

MINNESOTA Journal

A PUBLIC POLICY MONTHLY FROM THE CITIZENS LEAGUE

Volume 22, Number 3 • March 29, 2005

Rethinking Minnesota taxes

Higher taxes on high earners and lower business taxes would make the state's tax system fairer

by Joel Kramer

Higher individual income taxes in exchange for lower taxes on business. Should Minnesota make that trade? Growth & Justice, a progressive think tank focused on Minnesota's economic issues, is proposing that we should because it would make our tax system fairer for families and better for economic growth.

To understand why, start with the state Department of Revenue's 2005 Minnesota Tax Incidence Study, recently published on its website without fanfare. Few would choose it over a good mystery for bedtime reading, but it's full of fascinating stuff. Two conclusions stand out:

▲ **Minnesota's state and local tax system is significantly regressive at the very top.** The department projects that in 2007, the one percent of households with the highest incomes, more than \$407,000 annually, will pay 8.5 percent of their income in state and local taxes, while the average Minnesotan pays 11.1 percent, and the group earning around \$50,000 pays 11.8 percent. Families earning more than \$2 million pay an average of 7.6 percent of their income in taxes annually. (This does not include fees which are regressive and growing twice as fast as taxes.)

▲ **When a tax is imposed on a business, the business shifts the tax, if possible, to either consumers (as higher prices) or workers (as lower compensation), and only as a last resort to owners of capital (as lower profits).** The revenue department calculates that the effect of this shifting makes business taxes highly regressive. Citing its 1993 analysis, the revenue

department estimates that if Minnesota changes a tax on business, about 90 percent of the impact falls on Minnesota workers and consumers.

These two points form the basis of Growth & Justice's tax reform strategy for Minnesota: swap higher income taxes on high earners for lower taxes on business across the board.

This reform would make Minnesota's system more equitable and simultaneously give the state a strong positive message to offer businesses deciding where to locate or expand. It could be either revenue neutral or used to raise additional revenue. (For details on various scenarios, see our website www.growthandjustice.org.) It would give us a much better outcome than the current skirmishing at the Capitol, with supporters of the governor looking for revenue that doesn't raise state taxes, and opponents happy with any state tax increase that the public will support.

To make this change, conservatives and liberals would each have to give up a cherished assumption which is not supported by the evidence.

Tax conservatives, especially business groups, believe that high marginal rates on the income tax dampen economic growth, and their arguments have carried the day in recent years, both in St. Paul and Washington. But from 1980 to 1998, states with high income taxes (including Minnesota) increased personal income faster than states with low or no income taxes, and ended the period with higher per capita incomes. Econometric studies on high marginal tax rates have been mixed, and generally inconclusive.

Many tax liberals favor higher taxes on

Rethinking taxes continued on page 2

INSIDE

Viewpoint: Re-imagining
a Minnesota that works

3

Who's up and who's down:
The League's annual report
on fiscal disparities

4

On Balance

7

Take Note

8

www.citizensleague.net

business, and believe such a strategy is progressive. But as we have seen, Minnesota's revenue department concludes they are strongly regressive, and other analysts generally agree.

Raising the income tax at the high end would make our tax system fairer. Fair is a subjective word, of course. In Growth & Justice roundtable discussions held around the state, we found some support for the position that "fair means progressive." In other words, the wealthiest should pay the highest share of their income in taxes. Others said, "Fair means proportional." Each income group should pay the same share of its income, like tithing or a flat tax system. Growth & Justice adopted proportionality as a goal that a vast majority of Minnesotans could support. Only a few people said "regressive can be fair."

Since we've been out in public with our tax strategy proposal, we've heard this last argument more often. It generally sounds like this: The wealthy pay by far most of

the tax dollars. And they do not get most of the benefit back from the government services those tax dollars provide. A rich person does not use the library any more

To make this change, conservatives and liberals would each have to give up a cherished assumption which is not supported by the evidence.

than a middle-class person.

In response to a similar question from the House Tax Committee on whether the rich already pay enough, I said it's impossible to quantify, but those with the most wealth may well benefit the most from the courts, police and prisons that government runs, and also from the investments in infrastructure and people that help busi-

nesses prosper.

Growth & Justice's focus on proportionality leads us to target our income tax increase at the high end—households earning more than \$150,000 a year. At lower income levels, Minnesotans already pay their fair share, and they will be hit harder by other new revenue sources, such as fees and regressive taxes.

Business taxes should be lowered across the board—by reducing sales taxes on business purchases, for example—not through negotiating with individual firms or legislating exemptions based on zip codes or line of business, like JobZ or biotech zones.

In fact, Minnesota already has relatively low taxes on businesses as a percentage of business activity, ranking 35th in the United States in an Ernst and Young study. Many of the states with no income tax, like Florida, tax business more. So our state's message could be: Minnesota has low taxes on business, getting lower, and we offer you a level playing field to do business.

