

## Agenda #1

Senators Rosen, Kelley, Senjem, Dibble and Anderson introduced--

S.F. No. 1024: Referred to the Committee on Taxes.

1                                   A bill for an act

2           relating to taxation; increasing the amount of tax

3           credits or exemptions that may be awarded in a

4           biotechnology and health sciences industry zone;

5           amending Minnesota Statutes 2004, section 469.335.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7           Section 1. Minnesota Statutes 2004, section 469.335, is

8           amended to read:

9           469.335 [APPLICATION FOR TAX BENEFITS.]

10           (a) To claim a tax credit or exemption against a state tax

11           under section 469.336, clauses (2) through (5), a business must

12           apply to the commissioner for a tax credit certificate. As a

13           condition of its application, the business must agree to furnish

14           information to the commissioner that is sufficient to verify the

15           eligibility for any credits or exemptions claimed. The total

16           amount of the state tax credits and exemptions allowed for the

17           specified period may not exceed the amount of the tax credit

18           certificates provided by the commissioner to the business. The

19           commissioner must verify to the commissioner of revenue the

20           amount of tax exemptions or credits for which each business is

21           eligible.

22           (b) A tax credit certificate issued under this section may

23           specify the particular tax exemptions or credits against a state

24           tax that the qualified business is eligible to claim under

25           section 469.336, clauses (2) through (5), and the amount of each

1 exemption or credit allowed.

2 (c) The commissioner may issue \$1,000,000 of tax credits or  
3 exemptions in fiscal year 2004. Any tax credits or exemptions  
4 not awarded in fiscal year 2004 may be awarded in fiscal year  
5 2005. The commissioner may issue \$2,000,000 of tax credits or  
6 exemptions in fiscal year 2006. Any tax credits or exemptions  
7 not awarded in fiscal year 2006 may be awarded in fiscal year  
8 2007.

9 (d) A qualified business must use the tax credits or tax  
10 exemptions granted under this section by the later of the end of  
11 the state fiscal year or the taxpayer's tax year in which the  
12 credits or exemptions are granted.

13 [EFFECTIVE DATE.] This section is effective the day  
14 following final enactment.

**Senate Counsel, Research,  
and Fiscal Analysis**

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**Senate**

State of Minnesota

TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803) JAS

DATE: February 23, 2005

RE: Bills to be Heard February 24, 2005

**S.F. No. 1024 (Rosen)**

This bill authorizes the commissioner of employment and economic development to issue \$2,000,000 of tax credits or exemptions in fiscal year 2006 to qualified businesses within a biotechnology and health sciences industry zone. Amounts that were not used in fiscal year 2006 may be carried over to be awarded in fiscal year 2007. The law enacted in 2003 provided \$1,000,000 of tax credits or exemptions for fiscal years 2004 and 2005. Qualified businesses are defined in the law as persons carrying on a trade or business at a biotechnology and health sciences industry facility located within a biotechnology and health sciences industry zone. Qualified businesses would be eligible to be exempt from the corporate franchise tax and state and local sales, use, and property taxes. Businesses may also be eligible for research and development credits and job credits, which are refundable credits against the corporate franchise tax.

**S.F. No. 1087 (Moua)**

This bill corrects an error in the 2003 Omnibus Tax bill. The intention of the local government aids provisions of that bill was to eliminate grandfathers that had been a part of the calculation of the aid payment to cities. One provision that had established a grandfather in the law based on the city's 2004 aid amount should have been stricken but was not. This bill eliminates that provision effective retroactively to aids that were paid in 2004.

JZS:dv

# MINNESOTA REVENUE

## VARIOUS TAXES

### Biotechnology Zones – Tax Credit or Exemption Limit Increase

February 18, 2005

	Yes	No
Separate Official Fiscal Note Requested	X	
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings	X	

Department of Revenue  
Analysis of S.F. 1024 (Rosen) / H.F. 1127 (Brod)

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	(\$2,000)	\$0	\$0	\$0

Effective the day following final enactment.

### EXPLANATION OF THE BILL

**Current Law:** Current law provides for \$1 million in state tax benefits to qualified businesses within the biotechnology and health sciences industry zone for FY 2004-2005. Qualified businesses are eligible for exemptions from the corporate franchise tax, sales and use tax, and state and local property taxes. Businesses are also eligible for two refundable credits against the corporate franchise tax – the research and development credit and the jobs credit. The limit on the state tax benefits is administered through a credit certificate program. Qualified businesses must apply for and receive a credit certificate in order to claim state tax benefits. The biotechnology zone includes three subzones of approximately 500 acres each in the cities of Minneapolis, Rochester, and St. Paul.

**Proposed Law:** The proposal authorizes \$2 million in state tax benefits for biotechnology zone businesses in FY 2006. Any amounts not awarded in FY 2006 may be awarded in FY 2007. The state tax benefits would continue to be administered through the credit certificate program.

### REVENUE ANALYSIS DETAIL

- It is assumed the full \$2 million in state tax benefits would be awarded.
- According to the Department of Employment and Economic Development, three biotechnology businesses have negotiated approximately \$650,000 in tax benefits for FY 2004-2005 to locate in the Minneapolis and St. Paul subzones, and it is probable that the full \$1 million will be awarded before the end of FY 2005.


**Number of Taxpayers:** Currently three biotechnology zone businesses plus possible additional businesses.

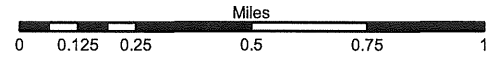
Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

HANDOUT #1

# Minneapolis Biosciences Subzones



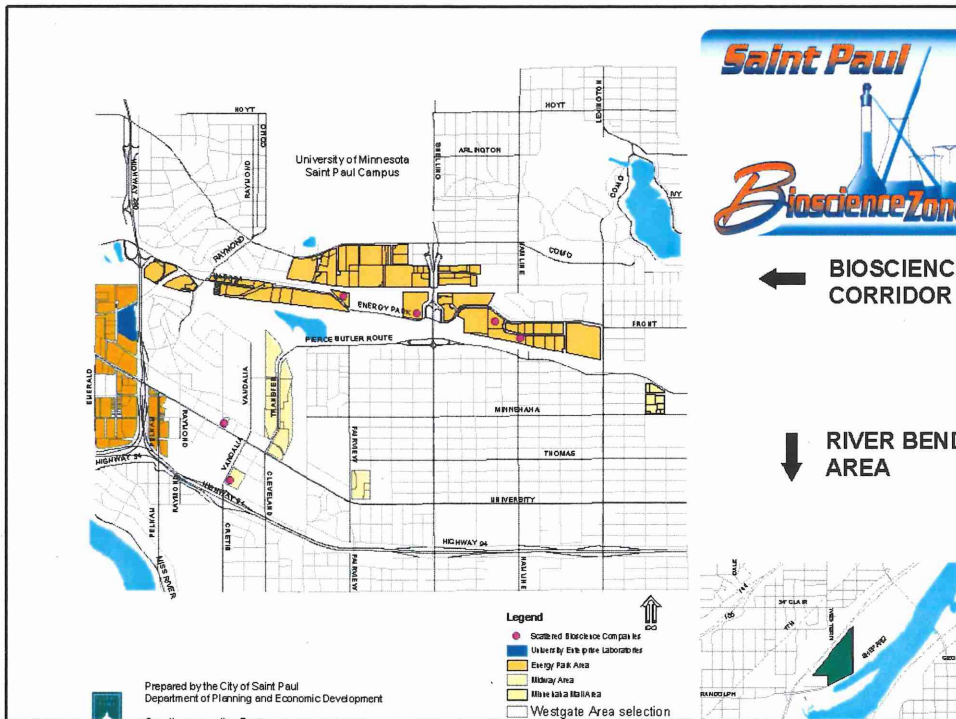
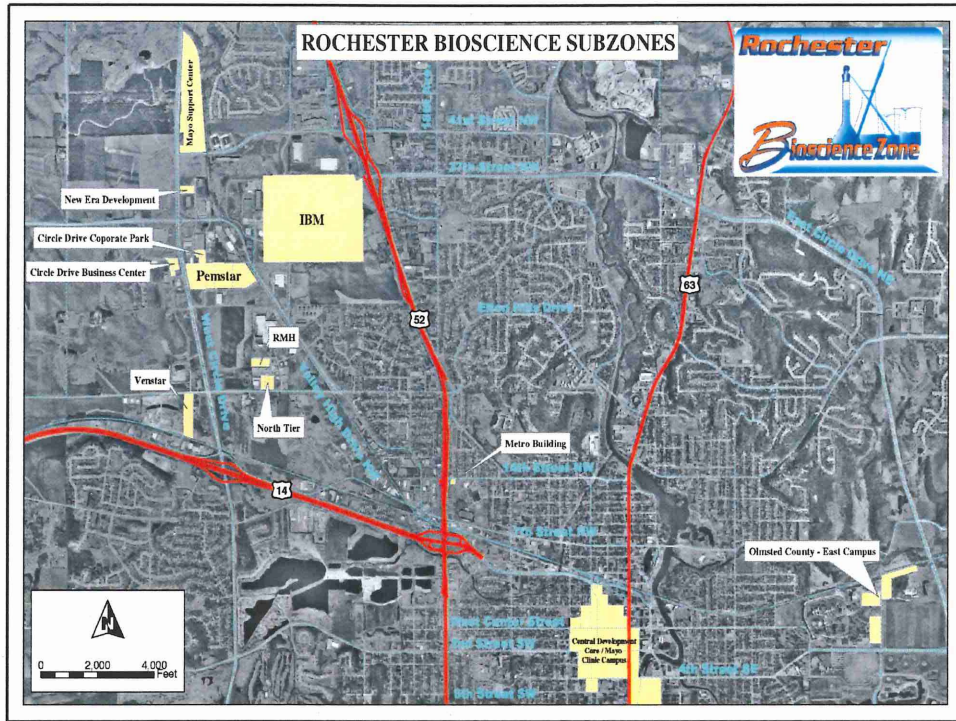
 Biosciences Subzones



