes is out of balance, with too much emphasis placed on property taxes. With the Legislature responsible for essentially all of local school operational financing, it will be able to influence the property-non-property tax balance effectively for the first time. The Legislature would have to consciously decide whether to reduce the property taxes for education, and, if so, decide what other source or sources to use to pick up the difference. The Legislature removed the state government from levying a property tax in 1969, but this did not solve the problem of the property-non-property balance.

How do our recommendations on the school aid formula relate to state financing up to the level of the average pupil unit expenditure?

Our proposed school aid formula is designed so that it will be workable from year to year with essentially only one major policy decision required by the Legislature: The overall percentage of the average pupil unit operating expenditure which the state will pay.

It would be possible, under our formula, to stage the movement to full state support over a few years or to move all at once. We would support an immediate shift to 100% of the average pupil unit operating expenditure, which would require an immediate decision by the Legislature on the overall property-non-property tax balance. As a practical matter, we do not see how 100% state financing can be possible without a state property tax levy. It will be hard for the Legislature to move to 100% state support gradually, because the Legislature undoubtedly would be reluctant to move into the property tax if school districts continue to levy a substantial property tax as well.

If the Legislature adopts full state support, then the equalization aspect of our proposed formula (the variable support index which increases or decreases state aid based on levy, assessed valuation and income) would become unnecessary.

How do we propose that equalization be accomplished short of state financing at the level of average pupil unit operating expenditure?

Even though we recommend state support at the average pupil unit operating expenditure, we recognize the very real fact that this might not happen immediately. Short of moving to full state support, the Legislature might be inclined to continue the present method of equalization, which, we believe, has major defects. There are two major problems with the present method of equalization: First, it applies only to a portion of school expenditures; second, the adjustments for ability to pay and local effort are inadequate. Because the foundation base figure (from which school aid is determined) is far below the actual expenditures (more than 50% below in some cases) all school expenditures above the foundation base figure must be assumed by each local school district using the local property tax base only, whatever its size. Some districts find this relatively easier than others because of a larger tax base.

The defects in the adjustments for ability to pay and local effort are recognized implicitly in the present formula, because a "floor" is included, a level of aid below which no district will go, regardless of the adjustments. The local effort adjustment in the present formula is defective in that it takes account only school property taxes, not the extent to which other units of government have access to the same local tax base. Further, ability to pay is measured only by assessed valuation. Income of the residents of the districts is not included.

Under our proposal each district would have a basic per pupil unit aid entitlement, which will be the same as every other district. This amount would be adjusted up or down, depending upon three factors, all of which would be weighted equally, (1) total net property tax levy per pupil unit including special assessments, for all taxing jurisdictions within the boundaries of the school district, which will account for the extent to which other units of government have access to the same tax base; (2) equalized assessed valuation per pupil unit; and (3) individual adjusted gross income per pupil unit. A higher than average levy per pupil unit and a lower than average assessed valuation and gross income per pupil unit will produce an increase in the state aid entitlement. All three factors are weighted together in a composite index. (See Chart IV in Appendix.)

County officials would be required to report total net property tax levies for all overlapping taxing jurisdictions in a school district. This would include special assessments, but it would exclude property tax relief payments from the state. County officials currently report such information by municipality and township. To obtain income figures by school district, taxpayers would be required to report their school district name and number on their income tax forms as well as their municipality of residence.

It is conceivable that the equalization adjustments, when applied to some school districts, might produce a pupil unit aid entitlement above the regional average pupil unit operating expenditure. This becomes particularly likely the higher the overall percentage of state support. To guard against such an eventuality, we recommend that in no event should a school district's pupil unit aid exceed the regional average expenditure. If a significant number of districts become affected by this limit, which means that the state will be paying all of these districts' operating expenditures, this should be a positive sign for us to move to full state support so all districts could have their operating expenditures funded by the state at the regional average.

Why use average pupil unit operating expenditure by region as the basis for state aid?

Average pupil unit operating expenditure is determined by adding together the number of pupil units for all districts in a region or the state, as the case may be, and dividing the total into total operating expenditures for the districts. We chose the average rather than the median, because the average is automatically affected by the actions of each district, whereas, the median will change only to the extent that the pupil unit expenditure at the median (that is, where 50 per cent of the pupil units are above and 50 per cent are below) changes.

We believe it is important to take differences in costs into account in different parts of the state. Consequently, we are recommending that the state support figure for each school district be based on the actual average per pupil unit expenditure within its region. Rather than take arbitrary boundaries for regions, we believe it is reasonable to use the 11 economic regions of the state as designated by the Governor.

The Legislature needs to adopt as a goal bringing all school districts as close together in per pupil unit spending as possible. Using the average expenditure is a step in that direction. The Legislature can decide in the future whether to continue to vary the level of support among regions. Using actual school expenditures in each district as the basis for state payment would not contribute to reducing the differences in expenditures from district to district.

Throughout this report we have distinguished between operating and capital expenditures of the public schools. Among educational finance circles in the state, the term "maintenance expenditures" is used to refer to what we call operating expenditures. Our definition of capital includes what educational finance people call "capital outlay and debt service."

What is so important about the weighting of pupil units?

A school district's need for funds is dependent upon the kinds of pupils to be educated. It costs more to educate a physically handicapped pupil. Costs are higher in secondary school than in elementary school. Kindergarten pupils attend only half-days.

To take such differences into consideration, different weighting is attached to different pupils. For example, if costs for secondary pupils are 25% higher than costs for elementary pupils, then we give an elementary pupil a weighting of (1) and a secondary pupil, (1.25). When we multiply the number of pupils in each category by the weighting of each, and then add the different category totals together, we come up with the total number of "pupil units."

School aid should not be distributed on a straight per enrolled pupil basis, because this would not reflect the higher costs of educating certain pupils.

We believe that a chief drawback of the present pupil unit system is its failure to recognize the higher expenditures which are or should be spent on disadvantaged youth. We believe it is reasonable to assign a double pupil unit factor to them.

What is the rationale for our proposal on the extent to which school districts should be able to exercise authority to levy property taxes on their own?

The State Legislature is showing keen interest in changing existing methods of limiting school districts' property tax authority. Current methods, it is generally agreed, are defective, because districts are not treated alike (some districts have no limit whatsoever, others have moderate restrictions, and still others have severe restrictions) and because the limits are not related to the different local levies which will be required, because of differences in state aids. (Some districts receive very little state aid and, therefore, must impose a much higher levy per pupil unit than districts which receive large amounts of state aid.)

It has been extremely difficult to adopt workable levy limits which can apply effectively to all school districts.

Our proposal is that the Legislature not impose any local levy limit whatsoever on a school district. However, the Legislature should provide an incentive for school districts not to spend at substantially higher levels than neighboring districts. Thus, we suggest that if a school district's pupil unit operating expenditure adjusted for cost of living changes, is more than 10% above the previous year's regional or statewide average, whichever is higher, that its state aid be reduced. A school district in a region with an average expenditure below the statewide average would not have its aid reduced until its expenditures were more than 10% above the state average.

We suggest a reasonable way to reduce state aid is that for every dollar of expenditure above the acceptable level, state aid be reduced by 50 cents. Each school district will be free to spend at whatever level it desires, but the more it spends above the acceptable level, the greater its state aid is reduced. We considered a sliding scale that would increase the percentage reduction as expenditures increased, but concluded that is unnecessary because, as costs increase, state aid continues to drop.

Our proposal must be seen in the context of the basic thrust of our school finance recommendations: Equal educational opportunity for pupils throughout the state, state financing of the operating expenditures of the public schools, and maximum output from limited dollars.

Our proposal is intended to place the basic decisions on the level of financial support for elementary and secondary education in the Legislature. We do not intend to set up a situation whereby local school boards decide what to spend, with the Legislature footing the bill, whatever it happens to be. Perhaps experience will show that our proposal gives too much leeway to local school boards. If so, the Legislature can adjust the formula accordingly.