In addition to this swap of higher income taxes on high earners for lower business taxes, we propose, as Governor Ventura did, broadening the base of the consumer sales tax and lowering the rate. This would make it a fairer and more stable source of revenue. We also urge that local governments be given an option to use an income tax surtax to reduce their reliance on the regressive property tax and the local sales tax option. And when a regressive tax like the cigarette tax is raised, a portion should be used to lower taxes on all low-income families.

Tax reform isn't easy. But a system that is fairer for Minnesota families and better for business growth is worth fighting for.

MJ

Joel Kramer is Founder and Executive Director of Growth & Justice.

Effective Tax Rates

2007 Decile	Income Range	Personal Income (in %)	Business Taxes (in %)	Sales Tax (in %)	Gross Homeowner Property Tax (in %)
1	\$10,053 & Under	-1.3	11.0	7.5	5.2
2	\$10,054-\$16,799	-0.6	6.4	4.3	2.7
3	\$16,800-\$24,825	0.5	5.6	3.8	2.7
4	\$24,826-\$33,259	1.7	5.0	3.7	2.2
5	\$33,260-\$43,196	2.8	4.2	3.2	2.4
6	\$43,197-\$55,645	3.3	3.8	2.9	2.4
7	\$55,646-\$70,318	3.6	3.6	2.9	2.3
8	\$70,319-\$90,052	4.0	3.4	2.7	2.3
9	\$90,053-\$124,563	4.3	2.8	2.5	2.1
10	\$124,564 & above	5.4	2.1	1.8	1.2
All		4.1	3.2	2.6	1.9

The personal income tax is progressive, with the highest-earning tenth of the population (incomes over \$124,564) paying the largest percentage (5.4%) of income through that tax. But the consumer sales tax and homeowner property tax are regressive, and business taxes are even more regressive, once shifted to individuals. Data for Decile 1 is not considered reliable.

Source: Minnesota Tax Incidence Study, March 2005

Viewpoint

Minnesota—real and re-imagined

A wake-up call and a new vision for ‘what works’

by Sean Kershaw



In the middle of a grueling budget process, I imagine it's hard to see the forest for the trees. The natural tension brings out the extremes in everyone. What's left may not be what's best.

Policy leaders in the Legislature are involved in a game of “political chicken”—with our future and theirs on the line. Their positions are clear. One extreme offers more money for great intentions but questionable outcomes. The other acknowledges our long-term fiscal crisis, but makes budget proposals that could ultimately jeopardize our quality of life.

Each has a legitimate reason to stake their claim where they do, but most Minnesotans know neither is a sustainable choice. Minnesota is at a critical juncture regarding the policy issues that will determine our future. The Citizens League has an opportunity to shape this future.

We should choose *what works*—and build a vision around this approach.

What works?

Consider education. I know three things

to be true about education in Minnesota.

▲ A world-class education system is the primary reason for our high standard of living and is critical to our future quality of life.

▲ If you consider readiness for and participation in higher education to be a primary indicator of success in this economy, then our current education system doesn't work for more than half of our students.

▲ Putting more money into this education system will perpetuate current outcomes—not fix the system nor improve the outcomes.

I'm willing to put everything else on the table—*everything*—to support what works for students and our democracy. And what works isn't just about more money—even though we might choose to spend much more on a better system.

In all the criticism of the governor's K-12 budget proposals asking him to “restore” funding, I've yet to hear a critic acknowledge that the achievement gap persisted during the '90s—when real spending on education went up. The budget proposals on the table will arguably cause cutbacks—but our education programs and systems weren't working well to begin with. We shouldn't aspire to the status quo.

Consider me a policy Pollyanna, but can we use this as a chance to push the reset button on education policy? Can we see this as something other than a choice between more or less money? Can we change the way money is spent inside the system and fund what works?

A recent report co-authored by University of Minnesota professor John Brandl, a former Legislator and former League board member, not-coincidentally called “*What Works*,” suggests that the answer to the question “What works in education policy?” is becoming clearer.

There is no silver bullet or single solution. But there are a range of solutions that offer real empirical improvements. These include school choice, smaller schools, improved teacher incentives, improved readiness programs, and greater parental involvement, to name a few.

Minnesota's real past...

In the past, Minnesota achieved its public policy success because we were bold enough to try the obvious. There was a direct connection between “the good life” and “the state that works.”

Minnesota, Real & Imagined is the perfect title of a series of essays on Minnesota's policy and political history published by the Minnesota Historical Society in 2001. Rather than make me nostalgic for a past that I didn't experience, these essays inspired me and provide a recipe for the future.

Minnesota had *leaders who were willing* to put aside differences and work together. These leaders had a *shared vision* for Minnesota. They consciously sought to implement *innovative and effective* public policies. They built institutions and partnerships like the Citizens League to support the development and implementation of these policies. They practiced a politics that brought *the middle* into the system. Is this the recipe for what works? I think so.

...and our imagined future

Critics accuse the League of policy wonkery. If the purpose of this approach is simply to publish reports and avoid political reality, then that criticism is more than justified. But if we take former Gov. Arne Carlson's recent Mind Blower speech to heart, and if we learn from our own past, then we have a very real and very useful new opportunity.