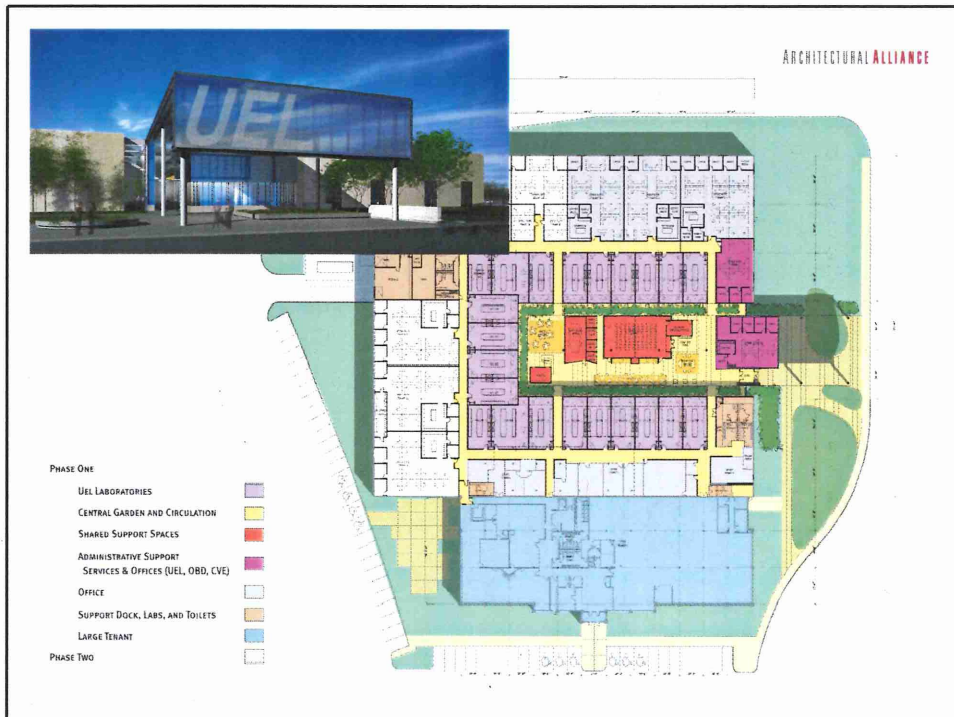
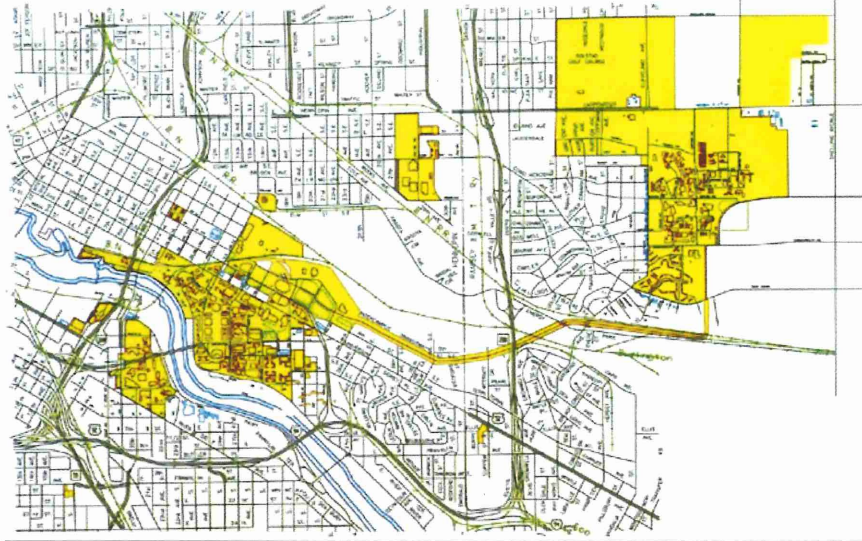
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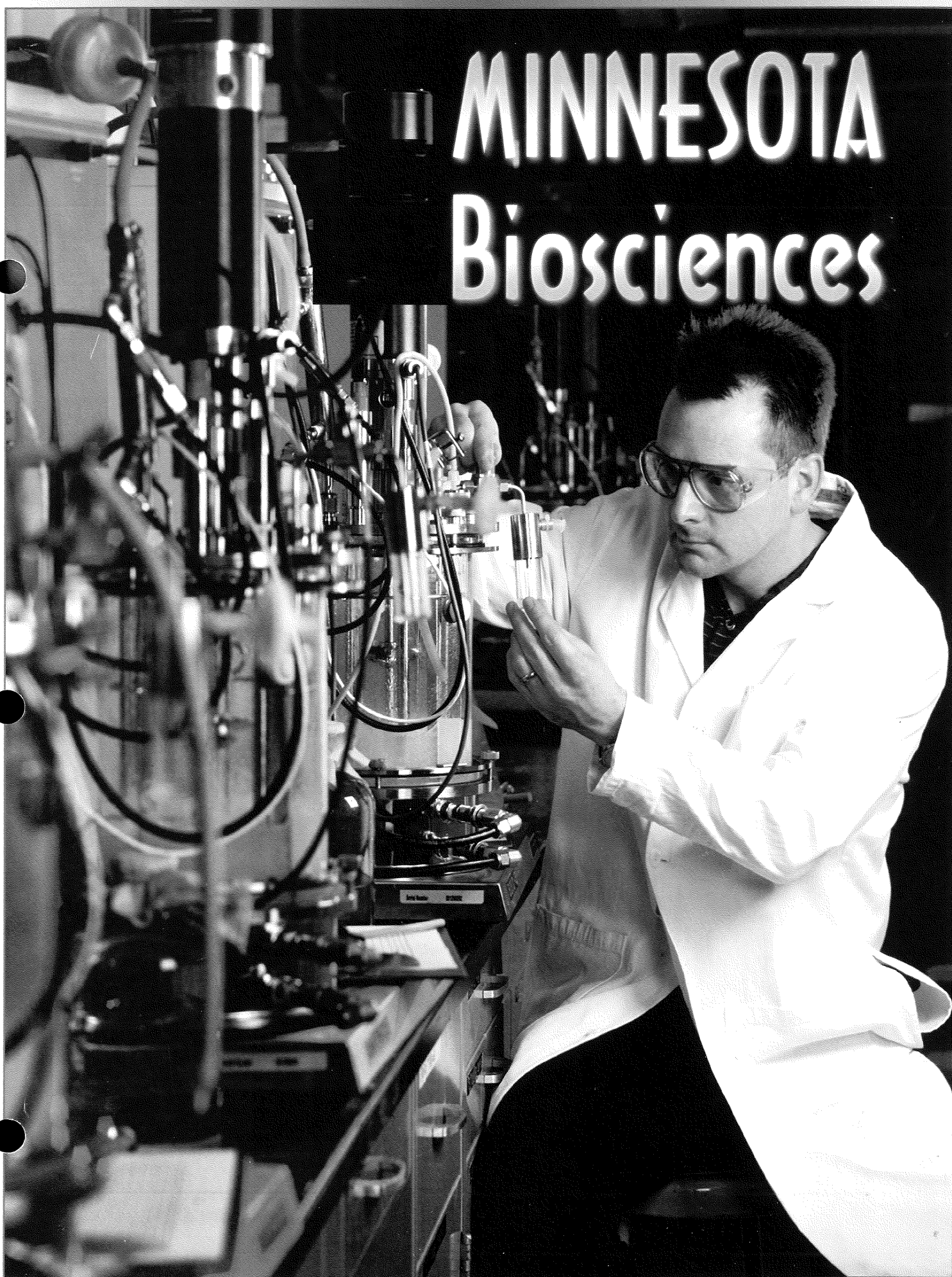


# University of Minnesota





# MINNESOTA Biosciences



## Minnesota Bioscience

*Minnesota stands poised to become a world leader in the bioscience industries. We are already on the leading edge with our rich heritage of agricultural, industrial, medical and technological innovation, as well as our entrepreneurial energy, business expertise, skilled workforce and robust economic infrastructure. Today, we are in the early stages of a Minnesota bioscience revolution that will propel us into a position of national and global prominence in one of the most dynamic growth-oriented sectors of the economy.*



## Why Minnesota?

With a long tradition of creative research and business innovation, Minnesota already is a leader in several broad areas of the emerging bioscience sector: applied biologics, agricultural and industrial biotechnology, and the life sciences. We have the intellectual leadership, the corporate leadership, the public leadership, the financial capital, and the raw materials to ensure our pre-eminent position in the biosciences revolution. The pieces are in place and our vision is clear as we build Minnesota's biosciences future — a future that in many important ways is already here.

- Minnesota is home to the world's leading medical technology cluster, anchored by such home grown industry giants as Medtronic, Guidant and St. Jude Medical.
- The Mayo Clinic, the University of Minnesota and 3M are world leaders in health sciences, genomics, biotechnology and bioscience. Minnesota research has spun out new firms like Blizzard Genomics, Discovery Genomics, R & D Systems, Islet Technology and others.
- Minnesota's top two research institutions, the University of Minnesota and the Mayo Clinic, have announced their intention to form a new Minnesota Biotechnology and Genomics Center, and to unite their biomedical research efforts to create new treatments for disease and help launch biosciences startup companies.
- Cargill Dow — hailed by many as the "green Microsoft" — is emerging in Minnesota as a global leader in the bio-industry, using agricultural products to manufacture plastics, biosynthetic fabrics, packaging materials and other extremely useful products.
- Cutting-edge research is being conducted by Dr. Catherine Verfaillie at the University of Minnesota on adult stem cell technology — the basic building block for a new generation of regenerative medicine.
- In value-added food, nutrition and health industries, Minnesota's world leadership is long established through companies like Cargill, General Mills, Land O'Lakes and others — all of which are now applying new biological knowledge and processes to their enterprises.
- The Twin Cities rank first in the "World Knowledge Competitiveness Index" devised by Robert Huggins Associates, a consultancy in the United Kingdom that evaluated 300 regions around the globe on their ability to create new goods and services and turn them into economic value and wealth.
- With \$325.3 million in 2002, Minnesota ranked 14th in the country in venture capital investments by capital amount, and first among the 12 Midwest states. We also had by far the highest VC per capita ratio (\$65) in the Midwest region, more than double that of second place Missouri (\$30).
- Minnesota ranks fifth in the nation as home to *Fortune* 500 company headquarters.