Need for a Legislatively-Imposed Restraint on Local School Levying Authority--We have concluded that a restraint, imposed by the Legislature, on local school levying authority is absolutely essential for the following reasons:

-- Critical to accomplishment of overall goals--We do not see how it will be possible to accomplish the goals of equal educational opportunity, state financing of the operating expenditures and maximum output from limited dollars in the absence of an effective restraint. Without the restraint, some school districts undoubtedly would go substantially beyond what the Legislature establishes as an appropriate level of spending per pupil unit, using their own local taxes. Faced with such actions, the Legislature -- always hard pressed for funds -- would find it very tempting to cut back on the overall percentage of state support in following sessions, thereby requiring all school districts to pick up a greater local share. This would return to the present situation, which means widely differing expenditures per pupil unit, differential local tax burdens, and insufficient incentives to obtain greater output from limited dollars.

-- Helps reduce inter-district differences in expenditures--Our proposal is intended to help bring pupil unit expenditures from district to district much closer together than they are today. This would be accomplished by a combination of state aid to the level of the average pupil unit expenditure and a way to discourage school districts from spending at a level substantially exceeding the average. Equality of educational opportunity is not guaranteed, of course, by encouraging relatively the same expenditure per pupil unit from district to district. But it appears to us that this will go further than any other approach. Furthermore, to perpetuate substantial differences in pupil unit expenditures from district to district would appear to guarantee perpetual disparity. Finally, wide cost differences represent a serious impediment to accomplishing state support of the operating expenditures of the public schools. To the extent that expenditures are brought closer together, this will ease the movement to full state support.

-- Broadens the focus of interest in quality education--Under present circumstances, highly-motivated parents who seek the best possible education for their children concentrate their efforts for adequate financing in their own local school districts. This does not result in commensurate improvements in quality in other districts where parental interest may not be as great. These other districts may well have high concentrations of disadvantaged youth whose needs for quality education may be greater than the needs of children of highly-motivated parents.

Under our proposal the Legislature will be the focus of attention for upgrading educational levels, with the actions benefitting both the children of highly-motivated parents and the less fortunate. In effect, a parent who is working for the best possible education for his child will be working for the less fortunate at the same time.

-- Fixes responsibility for the level of educational spending--For years the State Legislature and local school districts have passed the buck, so to speak, on where the responsibility lies to determine the level of educational support. Each has been able to dodge this responsibility to some extent. We strongly believe the responsibility belongs at the state level. So long as local school districts have authority to levy substantially above what is regarded as an appropriate expenditure level, it is possible for the Legislature to avoid being responsible for setting that level. Under our proposal the Legislature will determine the acceptable pupil unit expenditure level and the extent to which local school districts should be restrained from levying further.

-- Shifts the emphasis on what produces quality education--Most of the emphasis on improving the quality of education to date has focused on how many dollars are being spent. To improve quality, it has been assumed, pupil unit spending should increase. At a time in the past, when public investment in education was substantially below present levels, this may well have been the case. But we are rapidly finding out in education, as in other fields, such as health care, for example, that it is not so much the additional dollars which produces quality, but how the existing dollars are used.

Our proposal on restraining local levying authority beyond what the Legislature determines to be an appropriate level is intended to help stimulate better use of the limited education dollars. This is in line with the Citizens League proposal in 1969 on making better use of instructional personnel in the public schools in order to stretch the school salary dollar. Under our levy authority proposal, competition between school districts will focus not on which school district spends the most but which districts get the most output from equivalent amounts of dollars.

-- Reflects concern over increasing costs--Our report has not been addressed primarily to the questions of tax burdens and tax increases. We have tried to focus on the matter of distribution of revenues from taxes. Nevertheless, we cannot be oblivious to the rapidly increasing property tax levies for school districts.

What about accounting for parochial school costs in the school aid formula?

Currently, some school aids are distributed to school districts on the basis of the number of children between the ages of 6 and 16 who reside in the districts, regardless of whether they attend the public schools or not. (This is the basis for distribution of the sales tax payments to school districts.) This is intended to recognize somewhat the higher parochial school enrollments in some districts which are creating an additional financial burden for some taxpayers. But such a distribution clearly does not relate to the differential costs of the various public schools. We believe such distribution plans should be discontinued.

It was suggested to us that perhaps the local effort factor in the school aid formula could be adjusted to account for the expenditures for parochial schools. We felt that if the state is to provide assistance to parents who send their children to private schools, this should be accomplished through credits or deductions on each taxpayer's income tax, not through the foundation aid formula. If the foundation aid formula was adjusted for this purpose, extra relief would be granted in a district to all taxpayers, not only those who send their children to private schools.

Why correct the problem of exempt property replacement payments by imposing a ceiling at the present level and gradually changing the distribution?

We considered the possibility of basing the payment on the actual location and value of the exempt property today, but we felt this approach would be defective in that the correct value of the exempt property would be very difficult to determine, even if businesses and farmers were required to make reports. One of the reasons for the exemption in the first place, we understand, was the difficulty in determining accurate value of this property. But equally important, this approach would mean tieing distribution of non-property funds permanently to the location of tax-exempt property, which gives little assurance that the dollars will be distributed equitably.

Under our approach we would not make any additional payments based on the location of the property, and in future years we would gradually move from this basis and use the funds for local government in other ways recommended in this report. Because of the needs of local government we would not support the use of these funds for other state purposes.

Why not double the homestead credit payment from its present level?

We reviewed the desirability of letting the homestead credit payment gradually increase, automatically, from the present level of $106 million to an ultimate $205 million. But with the difficulty in finding adequate sources of revenue for local government, we cannot justify pouring $100 million in additional funds into local government based on the location of homesteads. Only $14 million is provided annually via income tax credits for renters, in lieu of the homestead credit. Giving additional homestead credit would only widen an already-inequitable emphasis on homeowners as against renters. Moreover, homeowners are able to deduct from federal and state income taxes the interest payments on their mortgage plus their property taxes. Renters, who help pay the landlords' costs for such items, receive no comparable deduction on their federal and state income taxes.

Why change the homestead credit to 50% of the first $250?

This approach would have the effect of giving more homestead relief, quicker, to residents of lower-valued homes, whereas 35% of the first $714 has the effect of giving more dollars of relief, quicker, to residents of more expensive homes, and delaying the full benefit of relief to the residents of lower-valued homes until their total tax bill is substantially higher than it now is. In terms of actual payments to local governments, the 35%-of-the-first-$714 approach means that a greater percentage of the homestead payments is being made to those communities with the higher valued homes.

Doesn't our recommendation on the homestead credit deny homeowners additional property tax relief while perpetuating the relief given to business for exempt personal property?

We cannot support expanding the present method of distributing large amounts of dollars as reimbursement for homestead taxes, given the scarce tax resources available. If the Legislature feels that the overall balance between business and individual taxation is disrupted by changing the distribution to local units of government, this can be corrected by changing other taxes, such as the level of corporate income taxes.

In considering this question we also recognized that under our proposal the actual total dollars of homestead relief will not be decreased and, for some homeowners at the lower income levels, the relief actually will increase.

The dollars that otherwise would go in future years to double the present homestead credit will, we recommend, be used instead to finance greater state support of education, which will reduce the school property tax burden on the homeowner.

We also took note of the fact that, indirectly, individuals pay business taxes through the prices for products they buy.

Can a federal revenue-sharing plan be neutral in its local government impact?

Some federal revenue-sharing plans allegedly are neutral in their impact on local government structure and organization. That is, the supporters of such plans claim that they would distribute funds to all units of government on an equal basis. For example, one plan would distribute to all cities, villages, unincorporated areas and counties, on the basis of each unit of government's locally-raised revenues as a percentage of locally-raised revenues of all the units of government.

We do not believe it is possible for a revenue-sharing plan to be neutral. For example, every unit of government which receives funds from revenue sharing is to some extent reinforced, even though a state might wish to de-emphasize some types of units and emphasize others. A federal revenue-sharing plan which its supporters claim is neutral probably is reinforcing the status quo instead.