What works for maintaining and enhancing our great quality of life are public policies that actually work. What works for the Citizens League is to build the base of leaders, public relationships and policies to implement this vision—to imagine, and then create, a Minnesota that works as well for my son in the future as it did in the past for my policy/political role mentors. **MJ**

Sean Kershaw is President of the Citizens League, and can be reached at skershaw@citizensleague.net or 651-293-0575x14.

The Minnesota Journal

Publisher—Sean Kershaw

Editor—J. Trout Lowen

Managing Editor—Bob DeBoer

Contributing Editor—Ted Kolderie

Sketches—Ray Hanson

The Minnesota Journal (ISSN 0741-9449) is a publication of the Citizens League, a nonprofit nonpartisan Twin Cities public affairs organization, 555 North Wabasha St., Suite 240, St. Paul, MN 55102. Phone: (651) 293-0575. Fax: (651) 293-0576. E-mail: info@citizensleague.net. Web site: www.citizensleague.net. Keith Halleland, chair. Articles and commentary are drawn from a broad range of perspectives and do not necessarily reflect League positions on policy questions. The Journal is published once a month. Periodicals postage paid at St. Paul, MN and additional offices.

Annual subscription rate for nonmembers is \$40 for 12 issues. Orders may be placed at (651) 293-0575 or by mail at the above address.

Postmaster: Send address changes to the Minnesota Journal, 555 North Wabasha St., Suite 240, St. Paul, MN 55102.

Fiscal disparities report expanded in 2005

by Bob DeBoer

Minnesota's visionary mechanism for regional tax-base sharing, commonly referred to as "fiscal disparities," has collected and distributed commercial-industrial (C/I) tax base for 31 years in the Twin Cities metropolitan area. This year in our annual report on fiscal disparities, we have expanded our coverage to include all 182 cities and towns that participate in the fiscal disparities program. To most easily view this year's data, see Table 1, "2005 Tax Base Sharing by County" and Table 2, "2005 Tax Base Sharing at a Glance." To view data on all 182 cities and towns, visit the Citizens League website at www.citizensleague.net.

The Minnesota Legislature passed the fiscal disparities law in 1971, and—after an unsuccessful court challenge—it was implemented in 1975. The law requires cities in the metropolitan area to contribute 40 percent of the growth in their commercial-industrial (C/I) tax base since 1971 to a region-wide fiscal disparities pool. This tax base is then redistributed to participating communities based on a formula that takes into account a city's population and the market value of all property in the jurisdiction.

If a community's market value per capacity, otherwise known as "fiscal capacity," is greater than the metro average, it receives less from the pool than it contributes. If a community's market value per capita is less than the metro average, it receives more from the pool than it contributes.

The tax base contributed to the pool is taxed at a rate equal to the average metro tax rate and then the revenue generated by the pool is sent to each community

according to the amount of tax base awarded to that community.

A major advantage of this arrangement is that by applying a uniform regional rate on a portion of all C/I property, the tax burden on comparable pieces of C/I property varies less from one jurisdiction to another across the region.

In addition to reducing fiscal disparities between neighboring communities, tax base sharing is intended to promote regional planning. By ensuring that all communities in the metro area benefit from valuable

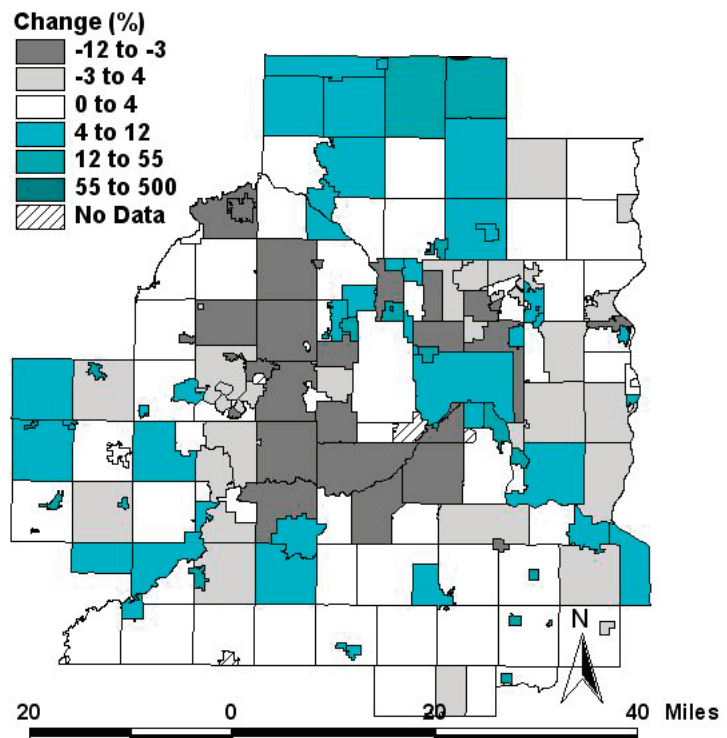
C/I tax base, tax base sharing discourages communities from competing against one another for development and encourages them to accept certain types of development that generate less tax base but serve regional purposes, such as parks, nature reserves or affordable housing.