# Minnesota's Bioscience Initiative

Clearly the biosciences sector has the potential to become a large, fast growing and diverse component of Minnesota's economy. It can offer a dazzling array of exciting new business opportunities and a host of well-paying occupations over the entire range of education and experience levels. To encourage the continued development and growth of our emerging bioscience industries, Governor Tim Pawlenty has challenged the state's business, financial, academic and government leaders to collaborate in a bold and visionary initiative that places Minnesota firmly at the forefront of the global bioscience revolution. The initiative includes:

- Developing Minnesota Bioscience Parks, in close collaboration with public and private partners.
- Leveraging existing strengths and building on our competitive advantages, including the recently announced partnership between the University of Minnesota and the Mayo Clinic to form a new Minnesota Biotechnology and Genomics Center.
- Encouraging and stimulating investment in Minnesota bioscience entrepreneurs and enterprises.
- Investigating the creation of tax incentives for bioscience development.
- Seeking funding for a planned University of Minnesota Translational Research Facility.
- Protecting funding streams for basic research in the biosciences.

## Contact Information

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# Minnesota's

## Bioscience Industry

### A F A C T S H E E T F O R B U S I N E S S E S

#### Agricultural and Industrial Biotechnology:

*Minnesota is well positioned with abundant agricultural resources and top industrial biotechnology firms.*

- Minnesota's Agricultural and Industrial Biotechnology industries supply a diverse range of products that include:
  - Agricultural chemicals (**Cargill Inc., Cenex Harvest States**)
  - Specialty cleaning and sanitation preparations (**Ecolab**)
  - Sanitary products (**H.B. Fuller**)
  - Prepared feed and feed ingredients (**Land O'Lakes Agricultural Services, Archer Daniels Midland, Cargill Inc.**)
  - Crop services (**Land O'Lakes Agricultural Services, Syngenta Seeds, Cenex Harvest States**)
  - Biofuels (**Cargill Dow LLC, Minnesota Corn Producers – ADM**)
  - Biopesticides (**Syngenta**)
  - Soybean processing (**ADM, Cenex Harvest States, Ag Processing Inc.**)
  - Plant biopolymers/fibers (**Cargill Dow**)
  - Industrial lubricants (**Cargill Inc.**)

- **Cargill Dow LLC** manufactures biodegradable packaging and fibers using corn starch and a special fermentation process that requires 20 to 50 percent less fossil resources. CEO Randy Howard was named to the 2002 *Scientific American* 50, a list of visionary contributors to science and technology.
- **Minnesota Corn Processors** is the second largest domestic producer of ethanol, and merged with Archer Daniels Midland in 2002.
- **Land O'Lakes** provides farmers with:
  - Genetically engineered seeds through its seed company **Croplan Genetics** that produce higher yields through crop inputs and agricultural services.
  - Specialty corn products for animal feeds and consumer food markets developed in conjunction with **Novartis Seeds**.
- Using a solvent process, **Cenex Harvest States** manufactures soy products including edible refined oil, ink, flour, soy meal, fatty acids and lecithin. In 2003, Cenex Harvest States opened its second soybean crushing facility in Fairmont, Minnesota.
- **Ecolab** operates in 40 countries worldwide and manufactures products such as cleaners and hand sanitizers.
- **H.B. Fuller** has developed water-based adhesives and non-woven hygienic technology used in the fabrication of diapers, adult incontinence devices, feminine and disposable medical products.
- In 2003, **Minnesota Soybean Processors** built a new soybean processing plant in Brewster, Minnesota and announced the addition of a biodiesel refinery.
- A project of Positively Minnesota, the Department of Agriculture and the University of Minnesota's Department of Wood and Paper Science, the **Minnesota Biofiber Consortium** brings together leaders of industry, research and agriculture to promote agricultural crops and residues as industrial feedstocks.

#### Top Agricultural and Industrial Biotechnology Companies in Minnesota

Company	Annual Sales* (millions)
Cargill	\$59,894
Cenex Harvest States Oilseed Processing	4,500
Ecolab	3,404
Land O'Lakes Agricultural Services	2,853
H. B. Fuller	1,256

\* Sales for Minnesota headquarters or Minnesota-based operations  
Source: Corporate Report Factbook 2003  
Dun & Bradstreet, company annual reports.

- In Minnesota there are:
  - About 1,300 agricultural and food scientists and technicians, and 2,500 chemist and chemical technicians.
  - About 375 chemistry and more than 200 chemical engineering degrees were awarded in Minnesota in 2000.
- Minneapolis-St. Paul is considered the fifth most knowledge competitive region in the world, according Robert Huggins Associates, a British research firm. Rankings take into account indicators such as the number of IT, biotechnology and engineering employees per 1,000 inhabitants, and the number of patents registered per million people.
- According to research done at the University of Minnesota in 2003, Minnesota farmers are producing **engineered seed crops** valued at \$2.2 billion annually.
- Examples of **seed research** include wheat and potato fungal resistance at the University of Minnesota and sugar beet herbicide tolerance at BetaSeed of Shakopee, Minnesota.

*University of Minnesota:  
Exceptional Chemistry, Agricultural and Veterinary Studies*

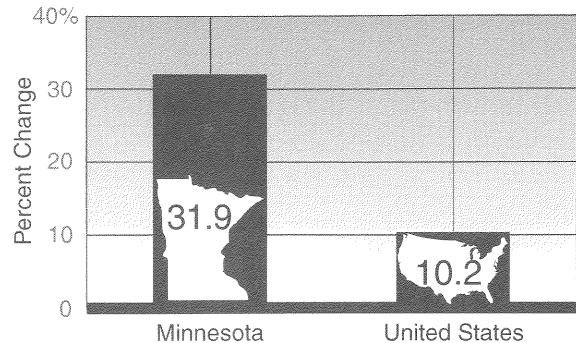
- The University's **College of Agricultural, Food and Environmental Science**, one of the top five colleges of agriculture in the world, enhances agricultural systems through plant genetics and biocontrol of weeds.
- Studies at the University's Colleges of **Veterinary Medicine and Molecular Veterinary Bioscience**, include genomics, molecular biology, and comparative medicine.
- The **Chemical Engineering** program is ranked number one by the National Research Council and each year confers about 210 graduate and undergraduate degrees.
- The \$20 million **Cargill Building for Microbial and Plant Genomics** provides a hub for 175 researchers in the genomics of microbes and crop plants. The building opened in 2003.

# Medical Technology:

*Biotechnology advances use applications developed by the medical technology industry, and Minnesota's medical technology industry is recognized worldwide for being at the forefront of innovation.*

- Minnesota's medical technology industries supply a diverse range of products that include:
  - Cardiovascular technologies such as heart valves, pacemakers, defibrillators and stents (**Medtronic; St. Jude Medical; Guidant Corp; Boston Scientific, Inc.**).
  - Catheter technologies (**Medtronic; St. Jude Medical; Boston Scientific, Inc.; Deltec, Inc.**).
  - Drug delivery systems (**3M; Cima Labs, Inc.; Medtronic; Deltec, Inc.**).
  - Dialysis products (**Minntech**).
  - Impotence products (**American Medical Systems**).
  - Electrotherapy (**Medtronic; St. Jude Medical; Compex Technologies, Inc.; Empi Inc.**).
  - Spinal implants (**Sulzer Spine-Tech**).
  - Warming products for hypothermia (**Arizant, Inc.**).
  - Hearing aids (**Starkey Laboratories; Miracle Ear**).
  - Eyewear lenses (**BMC Industries; Soderberg Ophthalmic Services**).
  - Medical device contract manufacturing (**ev3, Inc.; Lake Region Manufacturing; Medsource Technologies; Surgical Technologies**).
  - Drug-eluting coating process for medical devices (**SurModics**).
  - Drug-coated stents (**Boston Scientific, Inc.; Guidant Corp; Medtronic (under development)**).

**Employment Growth in Medical Technology Industries\*, 1992-2002**



\* SIC 384 and 385, NAICS 334510, 334517 and 339111-329115.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Covered Employment and Wages (ES-202).

- Minnesota's medical technology industry employment:
  - Increased 31 percent between 1992 and 2002 to over 21,300 people.
  - Had a concentration of employment over three times the nation's.
  - Ranks second only to California in the medical device industry.
- A number of medical technology companies appeared on the prestigious 2003 Fast 500 prepared by Deloitte and Touche.
  - **Vascular Solutions, Inc.** revenues grew more than 2,300 percent and **Endocardial Solutions Inc.** more than 1,200 percent over five years.
  - **Possis Medical** revenues grew almost 600 percent over five years.
  - **Synovis Life Technologies** was among *Fortune* magazine's 100 Fastest-Growing Companies for 2003.
- Minnesota companies and research institutions have been first in developing many important medical devices:
  - Implantable cardiac pacemaker.
  - Artificial heart valves.
  - Implantable drug transfusion pump.
  - Anesthesia monitor.
  - Blood pumps.
  - Artificial urinary sphincter.
  - In-the-ear hearing aid.
  - Wireless cardiac monitoring system.
- Minnesota medical technology companies have been involved in numerous mergers and acquisitions.
  - **Medtronic, Inc.** announced the acquisition of four companies in 2002, including California-based MiniMed and Medical Research Group, Inc. (MRG). Medtronic made acquisitions totaling nearly \$13.9 billion between 1996 and 2002.
  - Since 2002, **ev3, Inc.** has acquired Appriva Medical, Inc. of California and Minnesota's Intra Therapeutics.
  - **Medsource Technologies** acquired Cycam, Inc. of Pennsylvania, while **American Medical Systems** acquired California-based CryoGen, Inc. in 2002.

## Top Medical Technology Manufacturers Operating in Minnesota

Company	Annual Sales* (millions)
Medtronic, Inc.	\$7,665
Guidant Corp.	3,240
3M – Health Care	2,560
Boston Scientific, Inc.	1,709
St. Jude Medical, Inc.	1,589

\* Sales for Minnesota headquarters or Minnesota-based operations  
Source: Corporate Report Factbook 2003  
Dun & Bradstreet, company annual reports.

- There are more than 520 FDA approved medical device establishments currently in Minnesota.
- About 2,500 medical device related patents were registered to Minnesota companies between 1997 and 2001.
- According to the Milken Institute, Minnesota has the nation's highest number of investigational medical devices and FDA pre-market approvals of medical devices per 100,000 residents.

### Outstanding opportunities for collaboration

- **Mayo Clinic:** world's best known health care facility also collaborates with health care and medical technology companies.
- **Industrial Partnership for Research in Interfacial and Materials Engineering (IPRIME):** Facilitates the use of University of Minnesota equipment and staff for its members, which include businesses such as Medtronic, SurModics, and 3M ([www.iprime.umn.edu](http://www.iprime.umn.edu)).
- **The University of Minnesota's Biomedical Engineering Institute** combines engineering and health sciences to create new medical devices.