Few, if any, federal revenue sharing plans take account of newly emerging general units of government, such as the Metropolitan Council.

BACKGROUND

I. Amount of State Aid Distributed

Distribution by Type of Aid of Funds from
State Government to Local Government
(Fiscal year ending June 30, 1970 or December 31, 1970)

As compiled by the Citizens League from various state officials

Unit	Type of Aid	Dollar Amount (in millions)	% of State Total
All units	Total	$815.7	100.0%
	School Aids *	315.6	38.7
	Welfare *	168.3	20.6
	Highway *	70.4	8.6
	Homestead Tax Relief	106.6	13.1
	Exempt Property Replacement	80.0	9.8
	Per Capita Sales Tax Payments	26.0	3.2
	Per Census Child Sales Tax Payments	22.0	2.7
	Cigarette Tax	6.4	.8
	Liquor Tax	6.2	.8
	Gift & Inheritance Tax	3.3	.4
	Bank Excise Tax	6.9	.9
	Mobile Home Registration Tax	2.0	.2
	Fire Department Aid	2.0	.2

* The Federal portion of these is approximately:

School Aids	$ 25.0	3.1%
Welfare	118.3	14.5
Highway	5.0	.6

The table above shows the revenues to be distributed by the state to local governments for the fiscal year ending June 30, 1970, or the calendar year ending December 31, 1970, depending upon the type of aid. It must be clearly understood at the outset that this is an incomplete picture of the aid system. The federal government distributes some funds to local governments through the state. Those funds are included here. In addition, however, the federal government distributes funds directly to the local units of government, without going through the state. State government does not have a current year accounting of those payments, either as to total or as to amount by type of unit. Municipalities, counties and special units of government, such as the Metropolitan Council and housing authorities, receive considerable funds directly from the federal government.

The table shows that approximately $816 million will be distributed by the state to units of local government in Minnesota during the fiscal year ending June

30, 1970, or the calendar year ending December 31, 1970. This includes about $148.3 million in federal aid which is channelled through the state to local government.

School aids make up 38.7% of the total; welfare grants, 20.6%; highway user aid, 8.6%; homestead tax relief, 13.1%; exempt property replacement, 9.8%; per capita sales tax payments, 3.2%; per census child sales tax payments, 2.7%; cigarette and liquor tax distribution, 1.5%; and four other miscellaneous types of aid, 1.7%.

All units of government which levy property taxes share in the exempt property replacement and the homestead tax relief payments. School aids and per census child sales tax payments go only to school districts, and welfare grants only to the counties. Municipalities and towns share in the per capita sales tax payments. Municipalities and towns share in the cigarette and liquor revenue distributions. Counties and municipalities share in highway user aid.

The types of aid can be broken into three major categories. The largest, so-called "functional aids," go for school, welfare, and highway. This makes up 67.9% of the aids. The second largest category is property tax relief reimbursement, which consists of homestead tax relief, exempt property replacement, and, for school districts, the per census child sales tax payments, a total of 25.6%. This leaves only a small amount of the total, about 5.9%, which can be called "general purpose" grants to local government. This is the sales tax distribution directly to municipalities and townships, which is 2.7% of the total, the cigarette and miscellaneous other grants which amount to only 1.7%. (The per census child sales tax payments to school districts are counted as property tax relief payments, because, for school districts outside cities of the first class, the payments are made in the form of a deduction of the school district property tax levy.)

The chart on the following page shows how the $815.7 million is being distributed among the different types of units of government. The chart shows that school districts receive 53.8% of the total: counties,33.4%; municipalities, 11.4%, and towns (unincorporated areas), 1.5%.

It is important to recognize the relative growth which is likely to take place in each type of grant. The per capita sales tax aids will grow automatically as the sales tax receipts grow. Also, under present law, the homestead payments and exempt property relief payments will increase automatically as local tax levies increase. School aids will increase as state legislative appropriations increase. The highway payments will increase as revenues from the highway user funds increase, as provided in the state constitution.

Distribution by Unit of Funds from State Government to Local Government (fiscal year ending June 30, 1970, or December 31, 1970)

Total Within State $815.7 million

Unit	Type of Aid	Dollar Amount (in millions)	% of State Total
School Districts	Total	$438.9	53.8%
	School Aids *	315.6	38.7
	PTRF per census child	22.0	2.7
	Homestead Tax Relief	55.2	6.8
	Exempt property replacement	41.4	5.1
	Bank excise tax	3.6	.4
	Mobile home registration tax	1.1	.1
Counties	Total	$272.1	33.4%
	Welfare *	168.3	20.6
	Highway *	53.1	6.5
	Homestead tax relief	26.0	3.2
	Exempt property replacement	19.5	2.4
	Gift and inheritance tax	3.3	.4
	Bank excise tax	1.7	.2
	Mobile home registration tax	.2	.1
Municipalities	Total	$ 92.7	11.4%
	Highway	17.3	2.1
	PTRF per capita	20.3	2.5
	Homestead tax relief	23.7	2.9
	Exempt property replacement	17.8	2.2
	Cigarette tax	4.9	.6
	Liquor tax	4.7	.6
	Fire Department aid	2.0	.2
	Bank excise tax	1.5	.2
	Mobile home registration tax	.5	.1
Towns	Total	$ 12.0	1.5%
	PTRF per capita	5.7	.7
	Homestead tax relief	1.8	.2
	Exempt property replacement	1.3	.1
	Cigarette tax	1.5	.2
	Liquor tax	1.5	.2
	Bank excise tax	.1	) .1
	Mobile home registration tax	.1	)

* The Federal portion of these is approximately:

School Aids	$ 25.0	3.1%
Welfare	118.3	14.5
Highway	5.0	.6

This information was assembled by the Citizens League staff from data provided by various state officials. In some cases the League staff made estimates of distribution.

II. Major Distribution Formulas

1. School aids--School aids make up the largest portion of state payments to local governments, the chart on the previous page reveals. School aids are distributed basically in two ways, the foundation aid formula, and special aids for such purposes as education of handicapped pupils.

Foundation aid has been the backbone of the state aid system. It is distributed according to a formula which originally was set up by the 1957 Legislature. The formula is designed to adjust the amount of aid each district receives according to its relative amount of property tax base and the extent to which it meets minimum local effort standards.

Under the formula, a foundation base figure is established by the Legislature. The foundation base figure originally was $240 and has been increased every session since 1957. For 1970-71 the base will be $404. The foundation base figure was originally intended to represent the median per pupil unit expenditure (exclusive of capital outlay, debt service and transportation costs). As education costs have risen, the foundation base figure has represented a decreasing percentage of the actual expenditures. In 1957-58 the foundation base figure was 90.2% of the median. This percentage decreased to 70.2% by 1968-69.

The foundation base figure is not the amount per pupil unit which is given to each school district. An "ability to pay" factor is deducted from the base figure. The factor is expressed in terms of how many dollars can be raised in each district from a uniform mill rate on an adjusted assessed valuation. The adjusted assessed valuation of a school district is a hypothetical valuation calculated by the state to correct for differences in assessment practices. In very rough terms, it is about three times the actual official assessed valuation of the school district. For the 1970-71 school year, the uniform mill rate on the adjusted assessed valuation, for purposes of determining state aid, is 20 mills.

In summary, therefore, a school district's aid allotment for 1970-71 will be $404 per pupil unit less the amount which 20 mills would raise on the adjusted assessed valuation. The Legislature, however, also has provided a floor in the foundation aid formula, which guarantees each school district at least a certain amount per pupil unit, regardless of how much the uniform mill rate would raise on the adjusted assessed valuation. That floor will be $141 in the 1970-71 school year.

2. Per capita and per census child sales tax payments--The 1967 Property Tax Reform and Relief Act provides that one-fourth of all sales tax receipts are to be distributed to school districts, municipalities, and townships.