Sharing tax base, not revenue

The fiscal disparities program shares tax base—not tax revenue. Sharing tax base

Fiscal disparities story continued on page 6

Figure 1: Net Change in Tax Base Due to Fiscal Disparities in 182 Cities and Towns in the Twin Cities Metropolitan Area



Source: House of Representatives Research Department, calculations by the Citizens League

Table 1: 2005 Tax Base Sharing by County

County	2003 Population	Total Tax Base before sharing	C/I tax base before sharing	Fiscal Disparities Contribution	Net loss or gain due to sharing	Net loss or gain per capita	%Change in tax base due to sharing
Anoka	313,197	\$270,259,309	\$64,366,151	\$21,997,892	\$11,873,529	\$38	4.39%
Carver	78,444	\$83,649,339	\$14,764,531	\$4,396,167	\$2,165,826	\$28	2.59%
Dakota	375,642	\$385,991,469	\$94,025,577	\$32,964,642	\$2,458,358	\$7	0.64%
Hennepin	1,139,837	\$1,337,498,917	\$425,101,765	\$135,879,404	-\$34,650,760	-\$30	-2.59%
Ramsey	515,274	\$448,870,271	\$143,744,009	\$43,882,602	\$13,244,591	\$26	2.95%
Scott	105,196	\$113,344,469	\$22,341,171	\$7,109,898	\$1,575,506	\$15	1.39%
Washington	213,395	\$235,690,232	\$45,003,047	\$15,183,794	\$3,332,969	\$16	1.41%
2005 Total	2,740,985	2,875,304,006	809,346,251	261,414,399			
2004 Total	2,708,916	2,568,679,916	780,855,300	252,237,926			
Difference	32,069	306,624,090	28,490,951	9,176,473			
% Difference	1.2%	11.9%	3.6%	3.6%			

Source: Minnesota House of Representatives Research Department

Table 2: 2005 Tax Base Sharing at a Glance

TOP 10 CONTRIBUTORS (IN DOLLARS)

Over 5,000 population	
Bloomington	-\$13,843,059
Eden Prairie	-\$7,460,887
Minnetonka	-\$7,438,024
Plymouth	-\$6,118,173
Edina	-\$5,261,483
Roseville	-\$4,810,525
Eagan	-\$4,327,739
Golden Valley	-\$3,048,437
Maple Grove	-\$2,463,021
Shakopee	-\$2,132,628
1,000 - 5,000 population	
Wayzata	-\$1,371,347
Oak Park Hts	-\$612,593
Medina	-\$437,950
Hassan Twp	-\$402,300
Long Lake	-\$206,385
Excelsior	-\$120,586
Osseo	-\$105,054
Maple Plain	-\$70,099
Spring Park	-\$20,153
Tonka Bay	-\$15,329
Up to 1,000 population	
Gem Lake	-\$95,807
Lilydale	-\$55,805
Denmark Twp	-\$40,396
Louisville Twp	-\$33,520
Marshan Twp	-\$32,469
Dellwood	-\$27,659
Greenwood	-\$24,422
Coates	-\$10,722
Waterford Twp	-\$9,398
Minnetonka Beach	-\$8,767

TOP 10 GAINERS (IN DOLLARS)

Over 5,000 population	
St. Paul	\$19,286,949
Minneapolis	\$4,974,709
Andover	\$2,261,697
Cottage Grove	\$2,145,756
South St. Paul	\$2,040,046
Brooklyn Park	\$1,990,487
Columbia Hts	\$1,857,993
Crystal	\$1,854,657
Coon Rapids	\$1,631,968
Champlin	\$1,608,145
1,000 - 5,000 population	
Linwood Twp	\$469,285
Circle Pines	\$445,710
Jordan	\$427,648
Watertown	\$411,659
Norwood Young Am.	\$297,543
Centerville	\$237,267
Lexington	\$227,405
Burns Twp	\$219,082
Credit River Twp	\$197,049
Bayport	\$189,476
Up to 1,000 population	
Landfall	\$567,157
Hilltop	\$163,909
Lake St. Croix Beach	\$104,929
Cologne	\$97,345
New Market	\$75,584
Hamburg	\$73,944
Hampton	\$55,773
Hollywood Twp	\$46,904
Willernie	\$46,733
Elko	\$44,524

TOP 10 CONTRIBUTORS (BY % OF TAX BASE)