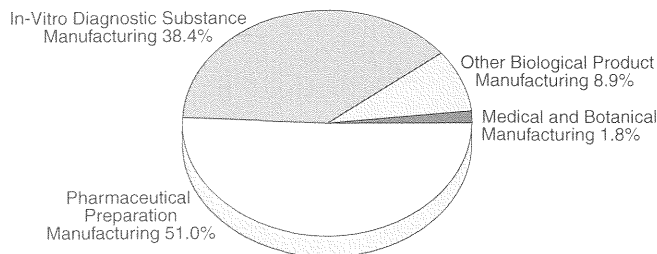
# Pharmaceuticals:

*Minnesota's pharmaceutical industry is vibrant and fast growing.*

■ Minnesota's pharmaceutical industry supplies a diverse range of products that include:

- Cardiology (**Upsher-Smith, 3M, Solvay Pharmaceuticals**)
- Oncology-related pharmaceuticals (**MGI Pharma**)
- Dermatology (**Upsher-Smith, 3M**)
- Gastroenterology, mental health (**Solvay Pharmaceuticals**)
- Immune system enhancing compounds (**Biopolymer Engineering Inc**)
- Women's health (**3M, Solvay Pharmaceuticals**)
- Orally disintegrating dosage forms and contract pharmaceutical manufacturing (**CIMA LABS**)
- Bioequivalent generic pharmaceuticals (**Paddock Laboratories, Upsher-Smith**)
- Animal health drugs (**Intervet, Newport Laboratories**)

## Minnesota Employment in the Pharmaceuticals Industry\*, 2002



\* NAICS 3254

Source: U.S. Department of Labor, Bureau of Labor Statistics, Covered Employment and Wages (ES-202).

### Top Pharmaceutical Manufacturers Operating in Minnesota

Company	Annual Sales* (millions)
3M Pharmaceuticals Inc.	\$1,000
Biopolymer Engineering Inc.	650
Solvay Pharmaceuticals Inc.	450
Upsher-Smith Laboratories	177
CIMA LABS Inc.	77

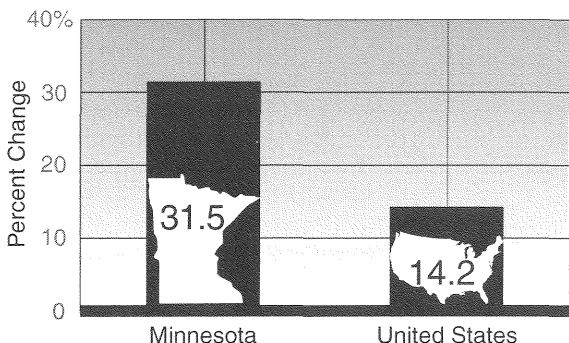
\* Sales for Minnesota headquarters or Minnesota-based operations  
Source: Corporate Report Factbook 2003  
Dun & Bradstreet, company annual reports.

- Minnesota is home to about 9,800 pharmacists and pharmacy technicians, as well as 2,500 chemists and chemical technicians.
- Twenty-nine Minnesota establishments have prescription and over-the-counter drugs currently listed with the FDA.
- Between 1997 and 2001, Minnesota companies registered more than 300 drug patents.

■ Pharmaceutical companies operating in Minnesota are among the best in the nation.

- In 2003, **3M** was listed among the top 50 pharmaceutical companies by *Pharmaceutical Executive*, while **Upsher-Smith** was named one of the top 100 largest pharmaceutical companies in 2001. **Solvay Pharmaceuticals**, another top 50 pharmaceutical company, has a significant manufacturing facility in Baudette, MN.
- **CIMA LABS, Inc.** appeared on the prestigious 2003 Fast 500 prepared by Deloitte and Touche with growth of more than 500 percent over five years, and was listed as one of *Fortune* magazine's 100 Fastest-Growing companies in 2003
- **Biopolymer Engineering, Inc.** engineers natural carbohydrates to enhance immune health. The company has acquired more than 200 U.S. and international patents.
- Scientists at **3M Pharmaceuticals** research laboratories in St. Paul developed synthetic molecules called Immune Response Modifiers (IRMs) that have potential applications for treating viruses and tumors.

### Employment Growth in the Pharmaceuticals Industry\*, 1992-2002



\* SIC 283, NAICS 3254

Source: U.S. Department of Labor, Bureau of Labor Statistics, Covered Employment and Wages (ES-202).

- Minnesota enjoys an excellent quality of life:
  - First for a record seven years in a row: Minnesota rated "the Most Livable State" by Morgan Quitno Press.
  - Minnesota was first in the nation for children's well-being according to the 2003 Kids Count Databook.
  - Home ownership rate was tied for first in the country in 2002.

<i>Excellent research and educational institutions</i>	<ul style="list-style-type: none"> <li>➤ The University of Minnesota's College of Pharmacy has programs in the Twin Cities and Duluth, and confers degrees on more than 100 students each year in its professional program, while about 375 chemistry degrees and almost 1,400 biological and life sciences degrees were awarded in Minnesota in 2000.</li> </ul>
<i>Vanguard in Research</i>	<ul style="list-style-type: none"> <li>➤ Nanocopeia, Inc., a startup company utilizing research developed by U of M professor David Pui and his colleagues, creates nanotechnology devices for drug formulation, gene therapy and tissue regeneration.</li> <li>➤ One of <i>U.S. News and World Report's</i> 10 leading innovators for 2001, Dr. Catherine Verfaillie is the director of the Stem Cell Institute at the University of Minnesota.</li> </ul>
<i>Educated and motivated workforce:</i>	<ul style="list-style-type: none"> <li>➤ Minnesota's labor force participation rate of 75.7 percent was highest in the country in 2002.</li> <li>➤ Ninth highest percent of population holding bachelors degrees among the states.</li> <li>➤ Tied for second in the percentage of residents who are high school graduates or higher in 2000.</li> </ul>

# Human Health Microbiology:

*Minnesota companies shine in the diverse human health microbiology field.*

■ Minnesota's human health microbiology industry supplies a diverse range of products that include:

- ▶ Contract R&D laboratories (**ATG Laboratories, ViroMed, Apptec Laboratory Services**)
- ▶ Cell culture products (**ViroMed, Apptec Laboratory Services**)
- ▶ Immunoassay testing (**Beckman Coulter**)
- ▶ Cytokine-related reagents (**R&D Systems**)
- ▶ Hematology controls and calibrators (**R&D Systems**)
- ▶ Immunoassay and conjugate stabilizers (**SurModics**)
- ▶ cGMP manufacturing services (**Apptec Laboratory Services**)
- ▶ Occupational health testing (**Medtox Scientific Inc.**)

■ **Minnesota Partnership for Biotechnology and Medical Genomics:**  
A Minnesota initiative leveraging the scientific leadership of the University of Minnesota and the Mayo Clinic into a powerful research collaboration to position Minnesota as a world leader in biotechnology and medical genomics. ([www.mayouminnesotapartnership.org](http://www.mayouminnesotapartnership.org))

■ About 1,500 biological and life sciences degrees were awarded in Minnesota in 2000.

- Minnesota is home to about 1,300 biological scientists and technicians, as well as more than 2,800 life scientists and other science technicians.
- Firms in Minnesota are exploring new advances in microbiology
  - ▶ **R&D Systems-Techne Corp.** manufactures purified cytokines (proteins), antibodies, and assay kits as well as whole-blood hematology controls and calibrators. The company has been listed among the Top 25 Medical Technology Companies as of 2003 by *The Business Journal*.
  - ▶ **Beckman Coulter Inc.** manufactures in vitro immunodiagnostic systems for allergies, infectious diseases, immunology, hormones, and serum proteins.
  - ▶ **Protein Design Labs, Inc.** has antibodies in clinical development for autoimmune and inflammatory conditions, asthma and cancer.

## Top Human Health Microbiology Companies in Minnesota

Company	Annual Sales* (millions)
R&D Systems – Techne Corp.	\$145
Protein Design Labs, Inc.	80
Medtox Scientific Inc.	52
ViroMed Laboratories – LabCorp	25
Apptec Laboratory Services	16

\* Sales for Minnesota headquarters or Minnesota-based operations  
Source: Corporate Report Factbook 2003  
Dun & Bradstreet, company annual reports.

## Exceptional Biological Research Facilities

- ▶ The University of Minnesota provides state-of-the-art imaging and advanced genetic analysis facilities to companies through the "Biotech Mall" known as "Biodale".
- ▶ Between 1998 and 2002, more than \$300 million was invested in genomics and biotechnology at the University of Minnesota.
- ▶ The University of Minnesota has the Biotechnology Institute, Developmental Biology Center, Biomedical Engineering Institute, and the Biomedical Genomic Center. The Mayo Clinic has the Genomics Research Center.

# Bioscience Industry Assistance:

■ Minnesota's 2003 Legislature created the **Bioscience Zone**. The zone, which will have two sub-zones located near the University of Minnesota and the Mayo Clinic, will provide tax incentives to existing and start-up bioscience companies ([www.mnpro.com](http://www.mnpro.com)).

■ The **Minnesota Bioscience Council** makes recommendations to the Governor and Legislature on economic development initiatives aimed at supporting the growth of Minnesota's bioscience industry. The Bioscience Council is made up of bioscience industry leaders, University of Minnesota and Mayo Clinic officials, venture capitalists, and legislators, and is staffed by the Department of Employment and Economic Development ([www.positivelyminnesota.com](http://www.positivelyminnesota.com)).

■ **Bioscience associations** include MNBIO ([www.minnesotabiotech.org](http://www.minnesotabiotech.org)), the Society for Biomaterials ([www.biomaterials.org](http://www.biomaterials.org)), Medical Alley ([www.medicalalley.org](http://www.medicalalley.org)), and Minnesota Technology ([www.minnesotatechnology.org](http://www.minnesotatechnology.org)).