The distribution of the funds is handled in this way: first a per capita share of the total amount to be distributed (one-fourth of the total sales tax receipts) is determined for Minneapolis, St. Paul, and Duluth. Then the amount which is designated for these three cities is divided, within each of the cities, 2/3 for the municipal government and 1/3 for the school district. The balance of the funds, after deducting the per capita share for Minneapolis, St. Paul, and Duluth, is divided into two equal portions, one portion for all other municipalities and all towns in the state, and the other portion for all other school districts in the state. The municipalities and towns share on a per capita basis and the school districts, on a per school census child (children between the ages of 6-16, inclusive, who reside in the district, regardless of whether they attend public school) basis.

The per capita payment to municipalities was $5.22 in 1968; $5.31, 1969; and $6.60 in 1970, plus an additional $2.68 per capita in 1970 to compensate for underpayments in the previous two years.

The total amount distributed to municipalities and school districts was $37,900,000 in 1968· $38,600,000 in 1969; and is estimated at $47,900,000 in 1970, plus an additional $9,700,000 to compensate for previous underpayments, for a total of about $57,600,000 in 1970.

3. Homestead credit reimbursement--The 1967 Property Tax Relief and Reform Act provides that a percentage of a homeowner's property tax bill will be paid by the state. The percentage will vary from community to community.

Under the act the state will pay 35% of that portion of a homeowner's tax bill which is designated to finance governmental services other than debt retirement, to a maximum of 35% of the first $714 of non-debt tax, which is a maximum credit of $250 per homeowner. This means, for example, that the state will pay 35% of that portion of a homeowner's bill for operating expenses of the public schools, but the 35% will not cover the portion of the bill for debt retirement of the public schools.

The amount of debt retirement as a percentage of the total tax levy will vary substantially in the metropolitan area. Homeowners in communities with a relatively low percentage of the levy earmarked for debt retirement will have a relatively higher percentage of their tax bills paid by the state. Conversely, homeowners in communities with a relatively high percentage of the levy earmarked for debt retirement will have a relatively lower percentage of their tax bills paid by the state. It means that homeowners in some communities will reach the $250 maximum faster than others. On a $20,000 house the maximum is reached when the non-debt mill rate is 345.92. Or, for a house of any market value, the maximum is reached when the non-debt tax, before the 35% credit, is $714 or more.

The percentage of a homeowner's total bill paid by the state, up to the $250 maximum, can be called the "effective credit rate." If there were no debt retirement in the community, then the effective credit rate would be 35%. Among the 74 communities over 2,500 population in the Twin Cities area the effective credit rate varies from a low of 25.55% in Lakeville and Lexington to a high of 32.55% in Richfield.

The state payment for the 35% homestead credit totaled $95,300,000 in 1969. The Minnesota Department of Taxation estimates that the 1970 payment will be $106,600,000. There were 818,616 homesteads in 1969. If, sometime in the future, all of these homesteads reach the $250 maximum, the total state payment will be $204,654,000.

Because of the difference in value of homestead property, as well as the difference in total levy and percentage of the levy for debt, the average homestead credit per homestead will vary substantially from community to community. Communities with a high percentage of high valued homesteads will receive a greater proportion of the homestead credit.

4. Exempt property replacement--Certain business and farm property formerly taxable, has been made tax exempt under the 1967 Property Tax Relief and Reform Act. This Act provides that all taxing units in the state (municipalities, townships,

school districts, counties, special districts) are to be reimbursed from state funds for loss of revenue from the newly-exempt personal property. Exempt property under this act covers farm livestock and machinery and either business inventories or tools and equipment as the taxpayer may decide.

The amount of reimbursement which each taxing unit receives is dependent upon--in addition to the size of its property tax levy--how much property now tax exempt was located in its borders in 1966. The reimbursement bears no relationship to the current value or type of taxable property or to other factors such as population. Nor does it relate in any way to the location and value of tax exempt property today. In fact, there are no records available on the current location and value of tax exempt property.

The state pays a certain percentage of each taxing unit's levy, thereby reducing the amount of the levy that has to be spread on the taxable property. This percentage--which is called the reimbursement ratio--will be different for each taxing unit, depending upon the amount of newly-exempt property that was located in its borders. (Before the ratio is applied in school districts outside cities of the first class, the per school census child aid is deducted.)

The reimbursement ratio is basically the percentage which the levy on the newly-exempt property bore to the total levy on all property in the taxing unit in the last year in which the newly-exempt property was taxable.

The state paid approximately $57,300,000 during 1968 and again in 1969 to all taxing units in the state for replacement for exempt property. During 1970 and again in 1971 the payment will be approximately $80,000,000, according to the Department of Taxation. In the first two years the payments were made from the Property Tax Relief Fund, which now has been abolished and made part of the general fund.

According to the act, the amount to be paid is adjusted every other year. There is no limit to the amount to be paid in future years. Also the amount each taxing unit is to receive will be based always on the relative amount of newly-exempt property that was located in its borders when the act went into effect.

5. <u>Highway user funds</u>--Our committee concentrated its efforts on other aspects of state revenue distribution and did not make any findings or recommendations on distribution of highway user funds. But because of the relative magnitude of this source of revenue for local government, we are including background information on its distribution. (A previous report of the Citizens League, "Highways, Transit, and the Metropolitan Council," December 6, 1968, includes recommendations on changing the distribution of highway user funds to more accurately reflect the needs of urban counties.)

The Minnesota Constitution guarantees to municipalities over 5,000 population and to all counties a share of the State Highway User Fund.

The State Highway User Fund includes revenue from two sources, the seven-cents-a-gallon motor fuel tax and motor vehicle license fees. All revenue from these sources, after deduction for certain administrative expense and transfers, is earmarked under the state constitution for the State Highway User Fund.

A three-way split of the Highway User Fund is provided under the constitution.

Basically, the split is 62% to the state, 29% to the counties, and 9% to municipalities over 5,000 population. (A slight adjustment in these percentages is permitted, but it is not significant enough to require elaboration at this point.)

As far as we know this is the only state fund (with the exception of the endowment apportionment for school districts) which carries with it a guarantee, under the constitution, of a specific share for local government.

Whenever the Legislature increases the gasoline tax or motor vehicle license fees, say, in response to the needs for additional revenues for state highways, the counties and municipalities over 5,000 population receive a share of the increase, automatically.

The Legislature, however, does stipulate how the counties' share is to be split among the individual counties and how the municipalities' share is to be split among the individual municipalities.

The county share in 1970 is $51,248,592. The municipality share is $16,849,042. The constitution requires that these funds be used for highway purposes.

Current state law provides for a split of the county funds as follows:

10% distributed equally among the 87 counties, with each county receiving 1/87th.

10% distributed according to each county's percentage of total motor vehicle registrations in the state.

30% distributed according to each county's percentage of total miles of county state aid highways in the state.

50% distributed according to each county's highway needs as a percentage of total county highway needs in the state.

"Needs" for each county are approved by a committee of county engineers. State law permits only certain aspects of construction to be covered in needs. For example, only the construction costs of the center 24 feet of a street may be included, or, if it is a multi-lane facility, 12 feet times the number of lanes. This limitation has the effect of reducing "needs" in metropolitan counties as a percentage of total needs and, consequently, the total allotment to metropolitan counties.

Current state law provides for a split of the municipal funds as follows:

50% distributed per capita.

50% distributed according to each municipality's highway needs as a percentage of total municipal needs. "Needs" for each municipality are approved by a committee of municipal engineers.

Metropolitan counties (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and 'ashington) receive in the aggregate about 13% of the total funds distributed to .ounties. Metropolitan area municipalities receive about 70% of the total funds 'istributed to municipalities. Metropolitan counties and municipalities combined receive about 26% of the total funds distributed to counties and municipalities.

III. Major State and Local Tax Receipts

Although this report concerns the distribution of revenue, not the questions of relative emphasis on different tax sources, it is appropriate for background purposes to list the amounts of revenue from the various major taxes.