Over 5,000 population	
Rogers	-11.81%
Bloomington	-11.06%
Arden Hills	-10.24%
Roseville	-10.12%
Minnetonka	-9.99%
Golden Valley	-8.89%
Eden Prairie	-7.80%
Shakopee	-6.45%
Plymouth	-6.40%
Fridley	-6.39%
1,000 - 5,000 population	
Hassan Twp	-10.08%
Wayzata	-9.94%
Oak Park Hts	-8.85%
Long Lake	-8.01%
Medina	-4.09%
Osseo	-3.88%
Excelsior	-3.85%
Maple Plain	-3.43%
Spring Park	-1.06%
Tonka Bay	-0.39%
Up to 1,000 population	
Gem Lake	-11.09%
Coates	-5.56%
Lilydale	-3.63%
Marshan Twp	-2.10%
Louisville Twp	-2.04%
Denmark Twp	-1.67%
Waterford Twp	-1.50%
Greenwood	-1.16%
Dellwood	-0.94%
Benton Twp	-0.83%

TOP 10 GAINERS (BY % OF TAX BASE)

Over 5,000 population	
St. Paul Park	18.87%
Columbia Hts	15.42%
Falcon Hts	15.02%
Robbinsdale	14.77%
South St. Paul	14.51%
East Bethel	12.75%
Crystal	11.21%
North St. Paul	11.15%
St. Francis	10.93%
Belle Plaine	10.91%
1,000 - 5,000 population	
Lexington	18.22%
Watertown	17.74%
Jordan	14.34%
Norwood Young Am.	13.80%
Linwood Twp	13.10%
Circle Pines	12.83%
Ravenna Twp	8.45%
Bayport	7.93%
Centerville	7.88%
St. Bonifacius	6.58%
Up to 1,000 population	
Landfall	499.72%
Hilltop	54.71%
New Trier	30.61%
Hamburg	23.97%
New Germany	16.01%
Vermillion	13.11%
Hampton	13.03%
Willernie	13.00%
Randolph	12.55%
Cologne	11.88%

TOP 10 CONTRIBUTORS (PER CAPITA)

Over 5,000 population	
Rogers	-\$204
Bloomington	-\$162
Golden Valley	-\$147
Minnetonka	-\$144
Hassan Hills	-\$143
Roseville	-\$141
Eden Prairie	-\$126
Edina	-\$109
Mendota Hts	-\$97
Plymouth	-\$87
1,000 - 5,000 population	
Wayzata	-\$333
Hassan Twp	-\$159
Oak Park Hts	-\$140
Long Lake	-\$113
Medina	-\$102
Excelsior	-\$50
Osseo	-\$42
Maple Plain	-\$33
Spring Park	-\$12
Tonka Bay	-\$10
Up to 1,000 population	
Gem Lake	-\$217
Lilydale	-\$85
Coates	-\$63
Greenwood	-\$31
Denmark Twp	-\$28
Dellwood	-\$26
Marshan Twp	-\$25
Louisville Twp	-\$24
Waterford Twp	-\$18
Minnetonka Beach	-\$14

TOP 10 GAINERS (PER CAPITA)

Over 5,000 population	
St. Francis	\$121
St. Paul Park	\$118
South St. Paul	\$100
Robbinsdale	\$100
Columbia Hts	\$99
Falcon Hts	\$99
East Bethel	\$92
Belle Plaine	\$87
Crystal	\$81
North St. Paul	\$79
1,000 - 5,000 population	
Watertown	\$114
Lexington	\$102
Jordan	\$97
Linwood Twp	\$96
Circle Pines	\$94
Norwood Young Am.	\$91
Ravenna Twp	\$75
Centerville	\$67
Carver	\$66
Bayport	\$61
Up to 1,000 population	
Landfall	\$758
Hilltop	\$210
New Trier	\$150
Hamburg	\$136
Willernie	\$119
New Germany	\$97
Vermillion	\$95
Hampton	\$93
Lake St. Croix Beach	\$90
Randolph	\$90

Source: Minnesota House of Representatives Research Department

The two over-arching goals of fiscal disparities are:

- ▲ improving equity in the distribution of fiscal resources, and
- ▲ promoting more orderly regional development.

The goal of promoting more orderly development is best described in the report "Minnesota's Fiscal Disparities Programs," published by the Minnesota House of Representatives Research Department:

"Communities generally believe that commercial and industrial properties pay more in taxes than it costs to provide services to them. This encourages communities to compete for these properties by providing tax concessions or special services. Tax-base sharing may reduce this competition, thereby discouraging urban sprawl and reducing the cost of providing regional services, such as sewage and transportation."

The data presented each year by the Citizens League has been focused more on the distribution of fiscal resources. In order to also track the goal of orderly regional development, we again present the data (first presented in 2004) that aggregates the fiscal disparities data by 1) The composite of local plans submitted to the Met Council and by 2) Planning areas contained in the Met Council's 2030 Framework.

The composite of local plans reveals that almost \$8.8 million in tax base has been distributed in 2005 to areas that are outside the proposed 2020 Metropolitan Urban Service Area (MUSA) and are non-agricultural and rural.

The 2020 MUSA line represents the area where the Met Council is best positioned to provide services efficiently and less expensively for the growth that is occurring in the metro area. The areas outside the 2020 MUSA line are generally where more sprawling and potentially more expensive development is occurring. The \$8.8 million gain in tax base for these areas is down from \$9.4 million in 2004 (see Table 4).