**positively Minnesota**  
Department of Employment and Economic Development  
500 Metro Square, 121 7th Place East  
Saint Paul, Minnesota 55101-2146 USA

**Bioscience Industry Specialist:**  
Gene Goddard  
Phone: 651-296-7102  
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[www.deed.state.mn.us](http://www.deed.state.mn.us)



## MINNESOTA'S STRENGTHS

- ❖ Minnesota ranks as the most livable state (seven years straight), according to Morgan Quitno Press.
- ❖ The Twin Cities has been ranked as the world's fifth most knowledge-competitive region, by U.K.-based Robert Huggins Associates.
- ❖ The Twin Cities ranks as the fourth best place in the U.S. to locate a company, according to *Expansion Management*.
- ❖ Minneapolis–St. Paul was ranked as the best metropolitan area for entrepreneurs, according to *Entrepreneur* magazine.

## HOW CAN I FIND OUT MORE ABOUT THE ZONE?

**positively** Minnesota  
Department of Employment  
and Economic Development

Gene Goddard  
Bioscience Industry Specialist  
Office of Business Development  
500 Metro Square ❖ 121 Seventh Place East  
St. Paul, MN 55101-2146

1-800-657-3858 or 651-296-7102  
Fax: 651-296-5287  
gene.goddard@state.mn.us  
positivelyminnesota.com



## WHAT IS THE BIOSCIENCE ZONE?

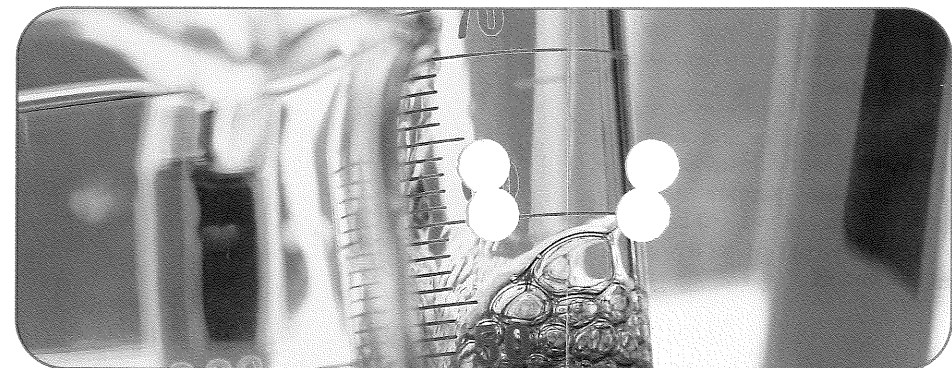
Minnesota's bioscience businesses are now eligible for reduced operating expenses—a tax free zone. The Bioscience Zone is designed to facilitate the development of research and development parks in two areas; one near the University of Minnesota-Twin Cities campuses and a second near the Mayo Clinic in Rochester. The zone will help existing and start-up bioscience companies have greater access to U of M and Mayo researchers and technology. It will also provide tax incentives to help them lower their overall costs to facilitate their growth.

## WHO IS ELIGIBLE?

To qualify for the tax exemption, a business must start-up, relocate to, or expand in the zone. Companies relocating from another site in Minnesota qualify by increasing their employment by 20 percent or making a capital investment of at least 10 percent of gross revenues within the first year they are in the zone.

## HOW LONG WILL THE ZONE LAST?

Exemptions are available for up to 12 years beginning January 2004.



APPROX

40

20

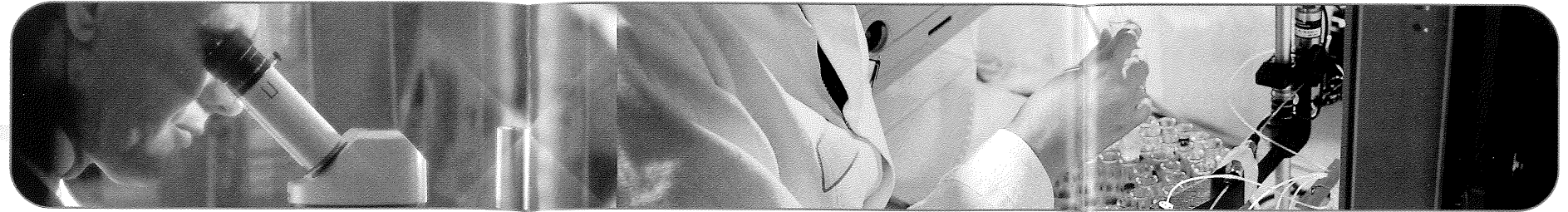
50

# WHY BIOSCIENCE IN MINNESOTA?

Minnesota is home to two of the world's leaders in bioscience research—the University of Minnesota and the Mayo Clinic. Early in 2003, these institutions forged a historic partnership that will harness their collective energy in biotechnology and genomics to create opportunities for new discoveries, new patents, new businesses and new jobs in Minnesota.

This partnership is just one part of Minnesota's burgeoning bioscience industry, which brings strengths and competitive advantages in agriculture, biologics, agricultural, food, and industrial biotechnology. Minnesota has the intellectual, corporate and public leadership, as well as the financial capital to ensure its pre-eminent position in the bioscience revolution.

- ❖ Minnesota is home to the world's leading health sciences and medical technology cluster, anchored by such home-grown industry giants as 3M, Medtronic, St. Jude Medical, and major facilities of Guidant and Boston Scientific.
- ❖ Cargill Dow — hailed by many as the "green Microsoft" — is emerging in Minnesota as a global leader in industrial biosciences, using fermentation of agricultural products to manufacture polymers that can be made into plastics, biosynthetic fabrics, packaging materials and can replace many existing petroleum-based polymers.
- ❖ In value-added food, nutrition and health industries, Minnesota's world leadership is long established through companies like Cargill, General Mills, Land O'Lakes, Syngenta and others — all of which are leaders in food innovation.



## WHERE IS THE ZONE LOCATED?

The Bioscience Zone is made up of three separate sub-zones near world-class research institutions: the University of Minnesota (Minneapolis campus and St. Paul campus) and the Mayo Clinic (Rochester). For information on communities and eligible properties, go to [positivelyminnesota.com](http://positivelyminnesota.com).



## HOW DOES IT SAVE YOU MONEY?

The Bioscience Zone has many different tax incentives available to help companies grow and expand in Minnesota:

### Tax Exemptions:

- ❖ Corporate Taxes (income tax, alternative minimum tax, minimum fee)
- ❖ Sales and Use Taxes

### Tax Credits:

- ❖ Job Creation Credit
- ❖ Research and Development Credit

For 2004 and 2005, incentives for the zone are capped at \$1 million total. Incentives may be available in future years with legislative approval. A company's final incentive package is developed among several partners, including the company, the Department of Employment and Economic Development (DEED) and the cities of Minneapolis, St. Paul and Rochester.

## HOW MUCH CAN IT SAVE YOU?

### Example: Bioscience Manufacturer

- An existing company decides to take advantage of the opportunity presented by the Bioscience Zone. The company expands into an existing building, and begins operations in April 2004. The company has 40 percent of Minnesota operations in the zone in 2004, increasing to 50 percent in 2005.
- ❖ The company has net income of \$3 million in 2004 (from zone and non-zone operations) and \$3.3 million in 2005.
- ❖ In 2004, the company employs 15 people in the zone, growing to 25 people in 2005. The average salary of \$60,000 in 2004 increases 3% in 2005.
- ❖ Taxable purchases are \$500,000 in 2004 and \$550,000 in 2005.
- ❖ Research and development expenses in the zone total \$200,000 in 2004, and \$225,000 in 2005.

Example Tax Savings and Credits:		
	2004*	2005
Corporate Income Tax	\$35,280	\$ 48,510
Sales and Use Tax	\$32,500	\$ 35,750
Job Creation Credit	\$23,625	\$ 54,700
R&D Credit	\$ 5,000	\$ 5,625
<b>Total Annual Benefit</b>	<b>\$96,405</b>	<b>\$144,585</b>
<b>Total Long-term Benefit**</b>	<b>\$3,893,000</b>	

\* Based on Three Quarters of Operation.

\*\* Projected savings if full 12-year exemptions are provided. Funding for first two years of the zone is currently capped at \$1 million, pending future funding increases by the Minnesota Legislature.

**University Research Park  
House File 201 (Kahn)/Senate File 299 (Pogemiller)**

**Background:** The University Research Park (URP) is the center of the City of Minneapolis' efforts to increase its industrial workforce. It offers more than 700 acres of land for redevelopment – the largest open tract of land in the recent history of the City. It offers incredible development opportunities. Education and health care represent over 22% of the total employment in the City. The City and University have committed to working in partnership to develop the land consistent with the employment needs of the City. This area is a Minnesota Biosciences Sub-Zone. It also has received Empowerment Zone designation because of its potential as an employment center. City has been attempting to redevelop this challenging area for over a decade.

**Barriers to redevelopment:** Although the URP offers a prime location for development, it has been beset by all the traditional barriers to redevelopment. The URP was once the transportation center for commodities exchange that helped Minneapolis become the milling capital of the world. That industry left in its wake contaminated lands, train yards and grain elevators. Remediation of the brownfields, demolition of the obsolete and abandoned buildings and the need for area-wide infrastructure improvements constitute costly roadblocks to redevelopment that the private sector will not bear.