The following figures were taken from reports prepared by the Division of Research and Planning, Department of Taxation, and the Research Section, Department of Education:

Minnesota State and Local Tax Receipts
(Fiscal Year Ending June 30, 1969)

State Income Tax (including individual and corporate)	\$386,457,380[1]
State Sales Tax	173,960,627[1]
Motor Vehicle (fuel tax and license fees)	175,846,056
Cigarette Tax	33,122,163
Alcoholic Beverages Tax	28,048,920
Gross Earnings Tax (railroad, telephone, etc.)	30,524,362
Other State Taxes and Licenses	87,358,275
TOTAL State Taxes	\$915,317,783

* * * * * * * * * * * * * * * * *

Property Tax (including net levies by all jurisdictions, plus special assessments)	\$712,384,799

---

[1]Preliminary estimates for the fiscal year ending June 30, 1970, prepared by the Minnesota Department of Taxation, place income tax collections at \$415.6 million and sales tax collections, \$195.5 million.

BACKGROUND OF THE REPORT

The Citizens League has published several major reports on various aspects of the state-local fiscal system in recent years. Among them are:

* "Conclusions and Recommendations on the Impact of the Dulton Case and on Property Tax Assessment Reform" (May 14, 1965)
* "Minneapolis Financial Situation" (April 14, 1966)
* "1967 Minneapolis School Financial Needs" (July 27, 1966)
* "Citizens League Tax Relief and Reform Proposal" (May 5, 1967)
* "Breaking the Tyranny of the Local Property Tax" (March 20, 1969)
* "Stretching the School Salary Dollar" (July 30, 1969)
* "Organizing Fiscal Information for Public Policy Purposes" (January 22, 1970)
* "Statement before the Minneapolis Charter Commission on Proposed Non-Property Taxes for Minneapolis" (May 7, 1970)

The May 5, 1967, report recommended a 3% state sales tax, with two-thirds of the revenues returned directly to local government. This report was published prior to passage by the Legislature of the Property Tax Reform and Relief Act. The March 20, 1969, report is a proposal for sharing the growth of the property tax base in the Twin Cities area. That report referred briefly to the problems of distribution of non-property taxes, as well. Following the 1969 Legislature, the Citizens League Board of Directors reviewed the major fiscal issues which remained unsettled after the Legislature adjourned and approved establishment of a research committee with the following assignment:

> Review the likelihood of additional sources of general revenue to be made available to local governments in Minnesota--whether from state or federal sources--and the potential amount of the dollars involved. Investigate various possibilities for distribution of revenue, including whether to base distribution on a school district, county or municipality's documented need for funds for specific programs and its ability to demonstrate the effectiveness of such programs. Make recommendations on how the revenue should be distributed, both among different types of units of government (metropolitan, county, school district, municipality and township) and within each type of unit (for example, among the various school districts).

COMMITTEE MEMBERSHIP

A total of 37 members participated actively in the work of this committee. The chairman was William J. Hempel, a Minneapolis lawyer. Other members were:

James H. Adams
Al Albrecht
Thomas Berg
Robert Berkwitz
Francis Boddy
Edward Brandt
James J. Carney
Thomas Connelly
David Dahl
Arthur Delau
Neil Dietrich
Gordon M. Donhowe
Mr. & Mrs. Nicholas Duff
Robert Ehlers*
Dennis Enright
Harry Fiterman
Mrs. A. C. Greenman
George M. Hansen
Will Hartfeldt
Paul Hauge
Robert Heaney
Lowell W. Johnson
Ralph W. Laurens
James McComb*
Mrs. Stanley Peterson
John A. Rollwagen
Arne Schoeller
John Skeate
Harry Sletten
Thomas Vasaly
Robert Voss
Tom Waterbury*
John Weaver
David Wickstrom
John Windhorst, Jr.

The committee was assisted by Paul A. Gilje, Citizens League research director, Andrew Lindberg, Citizens League research assistant, Theresa Schmieg of the Citizens League clerical staff, and Mrs. Irma Sletten of the staff of Rapid Analysis Fiscal Tool (RAFT). RAFT is a cooperative effort of the Citizens League and the Upper Midwest Research and Development Council to develop a computerized representation of the Minnesota tax system.

COMMITTEE PROCEDURES

The committee met 33 times from October 30, 1969, to June 8, 1970, an average of about one meeting a week. Meetings were held on alternate weeks in St. Paul and Minneapolis for the convenience of committee members and resource persons.

During the first three months, as with other Citizens League committees, the emphasis was on orientation. A large number of local, regional, state and federal governmental officials met with the committee, reacting to questions and making proposals. An agenda of major questions had been prepared for the first meeting of the committee and was followed through most of the other meetings.

Almost all meetings were 2½-hour evening meetings. In the late stages of deliberations, meetings ran as long as four hours. Interested persons outside the committee were kept informed of its activity by receiving copies of the detailed minutes of each meeting.

---

*These members dissented from or expressed reservations about certain sections of the report. Memorandums prepared by Robert Ehlers and Tom Waterbury are available on request at the Citizens League office. Ehlers objects to use of average pupil unit expenditure in the foundation aid formula, to the recommendation on restraining local school district levying, and to use of locally-raised revenue as the basis for distribution of municipal aids. James McComb objects to the recommendation on freezing the homestead credit and on changing the current method of distribution of the homestead credit. Waterbury said he is skeptical about the recommendation on restraining local school district levying and disagrees with the use of income as an adjustment factor in the school aid formula.

The Citizens League has a limited number of copies of minutes of meetings on file, which can be made available to persons who come to the League office. A large amount of background material assembled for the committee also can be reviewed in the League office.

Many staff personnel in various governmental offices provided invaluable assistance on request. Particularly helpful were personnel in the State Department of Taxation, State Department of Education, Minnesota Public Examiner's office, State Auditor, and the Metropolitan Council. Requests for information were handled quickly and completely.

All of the resource persons who met with the committee accepted invitations without hesitation. The committee was particularly fortunate to meet with Walter W. Heller, professor of economics, University of Minnesota, an originator of the idea of federal revenue sharing, and with Murray Weidenbaum, assistant secretary of the Treasury for Economic Policy, who is in charge of the Administration's revenue sharing proposal.

Following is a list of resource persons who met with the committee, in addition to Heller and Weidenbaum:

Arthur Naftalin, Professor of Public Affairs, University of Minnesota.
William J. O'Brien, State Auditor.
Raymond T. Olsen, Director, State Planning Agency.
Edward A. Hunter, Deputy Director, State Planning Agency.
Donald Bevis, Assistant Superintendent for Research, Development and Federal Projects, Minneapolis Public Schools.
Dr. Ellen Fifer, Director of Health, State Planning Agency.
Richard Oakes, Executive Vice President, Minneapolis Taxpayers Association.
Ralph Keyes, Executive Secretary, Association of Minnesota Counties.
Stanley Cowle, Hennepin County Administrator.
Rollin H. Crawford, Mayor, West St. Paul, and Chairman of Government Finance Committee, Metropolitan Section, League of Minnesota Municipalities.
Paul Dow, Executive Secretary, Metropolitan Section, League of Minnesota Municipalities.
Dean Lund, Executive Secretary, League of Minnesota Municipalities.
F. Robert Edman, Consultant to Minnesota Legislature on federal grants-in-aid.
Governor Harold LeVander.
John Klein, Chairman, Eagan Town Board.
Hale Champion, Vice President, University of Minnesota, and formerly Director of Finance, California, and Director, Boston Redevelopment Agency.
Lloyd Nielsen, Superintendent, Roseville Public School.
Erling O. Johnson, Superintendent, Anoka Public Schools.
George J. Greenawalt, Superintendent, Hopkins Public Schools.
Larry Harris, Assistant to Superintendent, Minneapolis Public Schools.
Gordon Miniclier, Assistant Superintendent for Personnel, St. Paul Public Schools.
S. Walter Harvey, Director of Research, State Department of Education.
Rufus T. Logan, Commissioner of Taxation.
James L. Hetland, Jr., Chairman, Metropolitan Council
Robert C. Einsweiler, Planning Director, Metropolitan Council.
Allen Muglia, Manager, Metropolitan Finance, Metropolitan Council.
W. A. Wettergren, Executive Secretary, Minnesota School Boards Association.
Loring Ellefson, Minnesota Public Examiner's office.
Richard Erdall, Alderman 13th Ward, and President, Minneapolis City Council.