Another way to measure this dynamic is by looking at the planning areas in the Met Council's 2030 Framework. This data set shows that \$7.2 million in tax base—down from \$7.7 million in 2004—has been distributed in 2005 for areas designated diversified rural and rural residential (see Table 5).

To view the complete sets of data under these land use groupings and the associated Met Council maps, visit www.citizensleague.net.

Fiscal disparities story continued on page 6

Table 3: 2005 C/I Tax Base Sharing at a Glance (over 2,400 pop.)

Bottom 10 cities per capita C/I tax base before sharing		Bottom 10 cities per capita C/I tax base after sharing		Top 10 cities per capita C/I tax base before sharing		Top 10 cities per capita C/I tax base after sharing	
Linwood Twp	\$11	May Twp	\$65	Wayzata	\$1,134	Wayzata	\$801
Ravenna Twp	\$15	Cedar Lake Twp	\$66	Oak Park Hts	\$910	Oak Park Hts	\$771
Cedar Lake Twp	\$21	Stillwater Twp	\$67	Rogers	\$794	Rogers	\$590
Stillwater Twp	\$23	Minnetrista	\$72	Golden Valley	\$695	Golden Valley	\$548
Spring Lake Twp	\$30	Spring Lake Twp	\$78	Arden Hills	\$689	Arden Hills	\$546
May Twp	\$33	Grant	\$78	Bloomington	\$667	Roseville	\$517
Credit River Twp	\$38	Credit River Twp	\$85	Roseville	\$658	Bloomington	\$505
Minnetrista	\$47	West Lakeland Twp	\$87	Hassan Twp	\$613	Hassan Twp	\$454
West Lakeland Twp	\$47	Ravenna Twp	\$91	Minnetonka	\$521	Fridley	\$437
Oak Grove	\$48	Victoria	\$97	Fridley	\$506	Osseo	\$418

2005 C/I Tax Base Sharing at a Glance (under 2,400 pop.)

Bottom 10 cities per capita C/I tax base before sharing		Bottom 10 cities per capita C/I tax base after sharing		Top 10 cities per capita C/I tax base before sharing		Top 10 cities per capita C/I tax base after sharing	
San Francisco Twp	\$13	Douglas Twp	\$51	Gem Lake	\$707	Landfall	\$906
Hancock Twp	\$15	Belle Plaine Twp	\$53	Long Lake	\$589	Gem Lake	\$490
Douglas Twp	\$27	Hancock Twp	\$55	Coates	\$496	Long Lake	\$476
Laketown Twp	\$28	San Francisco Twp	\$62	Lilydale	\$384	Coates	\$433
Camden Twp	\$30	Sciota Twp	\$65	Maple Plain	\$383	Hilltop	\$408
Pine Springs	\$30	Camden Twp	\$71	Spring Park	\$306	Maple Plain	\$350
Belle Plaine Twp	\$31	Medicine Lake	\$74	Louisville Twp	\$262	Lilydale	\$298
Lake St. Croix Beach	\$32	Hampton Twp	\$74	Mendota	\$251	Spring Park	\$294
Carver	\$37	Blakeley Twp	\$75	Jackson Twp	\$241	Mendota	\$293
Sciota Twp	\$40	Helena Twp	\$81	Loretto	\$239	Bethel	\$280

To view data on all 182 cities and towns, visit the Citizens League website at www.citizensleague.net.

Table 4: Fiscal Disparities Participants Grouped by Comprehensive Plan

	2003 Population	Net loss or gain due to sharing (\$)	% Change in tax base due to sharing	Net (loss) or gain per capita (\$)
Inside 2020 MUSA*	2,436,795	-\$11,880,567	-0.47%	-\$5
Rural Centers	32,023	\$2,421,925	9.10%	\$76
Urban Reserve Bordering MUSA,				
Rural Center or Permanent Agriculture	9,761	\$218,525	2.18%	\$22
Permanent Agriculture	22,428	\$441,050	1.75%	\$20
Outside MUSA, Non-Agricultural, Rural Residential or Permanent Rural**	237,967	\$8,797,990	3.26%	\$37

* = Cities and towns with portions outside the 2020 MUSA line are included in this category if the outside portion is mainly designated "Permanent Agriculture" or "Urban Reserve."

** = Cities and towns with portions inside the 2020 MUSA line are included in this category if significant remaining area is designated "Rural Residential" or "Permanent Rural."

Sources: MN House of Representatives Research Department and Metropolitan Council

Table 5: Fiscal Disparities Participants Grouped by Met Council Planning Areas

	2003 Population	Net loss or gain due to sharing (\$)	% Change in tax base due to sharing	Net loss or gains per capita (\$)
Developed Areas	1,680,629	\$1,126,776	0.07%	\$1
Developing Areas	790,855	-\$11,519,449	-1.28%	-\$15
Rural Centers	31,116	\$2,702,860	10.95%	\$87
Agricultural Areas	24,943	\$468,234	1.67%	\$19
Rural Residential & Diversified Rural	207,693	\$7,235,627	2.97%	\$35

Sources: MN House of Representatives Research Department and Metropolitan Council

Fiscal disparities from 4

increases the capacity of individual communities to generate revenue. Without tax base sharing, communities with lower value tax bases are forced to impose a higher tax rate on their property owners in order to deliver a basic level of public services. At the same time, communities with higher value tax bases, which exist, in part, as a result of the regional decisions about infrastructure, can impose a lower tax rate and still raise the amount needed to provide basic services.