**The bonding proposal:** Total project costs for this area are anticipated to be \$90.150 million including an initial \$60 million of private sector investment for construction of 250,000 square feet of buildings for medical and bioscience related activities. Slightly over \$30 million is needed for infrastructure to support this investment as follows:

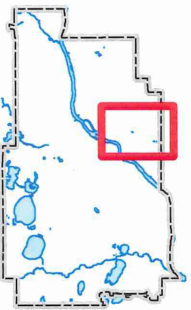
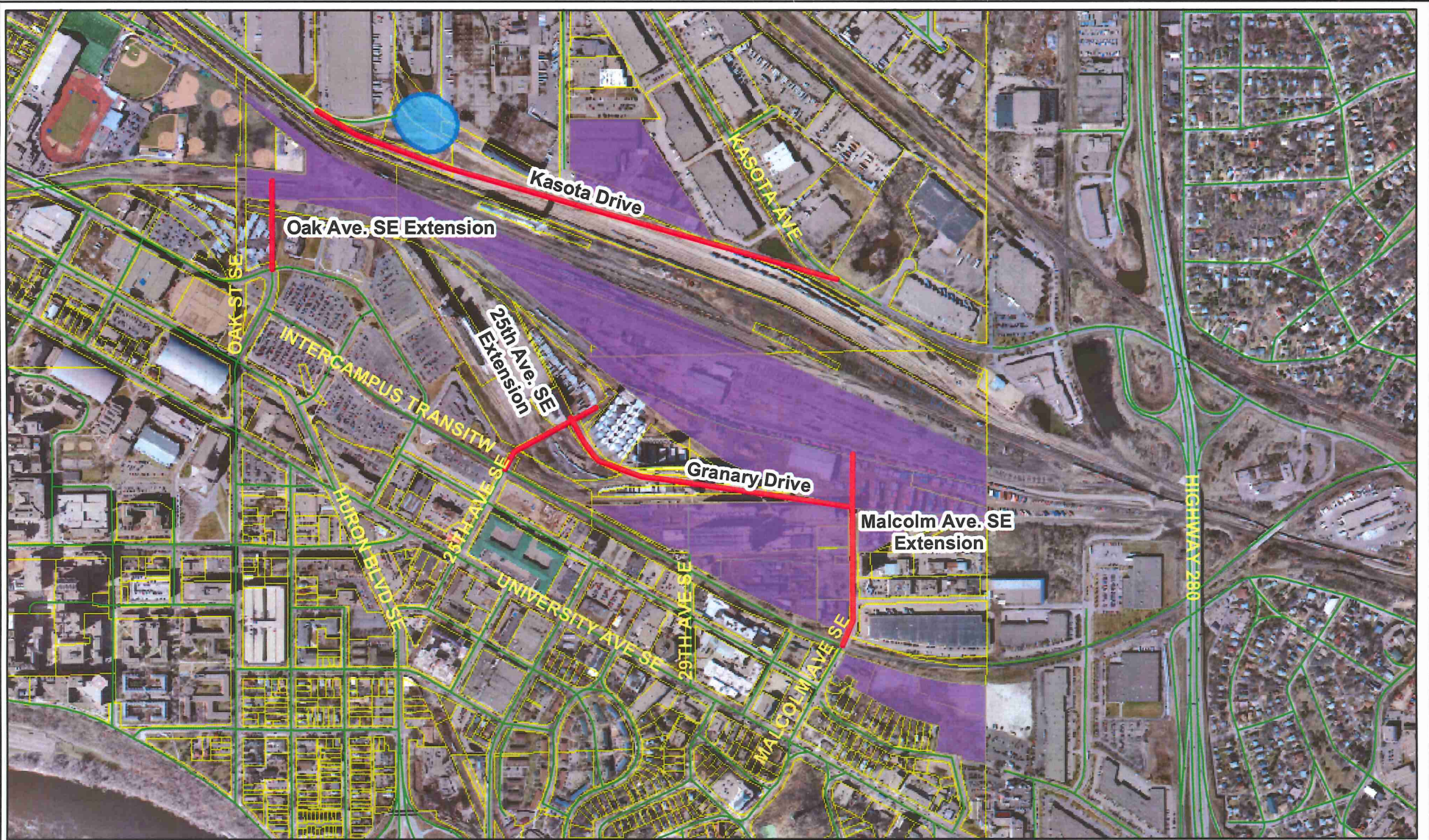
- Repair and extend Malcolm Avenue from Transitway to BNSF property: \$2,250,000
- Extend Oak Street to BNSF property: 1,400,000
- Complete new Kasota alignment: 16,000,000
- Extend 25<sup>th</sup> Avenue: 900,000
- Construct East Granary Drive: 6,300,000
- Construct North Stormwater Pond: 3,300,000
- Total Infrastructure \$30,150,000

The City of Minneapolis requests \$13 million in state bond proceeds for infrastructure in the URP to serve anticipated biotechnology and health science redevelopment. This request amounts to 14% of the total project cost and less than half of the infrastructure costs. The bond proceeds will be used for land acquisition, design and construction of roadways and other infrastructure as follows:

- Malcolm Ave. \$300,000
- Oak Street \$920,000
- Kasota \$7,700,000
- 25<sup>th</sup> Ave. \$400,000
- East Granary \$3,180,000
- North Stormwater Pond \$500,000
- Total Bond Request \$13,000,000

The remaining funds for these projects would come from pollution and redevelopment grants (\$3,135,000), assessments (\$4,005,000), MSA (\$3,585,000), watershed management organization (\$2,000,000), and other sources (\$4,425,000) including tax increment, EDA, developers and the city.

**Statewide benefit:** The project is of local, regional and statewide significance. It will lead to redevelopment of a 700-acre brownfield area in both Minneapolis and St. Paul. It will alleviate traffic problems in the area. The attendant Research Park will strengthen the University by enhancing its ability to attract and retain quality professionals and students. It will strengthen the State's economy by encouraging establishment and retention of technology based businesses. The increase in property values will enhance revenues for the state and all taxing jurisdictions.



# Infrastructure - University Research Park/SEMI

**City of  
Minneapolis**

- Proposed Roadway
- Infrastructure Dependant Opportunity Areas
- Proposed Stormwater



Agenda #2

Senator Moua introduced--

S.F. No. 1087: Referred to the Committee on Taxes.

A bill for an act

relating to state aid to cities; correcting the calculation of city aid base; amending Minnesota Statutes 2004, section 477A.011, subdivision 36.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 477A.011, subdivision 36, is amended to read:

Subd. 36. [CITY AID BASE.] (a) Except as otherwise provided in this subdivision, "city aid base" is zero.

(b) The city aid base for any city with a population less than 500 is increased by \$40,000 for aids payable in calendar year 1995 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph

(c), is also increased by \$40,000 for aids payable in calendar year 1995 only, provided that:

(i) the average total tax capacity rate for taxes payable in 1995 exceeds 200 percent;

(ii) the city portion of the tax capacity rate exceeds 100 percent; and

(iii) its city aid base is less than \$60 per capita.

(c) The city aid base for a city is increased by \$20,000 in 1998 and thereafter and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$20,000 in calendar year 1998 only, provided that:

1 (i) the city has a population in 1994 of 2,500 or more;

2 (ii) the city is located in a county, outside of the  
3 metropolitan area, which contains a city of the first class;

4 (iii) the city's net tax capacity used in calculating its  
5 1996 aid under section 477A.013 is less than \$400 per capita;  
6 and

7 (iv) at least four percent of the total net tax capacity,  
8 for taxes payable in 1996, of property located in the city is  
9 classified as railroad property.

10 (d) The city aid base for a city is increased by \$200,000  
11 in 1999 and thereafter and the maximum amount of total aid it  
12 may receive under section 477A.013, subdivision 9, paragraph  
13 (c), is also increased by \$200,000 in calendar year 1999 only,  
14 provided that:

15 (i) the city was incorporated as a statutory city after  
16 December 1, 1993;

17 (ii) its city aid base does not exceed \$5,600; and

18 (iii) the city had a population in 1996 of 5,000 or more.

19 (e) The city aid base for a city is increased by \$450,000  
20 in 1999 to 2008 and the maximum amount of total aid it may  
21 receive under section 477A.013, subdivision 9, paragraph (c), is  
22 also increased by \$450,000 in calendar year 1999 only, provided  
23 that:

24 (i) the city had a population in 1996 of at least 50,000;

25 (ii) its population had increased by at least 40 percent in  
26 the ten-year period ending in 1996; and

27 (iii) its city's net tax capacity for aids payable in 1998  
28 is less than \$700 per capita.

29 ~~(f) Beginning in 2004, the city aid base for a city is~~  
30 ~~equal to the sum of its city aid base in 2003 and the amount of~~  
31 ~~additional aid it was certified to receive under section 477A.06~~  
32 ~~in 2003. For 2004 only, the maximum amount of total aid a city~~  
33 ~~may receive under section 477A.013, subdivision 9, paragraph~~  
34 ~~(c), is also increased by the amount it was certified to receive~~  
35 ~~under section 477A.06 in 2003.~~

36 (g) The city aid base for a city is increased by \$150,000

1 for aids payable in 2000 and thereafter, and the maximum amount  
2 of total aid it may receive under section 477A.013, subdivision  
3 9, paragraph (c), is also increased by \$150,000 in calendar year  
4 2000 only, provided that:

5 (1) the city has a population that is greater than 1,000  
6 and less than 2,500;

7 (2) its commercial and industrial percentage for aids  
8 payable in 1999 is greater than 45 percent; and

9 (3) the total market value of all commercial and industrial  
10 property in the city for assessment year 1999 is at least 15  
11 percent less than the total market value of all commercial and  
12 industrial property in the city for assessment year 1998.

13 ~~(h)~~ (g) The city aid base for a city is increased by  
14 \$200,000 in 2000 and thereafter, and the maximum amount of total  
15 aid it may receive under section 477A.013, subdivision 9,  
16 paragraph (c), is also increased by \$200,000 in calendar year  
17 2000 only, provided that:

18 (1) the city had a population in 1997 of 2,500 or more;

19 (2) the net tax capacity of the city used in calculating  
20 its 1999 aid under section 477A.013 is less than \$650 per  
21 capita;

22 (3) the pre-1940 housing percentage of the city used in  
23 calculating 1999 aid under section 477A.013 is greater than 12  
24 percent;

25 (4) the 1999 local government aid of the city under section  
26 477A.013 is less than 20 percent of the amount that the formula  
27 aid of the city would have been if the need increase percentage  
28 was 100 percent; and

29 (5) the city aid base of the city used in calculating aid  
30 under section 477A.013 is less than \$7 per capita.

31 ~~(i)~~ (h) The city aid base for a city is increased by  
32 \$102,000 in 2000 and thereafter, and the maximum amount of total  
33 aid it may receive under section 477A.013, subdivision 9,  
34 paragraph (c), is also increased by \$102,000 in calendar year  
35 2000 only, provided that:

36 (1) the city has a population in 1997 of 2,000 or more;

1 (2) the net tax capacity of the city used in calculating  
2 its 1999 aid under section 477A.013 is less than \$455 per  
3 capita;

4 (3) the net levy of the city used in calculating 1999 aid  
5 under section 477A.013 is greater than \$195 per capita; and

6 (4) the 1999 local government aid of the city under section  
7 477A.013 is less than 38 percent of the amount that the formula  
8 aid of the city would have been if the need increase percentage  
9 was 100 percent.