John Bergford, Alderman 7th Ward, and Chairman, Ways and Means Committee,
Minneapolis City Council.
Thomas A. Thompson, Minneapolis City Coordinator.
John Brandl, Director, School of Public Affairs, University of Minnesota.
Thomas Byrne, then Mayor of St. Paul.
Robert Trudeau, Assistant Chief Accountant, City of St. Paul.

APPENDIX

Chart I

STEPS IN APPORTIONMENT OF STATE SUPPORT DOLLARS FOR MUNICIPAL GOVERNMENT

1. Determine amount to place in Municipal Aid Fund. We recommend one-fourth of sales tax receipts.

2. Determine which units of government should share in Municipal Aid Fund. We recommend cities and villages, with county governments to receive amounts attributable to unincorporated areas.

3. Determine overall share of Municipal Aid Fund for Twin Cities region. We recommend as follows:

$$\boxed{\text{Municipal Aid Fund}} \times \boxed{\left(\frac{\text{Locally-Raised Revenues of all Cities, Villages, Towns in Twin Cities Region}}{\text{Locally-Raised Revenues of all Cities, Villages, Towns in the State}}\right)} = \boxed{\text{Twin Cities Region Share}}$$

4. Determine basic entitlement of Twin Cities Region share for each city and village in the region. We recommend as follows:

$$\boxed{\text{Twin Cities Region Share}} \times \boxed{\left(\frac{\text{Locally-Raised Revenue of Individual City or Village}}{\text{Locally-Raised Revenues of all Cities, Villages, Towns in Twin Cities Region}}\right)} = \boxed{\text{Basic Entitlement for each City or Village}}$$

5. Adjust each city or village's basic entitlement according to its tax resources. We recommend as follows:

$$\boxed{\text{Basic Entitlement for each City or Village}} \times \boxed{\frac{\left(\frac{\text{Assessed val/capita in region}}{\text{Assessed val/capita in locality}}\right) + \left(\frac{\text{Income/dwelling in region}}{\text{Income/dwelling in locality}}\right)}{2}} = \boxed{\text{Amount Actually Paid to each City or Village}}$$

APPENDIX

Chart II

EQUALIZATION "LAG" IN SCHOOL AID FORMULA

In the recommendations and discussion of the school aid formula, considerable emphasis is placed on the fact that the foundation base figure has failed to keep pace with increasing costs of education, and to that extent the impact of equalization from district to district has diminished.

The chart below illustrates this by showing the drop in the percentage which the foundation aid base is of the actual operating expense per pupil unit in selected Twin Cities area school districts:

School District	Foundation Aid Base		Operating Expense per Pupil Unit		Foundation Base as % of Operating Expense	
	60-61	68-69	60-61	68-69	60-61	68-69
Anoka 11	$270	$355	$277	$476	97.4%	74.69%
Belle Plaine 716	270	355	301	479	89.7	74.1
Bloomington 271	270	355	321	592	84.1	59.9
Centennial 12	270	355	353	603	76.5	58.9
Edina 273	270	355	347	626	77.8	56.5
Minneapolis S1	270	355	355	587	76.1	60.5
Mounds View 621	270	355	324	581	83.3	61.1
Richfield 280	270	355	343	650	78.7	54.6
Roseville 623	270	355	368	624	73.4	56.9
St. Paul 625	270	355	356	598	75.8	59.4
South St. Paul S6	270	355	379	636	71.2	55.8
Stillwater 834	270	355	359	604	75.2	58.8
Waconia 110	270	355	328	555	82.3	64.0

APPENDIX

Chart III

PROPOSED STEPS IN CALCULATING SCHOOL AID

1. Determine the number of pupil units in each school district, region and statewide, with the weighting for pupil units to take into consideration--in addition to differences in grade levels--socio-economic disadvantaged pupils and physically and mentally handicapped.

2. Determine the average per pupil unit operating expenditure, exclusive of capital expenditures, for each region in the state and statewide.

3. Determine the total aid entitlement to each school district by multiplying the number of pupil units by the average operating expenditure per pupil unit in the region.

Number of Pupil Units	X	Regional Average Operating Expenditure per Pupil Unit	=	Total Aid Entitlement

3a. (This step is unnecessary if substantially full state funding is provided.) Multiply the total aid entitlement to each school district by two factors: (1) the overall percentage of school expenditures which will be paid by the state and (2) a variable support index, which will increase or decrease each district's aid entitlement according to effort (as measured by the total net property tax levy for all jurisdictions within the school district) and ability to pay (as measured by assessed valuation and individual adjusted gross income).

Total Aid Entitlement	X	Overall % of State Support	X	Variable Support Index*	=	Adjusted Aid Entitlement

4. Determine whether a school district's pupil unit operating expenditure in the previous year exceeded the statewide or regional average, whichever is higher, by more than 10%, after adjustments for cost of living changes. If not, give each school district its entitlement as determined in (3) or (3a) above. If costs were more than 10% above the statewide or regional average, whichever is higher, deduct its state aid by 50¢ for every dollar of expenditures above the 10%.

---

* See Chart IV on reverse side for explanation of Variable Support Index. The variable support index will increase or decrease a district's aid entitlement according to whether its net property tax levy, assessed valuation and adjusted gross income per pupil unit, in the aggregate, is above or below the average per pupil unit.

APPENDIX

Chart IV

PROPOSED VARIABLE SUPPORT INDEX IN SCHOOL AID FORMULA

$$\boxed{\text{Variable Support Index}} = \frac{\left[\dfrac{\left(\dfrac{\text{Total Net Tax Levy in School District for all Units of Government}}{\text{Local Pupil Units}}\right)}{\left(\dfrac{\text{Total Net Tax Levy Areawide for all Units of Government}}{\text{Areawide Pupil Units}}\right)}\right] + \left[\dfrac{\left(\dfrac{\text{Areawide Assessed Value}}{\text{Areawide Pupil Units}}\right)}{\left(\dfrac{\text{Local Assessed Value}}{\text{Local Pupil Units}}\right)}\right] + \left[\dfrac{\left(\dfrac{\text{Areawide Adjusted Gross Income}}{\text{Areawide Pupil Units}}\right)}{\left(\dfrac{\text{Local Adjusted Gross Income}}{\text{Local Pupil Units}}\right)}\right]}{3}$$

APPENDIX

Chart V

SUPPLEMENTARY INFORMATION ON UNDERSTANDING SCHOOL AID

It is important to keep in mind <u>four</u> different figures in understanding the pupil unit aid payments to school districts.

1. <u>Total expense</u> per pupil unit, both operating and capital.
2. <u>Operating expense</u> per pupil unit, exclusive of capital.
3. <u>Foundation base</u>, which is the portion of the pupil unit operating expense upon which actual aid is calculated.
4. <u>Foundation aid</u>, which is the actual amount paid per pupil unit.

In the 1968-69 school year the median total expense of all school districts in the state was $649. The median operating expense was $506. The foundation base was $355, and the median foundation aid paid was $221. (Or, the actual aid paid was 62% of the foundation base, which was 70% of operating expense, which was 78% of total expense.)

Total Expense	Operating Expense	Foundation Base	Foundation Aid
$649/pupil unit 100%			
78%	$506/pupil unit 100%		
55%	70%	$355/pupil unit 100%	
34%	44%	62%	$221/pupil unit 100%

A key policy recommendation in the Citizens League proposal on school aid is that the <u>foundation base</u> be 100% of the operating expense, which means that equalization of aid would be based on total operating expense, not just a portion. When the foundation aid formula first went into effect in 1957, it was intended that the foundation base be 100% of operating expense in the previous year, but this percentage has slipped more year by year.