It is important to note that even though fiscal disparities shares a significant amount of C/I tax base, it does not fundamentally change which communities have the greatest amount of C/I tax base and which communities have the least C/I tax base. The effect of fiscal disparities, therefore, is to *reduce the disparity* between communities in amount of C/I tax base, not to fundamentally alter who has the most tax base and who has the least (see Table 3).

To see how tax base was redistributed in 2005, see Figure 1—a map that illustrates the net change in tax base by municipal boundary. For additional maps and data sets, visit the Citizens League website at www.citizensleague.net. MJ

OnBalance

Views From Around the State

Proposals to clean up the water and reshape Minnesota's education systems bring little agreement

"A major effort to clean Minnesota's water is running into shortsighted opposition in the Legislature. The time for Minnesota to move forward in a unified approach of the Clean Water Legacy bill is here," writes the **West Central Tribune** (3/2). Minnesota's lakes and rivers are in trouble: a state survey found that nearly 40 percent are polluted, and the Minnesota Pollution Control Agency estimates that within 10 years, 10,000 of Minnesota's bodies of water (no, that's not all of our lakes) will be declared polluted. The Clean Water Legacy bill would charge homeowners and businesses fees to fund water cleanup. "Opposition [to the bill] is coming from county and city officials worrying about being blamed by citizens for the water tax. Small businesses are complaining they would have to pay too much. Other businesses say that they end up paying for the businesses that are the greatest polluters." Those might be legitimate complaints, the *Tribune* notes, but "the question for the bill's critics is this: How much will it cost each person and business in Minnesota if the state does nothing?"

The **St. Cloud Times** (3/2) is not convinced that the Clean Water Legacy bill is the right solution. "Will the legacy bill really bring us the clean water that's promised?" demands the newspaper. "Will the new program actually reduce pollution? Will it really eliminate things like phosphorous or mercury contamination? What about runoff pollution causes by everything from paved parking lots to large-scale agricultural operations? As for the finances, what if the fees don't yield enough resources to fix pollution problems ... [and] should middle and low-income households in a city with adequate wastewater treatment facilities really pay the same amount as someone who has two homes, including a cabin with a failing septic system polluting a lake 200 miles away?"

"For years, the University of Minnesota has seemed to be going through an identity crisis," observes the **Duluth News Tribune** (2/12). "On the one hand, it seeks to fulfill

its 'land-grant' mission of offering quality, basic education to the daughters and sons of Minnesotans whose taxes and tuition support the institution. On the other hand, its leaders seek to make it a world-class research university. Can the U of M have it both ways?" Maybe not. The paper commends the Board of Regents for its ambitious plans to make the university one of the top three public research institutions in the world, but wonders whether that's the direction the university should be taking. "If the university increasingly moves away from providing students who qualify academically a sound undergraduate education, it could face difficulties. That's what Minnesotans believe it should be doing, and lawmakers tend to reflect what their constituents want. When the university officials go to the Legislature for funding, they must be prepared to make a strong case for research, or else concentrate on their core mission in the classrooms. Any mixed messages will only jeopardize both goals."

But maybe University President Robert Bruininks already knows how to sell both missions to the Legislature. The **Rochester Post-Bulletin** (3/2) repeats some "nuts-and-bolts type administrative advice" from Bruininks about establishing a full-fledged university in Rochester: "Bruininks said any university needs to have undergraduate programs because tuition paid by lower level students supports upper-division and graduate courses. It is a financial model found at virtually all universities. In addition, undergraduate programs would be the pipelines that bring the majority of students into graduate school."

The **Rochester Post-Bulletin** (2/5) is less satisfied with the governor's plans for K-12 education. "Without changes to Gov. Tim Pawlenty's K-12 education plan there will be little relief for Rochester's school budget." The paper goes on to complain: "Pawlenty is proposing a new \$150 per pupil levy that would replace and consolidate miscellaneous local levies. In other words, instead of

proposing that the state live up to its promise to fully fund education, Pawlenty is calling for local tax increases to make up the difference. This, from the governor who has promised not to raise taxes." The paper does support the governor's proposal to fund teacher pay-for-performance initiatives, however.

"Consistency, people," begs the **Worthington Daily Globe** (3/1). "State funding for education has been inconsistent, putting an unfair burden on local school boards and residents. All too often, state leaders talk about the importance of public education on one hand, then fail to put their money where their mouths are ... School boards and superintendents need to get a better grasp on what to expand down the road, so they can better manage what is (or can be expected to be) available to them."