10 ~~(j)~~ (i) The city aid base for a city is increased by  
11 \$32,000 in 2001 and thereafter, and the maximum amount of total  
12 aid it may receive under section 477A.013, subdivision 9,  
13 paragraph (c), is also increased by \$32,000 in calendar year  
14 2001 only, provided that:

15 (1) the city has a population in 1998 that is greater than  
16 200 but less than 500;

17 (2) the city's revenue need used in calculating aids  
18 payable in 2000 was greater than \$200 per capita;

19 (3) the city net tax capacity for the city used in  
20 calculating aids available in 2000 was equal to or less than  
21 \$200 per capita;

22 (4) the city aid base of the city used in calculating aid  
23 under section 477A.013 is less than \$65 per capita; and

24 (5) the city's formula aid for aids payable in 2000 was  
25 greater than zero.

26 ~~(k)~~ (j) The city aid base for a city is increased by \$7,200  
27 in 2001 and thereafter, and the maximum amount of total aid it  
28 may receive under section 477A.013, subdivision 9, paragraph  
29 (c), is also increased by \$7,200 in calendar year 2001 only,  
30 provided that:

31 (1) the city had a population in 1998 that is greater than  
32 200 but less than 500;

33 (2) the city's commercial industrial percentage used in  
34 calculating aids payable in 2000 was less than ten percent;

35 (3) more than 25 percent of the city's population was 60  
36 years old or older according to the 1990 census;



1 (4) the city aid base of the city used in calculating aid  
2 under section 477A.013 is less than \$15 per capita; and

3 (5) the city's formula aid for aids payable in 2000 was  
4 greater than zero.

5 ~~(j)~~ (k) The city aid base for a city is increased by  
6 \$45,000 in 2001 and thereafter and by an additional \$50,000 in  
7 calendar years 2002 to 2011, and the maximum amount of total aid  
8 it may receive under section 477A.013, subdivision 9, paragraph  
9 (c), is also increased by \$45,000 in calendar year 2001 only,  
10 and by \$50,000 in calendar year 2002 only, provided that:

11 (1) the net tax capacity of the city used in calculating  
12 its 2000 aid under section 477A.013 is less than \$810 per  
13 capita;

14 (2) the population of the city declined more than two  
15 percent between 1988 and 1998;

16 (3) the net levy of the city used in calculating 2000 aid  
17 under section 477A.013 is greater than \$240 per capita; and

18 (4) the city received less than \$36 per capita in aid under  
19 section 477A.013, subdivision 9, for aids payable in 2000.

20 ~~(m)~~ (l) The city aid base for a city with a population of  
21 10,000 or more which is located outside of the seven-county  
22 metropolitan area is increased in 2002 and thereafter, and the  
23 maximum amount of total aid it may receive under section  
24 477A.013, subdivision 9, paragraph (b) or (c), is also increased  
25 in calendar year 2002 only, by an amount equal to the lesser of:

26 (1)(i) the total population of the city, as determined by  
27 the United States Bureau of the Census, in the 2000 census, (ii)  
28 minus 5,000, (iii) times 60; or

29 (2) \$2,500,000.

30 ~~(n)~~ (m) The city aid base is increased by \$50,000 in 2002  
31 and thereafter, and the maximum amount of total aid it may  
32 receive under section 477A.013, subdivision 9, paragraph (c), is  
33 also increased by \$50,000 in calendar year 2002 only, provided  
34 that:

35 (1) the city is located in the seven-county metropolitan  
36 area;

1 (2) its population in 2000 is between 10,000 and 20,000;  
2 and

3 (3) its commercial industrial percentage, as calculated for  
4 city aid payable in 2001, was greater than 25 percent.

5 ~~(e)~~ (n) The city aid base for a city is increased by  
6 \$150,000 in calendar years 2002 to 2011 and the maximum amount  
7 of total aid it may receive under section 477A.013, subdivision  
8 9, paragraph (c), is also increased by \$150,000 in calendar year  
9 2002 only, provided that:

10 (1) the city had a population of at least 3,000 but no more  
11 than 4,000 in 1999;

12 (2) its home county is located within the seven-county  
13 metropolitan area;

14 (3) its pre-1940 housing percentage is less than 15  
15 percent; and

16 (4) its city net tax capacity per capita for taxes payable  
17 in 2000 is less than \$900 per capita.

18 ~~(f)~~ (o) The city aid base for a city is increased by  
19 \$200,000 beginning in calendar year 2003 and the maximum amount  
20 of total aid it may receive under section 477A.013, subdivision  
21 9, paragraph (c), is also increased by \$200,000 in calendar year  
22 2003 only, provided that the city qualified for an increase in  
23 homestead and agricultural credit aid under Laws 1995, chapter  
24 264, article 8, section 18.

25 ~~(g)~~ (p) The city aid base for a city is increased by  
26 \$200,000 in 2004 only and the maximum amount of total aid it may  
27 receive under section 477A.013, subdivision 9, is also increased  
28 by \$200,000 in calendar year 2004 only, if the city is the site  
29 of a nuclear dry cask storage facility.

30 ~~(h)~~ (q) The city aid base for a city is increased by  
31 \$10,000 in 2004 and thereafter and the maximum total aid it may  
32 receive under section 477A.013, subdivision 9, is also increased  
33 by \$10,000 in calendar year 2004 only, if the city was included  
34 in a federal major disaster designation issued on April 1, 1998,  
35 and its pre-1940 housing stock was decreased by more than 40  
36 percent between 1990 and 2000.

01/03/05

[REVISOR ] JMR/DN 05-1042

- 1 [EFFECTIVE DATE.] This section is effective beginning with
- 2 aids payable in 2004.

# MINNESOTA - REVENUE

## PROPERTY TAX Local Government Aid - Aid Base Formula Correction

January 14, 2005

	Yes	No
Separate Official Fiscal Note Requested		X
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		X

Department of Revenue  
Analysis of H.F. 47 (Abrams) SF 1087 (Moua)

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Retroactive beginning with aids payable in 2004.

### EXPLANATION OF THE BILL

The bill corrects a drafting error contained in Laws 2003 First Special Session, Chapter 21. The 2003 law change added new statutory language eliminating city grandfathered aid base amounts by setting them to zero but did not repeal existing statutory language that sets each city's aid base amount in 2004 and thereafter equal to the amount of its 2003 grandfathered aid base plus low-income housing aid.

### REVENUE ANALYSIS DETAIL

- There is no state cost associated with this correction to the city aid base formula because total aid is set to a fixed appropriation level. A change in the aid base affects the distribution of aid among cities.
- The Department of Revenue certified 2004 and 2005 city local government aid amounts consistent with this bill.

**Number of Taxpayers:** 853 cities eligible to receive local government aid.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

hf0047\_1/nrg

# COMMITTEE REPORT - WITHOUT AMENDMENTS

Committee on

TAXES

S. F. No. 1087

Resolution

Re-referred (from another committee)

### Committee recommendation:

do pass.

do pass and be placed on the Consent Calendar.

do pass and be re-referred to the Committee on

(no recommendation) be re-referred to the Committee on

\_\_\_\_\_ (date of committee recommendation)

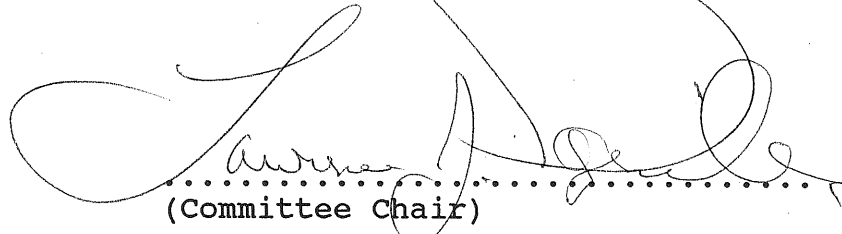
1 Senator Pogemiller from the Committee on Taxes, to which  
2 was referred

3 S.F. No. 1087: A bill for an act relating to state aid to  
4 cities; correcting the calculation of city aid base; amending  
5 Minnesota Statutes 2004, section 477A.011, subdivision 36.

6 Reports the same back with the recommendation that the bill  
7 do pass. Report adopted.

8

9



.....  
(Committee Chair)

10

11

12

13

14

February 24, 2005.....  
(Date of Committee recommendation)

## Rethinking Minnesota Taxes

**Fairer for families and  
better for business growth**

Published by Growth & Justice  
February 2005

GROWTH & JUSTICE

## GROWTH & JUSTICE

Growth & Justice is a Minnesota think tank focused on achieving economic growth *and* economic justice simultaneously.

Growth & Justice believes that at a time of deep partisan division, Minnesotans can unite around one goal:  
a state economy that is strong and growing,  
while providing a decent standard of living for all.

**Staff**

Joel Kramer, Executive Director

Lori Schaefer, Assistant Director

Baris Gumus-Dawes, Director of Research & Policy Analysis

Emily Saunoi-Sandgren, Administrative Assistant

This report is available online at [www.growthandjustice.org/](http://www.growthandjustice.org/)  
Questions should be directed to 651-917-6037.