APPENDIX

Chart VI

REIMBURSEMENT RATIOS
EXEMPT PROPERTY REPLACEMENT

The recommendations and discussion of the method by which local governments are reimbursed for loss of property tax revenue from newly-exempt farm and business property refer to the reimbursement ratio. The reimbursement ratio represents the relationship between the levy on the newly-exempt property in the last year it was taxable and the total levy on all property in the taxing jurisdiction in that year.

The reimbursement ratio is a permanent percentage for each unit of government and is the percentage of the current year's tax levy which will be paid by the state.

For example, the village of Arden Hills has a reimbursement ratio of 33.45%, highest in the seven-county Twin Cities area. The state will pay, permanently, under present law, 33.45% of the Arden Hills tax levy, whatever it happens to be. Highest ratio in the state is 65.40% in Great Scott Township in St. Louis County.

Following are reimbursement ratios for selected Twin Cities area municipalities, plus the amount of the exempt property replacement entitlement for 1970:

Municipality	Reimbursement Ratio	1970 Entitlement
Arden Hills	33.45%	$ 90,666
Anoka	14.18	103,486
Belle Plaine T	12.10	1,464
St. Paul	10.01	2,936,127
Minneapolis	8.21	3,912,235
Empire T	7.30	730
Roseville	7.25	103,842
Chanhassen	6.10	11,243
South St. Paul	6.05	72,522
Stillwater	5.46	32,475
Waconia	5.28	5,699
Eagan T	5.02	10,254
Bloomington	4.84	148,593
Golden Valley	4.77	65,022
White Bear Lake	4.28	21,182
Shakopee	3.26	3,665
Edina	2.34	40,367
Burnsville	2.00	14,023
Richfield	1.52	23,054
Coon Rapids	1.46	9,938
Robbinsdale	1.38	7,627
Tonka Bay	1.11	360
Mounds View	.48	528
Circle Pines	.46	503
North Oaks	.39	118

RECENT CITIZENS LEAGUE REPORTS

Large Trucks: A Small Piece of A Larger Problem	1-24-91
Remaking the Minnesota Miracle: Facing New Fiscal Realities	10-8-90
Because That's Where the Money Is: Why the Public Sector Lobbies	6-28-90
Does the System Maltreat Children?	4-3-90
Wiring Minnesota: New State Goals for Telecommunications	11-16-89
Losing Lakes: Enjoyment of a Unique Metropolitan Resource is Threatened	11-8-89
Access, Not More Mandates: A New Focus for Minnesota Health Policy	9-21-89
Community: A Resource for the '90s	7-25-89
The Metropolitan Council: Strengthening Its Leadership Role	3-23-89
Building Tomorrow by Helping Today's Kids	12-16-88
Chartered Schools = Choices for Educators + Quality for All Students	11-17-88
Cut Tax Exemptions, Boost Equity and Accountability	10-20-88
Stopping AIDS: An Individual Responsibility	5-09-88
The Public's Courts: Making the Governor's Nominating Process Statutory	1-28-88
Make the Present Airport Better-Make A New Airport Possible	12-17-87
Cooperatively-Managed Schools: Teachers as Partners	8-05-87
The New Weigh to Recycle	5-22-87
First Class Property Tax System	4-27-87
Start Right with "Right Start": A Health Plan for Minnesota's Uninsured	2-24-87
New Destinations for Transit	10-28-86
Commitment to Focus: More of Both	8-27-86
State Civil Service: People Make the Difference	6-12-86
It's Only a Game: A Lottery in Minnesota	2-11-86
Adaptability--The New Mission for Vocational Education	1-08-86
A Strategy for the Waterbelt	11-22-85
Power to the Process: Making Minnesota's Legislature Work Better	9-19-85
Accountability for the Development Dollar	6-20-85
Building on Strength: A Competitive Minnesota Economic Strategy	11-28-84
A Larger Vision for Small Scale Agriculture	9-25-84
The Metro Council: Narrowing the Agenda and Raising the Stakes	6-07-84
The Region's Infrastructure: The Problem Isn't What You Think It Is	5-30-84
Meeting the Crisis in Institutional Care: Toward Better Choices, Financing and Results	4-24-84
A Farewell to Welfare	2-07-84
Homegrown Services: The Neighborhood Opportunity	11-03-83
Use Road Revenue for the Roads That Are Used	3-02-83
Workers' Compensation Reform: Get the Employees Back on the Job	12-15-82
Thought Before Action: Understanding and Reforming Minnesota's Fiscal System	10-26-82
The CL in the Mid-80s	9-22-82
Making Better Use of Existing Housing: A Rental Housing Strategy for the 1980s	5-19-82
Rebuilding Education to Make It Work	5-04-82
A Positive Alternative: Redesigning Public Service Delivery	3-24-82
Paying Attention to the Difference in Prices: A Health Care Cost Strategy for the 1980s	9-29-81
A Subregional Solution to the East Metro Park Question	7-15-81
Taxis: Solutions in the City; a New Future in the Suburbs	6-03-81
Keeping the Waste Out of Waste	5-27-81
Changing Communications: Will the Twin Cities Lead or Follow?	12-17-80
Siting of Major Controversial Facilities	10-22-80
Enlarging Our Capacity to Adapt: Issues of the '80s	8-27-80
Next Steps in the Evolution of Chemical Dependency Care in Minnesota	6-13-80
Linking a Commitment to Desegregation with Choices for Quality Schools	12-12-79
Initiative and Referendum..."NO" for Minnesota	2-28-79

For titles and availability of earlier reports contact the Citizens League office, 338-0791

RECENT CITIZENS LEAGUE STATEMENTS

Light Rail Transit: The Regional Transit Board's Proposal to the 1991 Minnesota Legislature	1-24-91
Letter to Legislature from Community Information Committee re: Financing at the University of Minnesota	4-07-89
Statement on Changing the Fiscal Disparities Law	1-15-88
Statement to the Governor & Legislature on Transportation Financing in 1988	1-04-88
Statement to Legislative Commission re: Road Financing	10-12-87
Statement to University of Minnesota Regents re: Commitment to Focus	7-7-87
Statement to Governor and Legislature on Innovation and Cost Control (Governor's Budget)	4-8-87
Selection of a New State Commissioner of Transportation	10-30-86
Letter to Regional Transit Board re: Metro Mobility Price Competition Ideas	6-12-86
Testimony to Legislature on Bloomington Stadium Site Bill	2-20-86
Letter to Regional Transit Board re: Policy Committee's Study of Metro Mobility	12-6-85
Statement to House Tax Subcommittee on Fiscal Disparities	10-31-85
Statement to Legislature on Preserving Metropolitan Tax-Base Sharing	9-6-85
Statement to Legislature & Metro Council on Bloomington Development Proposal	8-15-85
Statement to Metropolitan Council on Organized Collection of Solid Waste	4-24-85
Statement to Metropolitan Council on Long-Term Care	3-8-85
Statement on Transit Alternatives	1-23-85
Statement on Solid Waste Disposal	1-21-85
Statement to Tax Study Commission	8-22-84
Statement on Light Rail Transit	4-6-84
Statement to Legislative Study Committee on Metropolitan Transit	12-15-83
Statement to Governor's Tax Study Commission	11-22-83
Statement to Minnesota's Highway Study Commission	9-29-83
Statement on the Metropolitan Council's Proposed Interim Economic Policies	8-29-83
Statement to Minneapolis. Charter Commission: Proposal to have Mayor as non-voting member of Council	8-11-83
Statement to Metropolitan Council & Richard P. Braun, Commissioner of Transportation on Preferential Treatment in I-35W Expansion	7-21-83
Statement to Members, Steering Committee on Southwest-University Avenue Corridor Study	7-19-83
Statement to Commission on the Future of Post-Secondary Education in Minnesota	6-22-83
Statement to the Metropolitan Health Board	6-20-83
Appeal to the Legislature and the Governor	4-26-83
Citizens League Opposes Unfunded Shifts to Balance Budget	12-1-82
Longer-Term Spending Issues Which the Governor and Legislature Should Face in 1982	1-18-82
Statement Concerning Alternatives to Solid Waste Flow Control	1-12-82
Amicus Curiae Brief in Fiscal Disparities Case, *filed*	12-17-81
Statement to the Minnesota State Legislature Regarding the Reconstruction Project	12-14-81
Letter to the Joint Legislative Commission on Metropolitan Governance	11-13-81
Statement to Metropolitan Health Board on Phase IV Report	11-4-81
Statement to Metropolitan Council on I-35E	9-24-81
Statement to Minneapolis Charter Commission	7-6-81
Letter to Metropolitan Council re CL Recommendations on I-394	6-23-81
Statement to the Governor and Legislature as They Prepare for a Special Session	5-26-81
Statement to the Minnesota State Legislature Regarding the University of Minnesota Hospitals Reconstruction Bill, as amended	5-8-81
Statement to the Governor and Legislature Concerning Expenditures-Taxation for 1981-83. Issues by Tax & Finance Task Force	4-28-81