According to the **St. Cloud Times** (2/20), Minnesota doesn't even know how much it costs the state to provide a quality education. "Say the words 'education funding' to most Minnesota taxpayers, and you'll probably hear one of two responses: 'We need more' or 'There's plenty already.' Who is right? We don't know, but there is a way to find out." The paper recommends that the Legislature fund a study that determines how much is enough. Last summer, a statewide group completed a study that began to answer those questions but didn't determine whether Minnesota is adequately funding programs that help students achieve the state's increasingly rigorous standards. "When Minnesotans look at that along with new state and federal standards, and remember that education funding has been frozen for four years, it becomes imperative the Legislature determine what it actually costs to educate students to today's standards. To not know that cost yet, or to claim 'we need more' or 'there's plenty already,' is simply irresponsible." **MJ**

TakeNote

Policy Tidbits

Which American metropolis can claim the title Top Tech City?

Minneapolis. That's right, although even the experts at *Popular Science* were shocked when they reached this conclusion at the end of their exhaustive research. In disbelief, they restarted their computer—and it still said Minneapolis. A closer look explains why. The city ranked first among U.S. cities in innovative transportation solutions and fourth in energy technology. A broad-based showing of tech savvy set it apart from the competition: the city was well above average in every category measured. The report applauded the city's use of "intelligent transportation solutions," Minneapolis' success at bringing emissions below Kyoto Protocol standards and the strong technical advances in the city's health care industry. Even the Mall of America represents the area's technophilia: it boasts two electronics stores to every bookstore. www.popsci.com

Looking for a new hobby to enjoy with friends?

How about philanthropy? According to a report from New Ventures in Philanthropy, an initiative of the Washington D.C.-based Forum of Regional Associations of Grantmakers, giving circles—small groups of philanthropically-minded friends, neighbors, families or acquaintances—are a growing force in philanthropy, investing more than \$44 million in communities nationwide since 2000. The report suggests that the majority of giving circles are made up of women who identify as white; however, the number of giving circles is growing quickly among all demographic groups. Most giving circle donations go to organizations aimed at helping youth development, girls and women, and various other human services. The research confirms that Americans are finding ways to be more involved in philanthropy, have a greater control over their charitable giving, and ultimately create a bigger impact. www.givingforum.org

Researchers are reexamining whether Max Weber was on to something

when he argued a century ago that Calvinist ideals fostered a disciplined work-and-save attitude. Last year, Niall Ferguson, a professor of history at Harvard University, examined connections between the work ethic and faith in light of the divergent trends he found in the United States and Europe.

Between 1979 and 1999, the average U.S. work year lengthened by nearly 4 percent—but in Germany, France and Spain the work year decreased by at least 10 percent. This divergence coincides with a period of European de-Christianization, and American re-Christianization. "Europeans now seem to believe in holidays, not in holy days," said the wry Dr. Ferguson. Religious belief in North America has "been amazingly resilient" amid significant economic gains, he says, disputing the notion that wealthier countries necessarily become less religious. Noting that it is very hard to establish a causal relationship between changes in belief and changes in economic behavior, Ferguson says something about Weber's theory seems to work. www.csmonitor.com

Small rural communities across the nation are waging big battles over school consolidation.

Nowhere has the battle over consolidation been fiercer than in West Virginia. Since 1990, the state has aggressively closed rural schools with the empty promise of huge savings, more courses and modernized facilities. In 2002, more than a decade after the state began its school consolidation efforts, the *Charleston Gazette* published an award-winning series on the outcome. Money was not saved: cuts were more than offset by the costs of more school administrators and longer bus rides (which meant more drivers, fuel, repairs, and maintenance). Now rural communities are fighting back: filing lawsuits, demonstrating, electing allies to local school boards, forming organizations committed to creating awareness about consolidation and building support to defeat efforts at consolidation. The tide might be turning. Last fall, both the state's gubernatori-

al candidates ran in support of small schools and the state legislature may change the state aid formula so small rural schools can afford extra teachers. www.fordfound.org

If you had to spend an evening a week for the next six weeks

sitting in a class taught by city bureaucrats, how would you feel? As it turns out, many citizens treat it as a wonderful opportunity. By offering courses like "Citizen Academy," "Rockville University," and "JC 101," cities like Victoria, Tx., Rockville, Md., and Johnson City, Tenn., are teaching residents about their local governments. Top officials lecture on subjects ranging from budgets to law enforcement to street maintenance. One participant said it was nice to get to know the experts running his city; he was impressed by their knowledge and openness. Another was inspired to become a member of his subdivision's neighborhood association. www.governing.com

Now more than ever, Minnesotans feel strongly that nonprofits should maintain their tax-exempt status.

In a randomized telephone survey of 806 people living in the Twin Cities and Greater Minnesota, 91 percent somewhat or strongly agreed that nonprofits should not pay taxes, indicating a steady increase in those supporting the work of nonprofits. The percentage of people who supported nonprofit tax exemptions has increased 23 percent while the number of citizens who disagree with the status of nonprofits as tax-exempt decreased 11 percent.

www.mncn.org MJ

Take Note compiled by Citizens League staff and members.