For list of earlier statements, contact the League office, 338-0791

School Shopper Help for Parents

THE SCHOOL BOOK: 1990-91
A Comprehensive Guide to Elementary Schools in the Twin Cities

For the first time, Minnesota parents who are selecting schools will have a concise source of comparative information. *The School Book, A Comprehensive Guide to Elementary Schools in the Twin Cities,* a new publication from the Citizens League, is now available. The book profiles 449 public and private elementary schools.

The book features information about each school's curriculum, foreign languages, building and facilities, extracurricular activities, number of students and teachers, class size, equipment and technology, grading system, parent organizations and communications, and services to families (e.g., latchkey, breakfast). Each school profile includes a self-description of the school's teaching philosophy and strengths.

Also included in the book is information about what to consider when choosing a school, an explanation of Minnesota's school choice law, an application for the open enrollment program, and a Metropolitan Council map of public schools and districts in the region.

You can get a copy of *The School Book* by calling the Citizens League at 612/338-0791 or by using the enclosed order form. League members can buy the book for $10.00; the nonmember price is $12.95.

Public Affairs Directory 1991-1992 Available in March 1991

The Citizens League Public Affairs Directory is a handy guide to the people and organizations in the public, private, and nonprofit sectors that influence and implement public policy in the state. The 1991-92 edition will be available in March 1991. Call the League office for further details.

Report highlights Minnesota health care marketplace

Minnesota HMO Review 1989

After three consecutive years of losses, Minnesota's health maintenance organization (HMO) industry returned to profitability in 1989. Nevertheless, concerns remain over HMOs' finances and their increasing use of hospital care.

A report by the Citizens League provides valuable information about Minnesota's HMO industry. The report, *Minnesota HMO Review 1989*, also analyzes key trends in enrollment, hospital utilization, and management arrangements and costs. With 1.1 million Minnesotans enrolled, HMOs affect most businesses, medical providers and families in the state. Besides losing $26 million in the late 1980s, HMOs faced widely publicized provider revolts, a 9 percent enrollment decrease and tougher state rules.

Minnesota HMO Review 1989 is a valuable reference for people who need to keep up with Minnesota's dynamic health care marketplace. League members can buy the report for $5.00; nonmember price is $10.00. To order your copy, please use the enclosed form or call the League at 612/338-0791.

The data set developed by the League staff in preparing its analysis is also available. Call for details.

WATCH FOR NEW, EXPANDED EDITION:
Minnesota Managed Care Review 1990 will be published in May 1991.

CITIZENS LEAGUE PUBLICATIONS

PRICE LIST

	MEMBER PRICE	NON-MEMBER PRICE
• **REPORTS**		
1st copy	FREE	$10.00
2nd - 10th	$5.00	$ 9.00
11th and more	$4.00	$ 8.00
• **MINNESOTA HMO REVIEW 1989**		
• **1989-1990 PUBLIC AFFAIRS DIRECTORY**		
1st copy	$5.00	$10.00
2nd - 10th	$3.00	$ 6.00
• **THE SCHOOL BOOK**	$10.00	$12.95

(Call for discounts on quantity orders)

===

CITIZENS LEAGUE PUBLICATIONS

ORDER COUPON

Quantity	Publication	Cost
______	________________________________	$_____
______	________________________________	$_____
______	________________________________	$_____
	TOTAL AMOUNT OF ORDER	**$_____**

Name ________________________________

Address ________________________________

____

City, State, Zip________________________________

Phone ________________________________

☐ Make checks payable to Citizens League

OR

☐ Charge to Visa/Master Card Account#____________________Exp. Date____

Signature____

☐ Send Citizens League membership information

Mail this form to: Citizens League, 708 South 3rd Street, Suite 500, Minneapolis, MN 55415

You can FAX charge orders to 612/337-5919

CITIZENS LEAGUE
Board, Officers, and Staff
1969-70

This report, *New Formulas for Revenue Sharing in Minnesota,* was originally approved and published in 1970 and was reprinted in 1991.

The League's board, officers, and staff at the time the report was first published are listed below, as their names appeared in the original edition of the report.

WHAT THE CITIZENS LEAGUE IS

The Citizens League has been an active and effective public affairs research and education organization in the Twin Cities metropolitan area since 1952.

Volunteer research committees of League members study policy issues in depth and develop informational reports that propose specific workable solutions to public issues. Recommendations in these reports often become law.

Over the years, League reports have been a reliable source of information for governmental officials, community leaders, and citizens concerned with public policy issues of our area.

The League depends upon the support of individual members and contributions from businesses, foundations, and other organizations throughout the metropolitan area. *For membership information, please call 612/338-0791.*

Citizens League

708 South 3rd Street, Suite 500
Minneapolis, Minnesota 55415
612/338-0791

MEMBERSHIP APPLICATION

Name Home Phone

Address

City State Zip

Employer Work Phone

Position FAX #

Employer's Address

Send Mail to: ❑ Home ❑ Office

*Spouse Information

Name

Employer

Position Work phone

Work Address

I will join at this level:

DONOR $1,000 or more ❑
SUSTAINING $500 - 999 ❑
CONTRIBUTING $75 - 199 ❑
*FAMILY $50 ❑
INDIVIDUAL $35 ❑
FULL-TIME STUDENT $20 ❑
BUSINESS $150 ❑
Referred by: ____________

Membership is tax-deductible and includes a one-year subscription to the *Minnesota Journal*

*Family membership entitles you to a second Minnesota Journal. Please indicate the name and address of the recipient.

Join the Citizens League and help make things happen

IMPACT

Being a member of the Citizens League means you care about what happens in Minnesota and believe that good public policy depends upon an informed citizenry. League membership gives you an opportunity to participate in shaping public policy. Membership also offers these additional benefits:

PUBLICATIONS

- ***Minnesota Journal*** — 22 issues a year of timely public affairs news, analysis and commentary, including the League's annual property tax survey.
- ***Public Affairs Directory*** — a handy listing of agencies, organizations and officials involved in making public policy.
- ***The School Book*** — a comprehensive guide to elementary schools in the Twin Cities.
- **Citizens League reports** — full reports and statements on topics studied — available upon request.

MEETINGS

- **Mind-Opener breakfast meetings** — every Tuesday from Labor Day to Memorial Day. Public officials, community and business leaders meet with League audiences to discuss and debate timely issues.
- **The DeSantis Series: Neighborhood Issues in Focus** — Speakers explore issues of neighborhood economic development.
- **Seminars** -- occasional, in-depth discussion of issues.

*Public affairs
research and education
in the Minneapolis-St. Paul
metropolitan area*

Citizens League

*708 South 3rd Street
Suite 500
Minneapolis, Minnesota 55415*