2

GROWTH & JUSTICE

## Minnesota Citizens Rethink Taxes

- **Goal: To develop progressive policies that a broad range of Minnesotans can support**
- **Combined research and public discussions**
- **Engaged more than 150 citizens who offered input and ideas**
  - Tax experts, legislators, city officials, interested citizens and leaders from business, nonprofits and labor
  - Roundtable and work discussions in Metro, Rochester and Duluth

3

GROWTH & JUSTICE

## Overview

- **Why Tax Reform Now?**
- **Who Pays?**
- **Can We Add Growth and Justice?**
- **A Better Way to Raise Revenue**
- **Applying the Strategy: Three Models**
- **Assessing Other Tax Proposals**

4

GROWTH & JUSTICE



## Why Tax Reform Now?

- State and local governments raise about \$29B in taxes and fees
- As a share of Minnesotans' income, state and local revenue has declined sharply since the '90s
- Broad pressure building to invest more
- Politics is driving consideration of how to raise revenue
- Likely result — make tax system less fair and greater drag on economic growth

5

GROWTH & JUSTICE

## Time to Ask These Questions

1. Can we make the system fairer?
2. Can we simultaneously make it better for economic growth?

6

GROWTH & JUSTICE

# Inequity at the Top

## Tax Incidence by Income

Over 116,136 10%

\$84,343 - \$116,135	11.6
\$66,029 - \$84,342	11.7
\$52,134 - \$66,028	11.8
\$40,756 - \$52,133	11.9
\$31,749 - \$40,755	11.4
\$24,133 - \$31,748	10.8
\$17,110 - \$24,132	10.3
\$10,236 - \$17,109	9.9

Under 10,235 17.5  
(NOT RELIABLE)

8.2%

**Top 1% of Earners  
(400K+)  
Have Lowest Tax  
Incidence**

Source: MN Department of Revenue,  
Tax Incidence Study, 2003 7

GROWTH & JUSTICE

# A Wide Gap

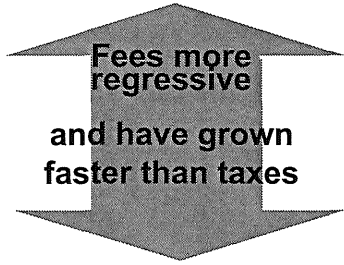
Household  
Income

State & Local  
Taxes

Fees Not  
Included

\$ 45K

12%



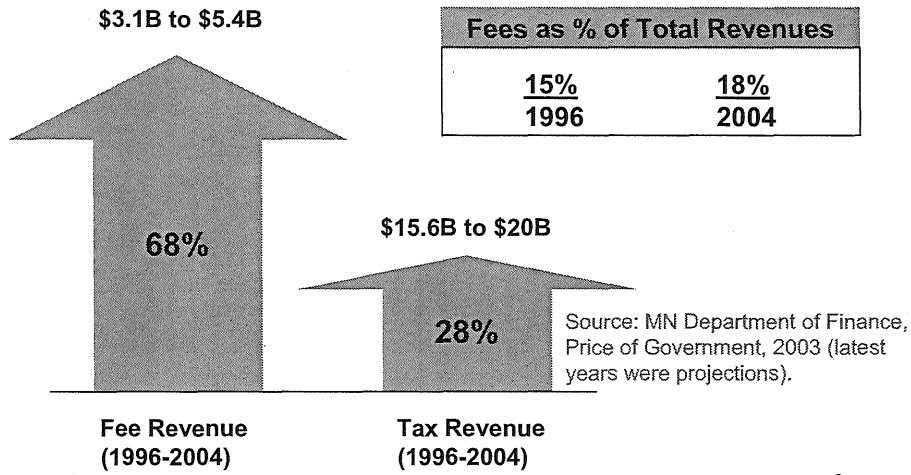
\$450K

8%

8

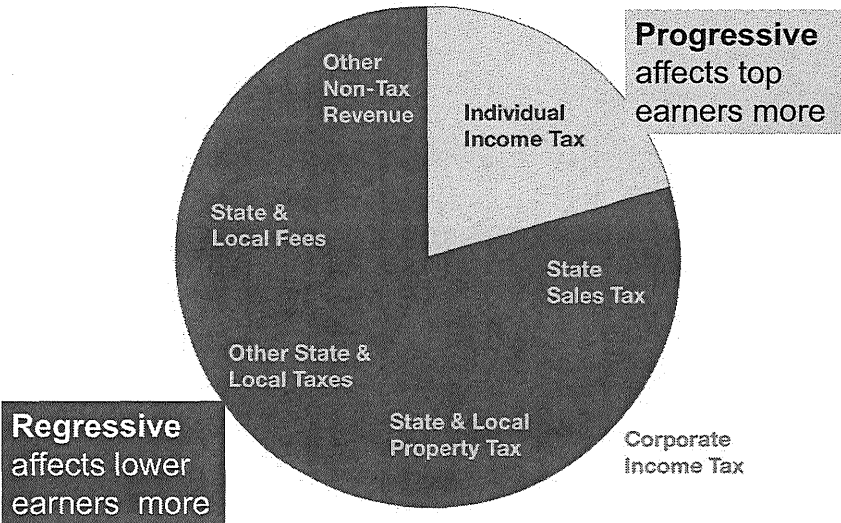
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# Fee Growth in Minnesota



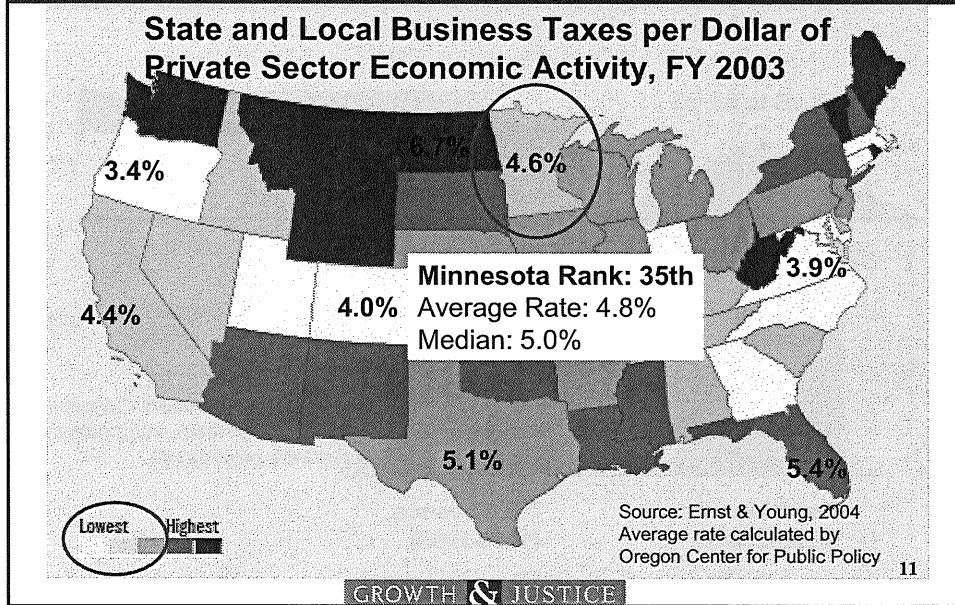
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# Why Overall Tax System is Regressive



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## What's the Business Tax Reality?



## Can We Add Growth and Justice?

**Yes.**

**But competing camps must each scrap a  
cherished assumption...**

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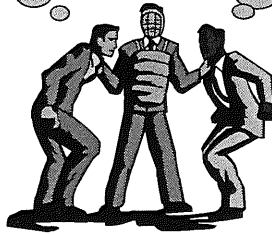
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## Cherished Beliefs

Taxes on  
business are  
progressive!

A progressive tax  
system hampers  
business growth!

Liberal  
view



Conservative  
view

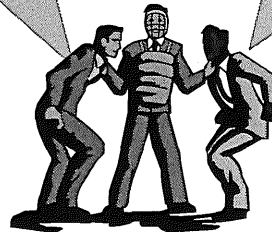
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## Exploding Cherished Beliefs

Businesses shift their  
taxes, and the burden  
falls disproportionately  
on *lower income  
households*.

High income tax  
states do just as  
well economically.



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## High Income Tax States Do Well

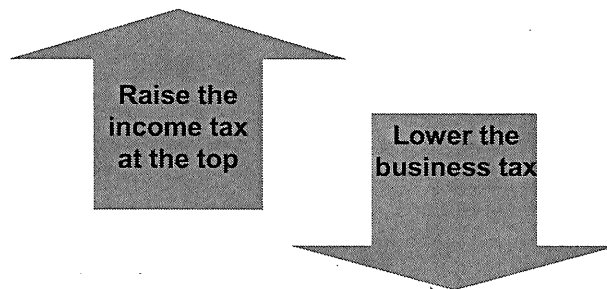
- **Institute for Taxation & Economic Policy:**
  - States with high income taxes grew personal income faster 1980-98
- **Statistical studies:**
  - Dueling results
  - But best evidence is that progressivity does no harm

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## Why Not a Swap?

Fairer for families

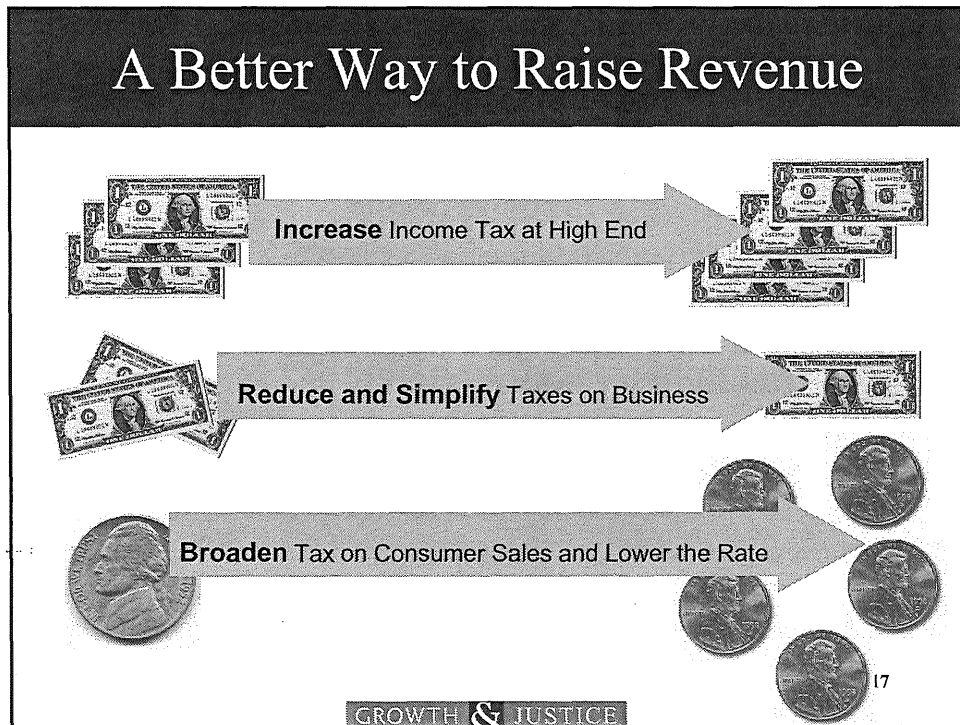


Better for business climate

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## A Better Way to Raise Revenue



## Increase Individual Income Tax

- **Focus mainly on top 5% of earners**
  - Keep top rate under 10%
- **Reduce deductions and exclusions**
  - Broadens the base
- **Lower taxes on low earners if possible**

**Contributes more total revenue —  
and revenues will grow faster**

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## Reduce Taxes on Business

- **Lower business taxes broadly**
  - Improve perception of business climate
  - Reduces regressive impact of shifting
- **Cut back on exemptions by industry or ZIP, and “taxation by negotiation”**
  - Level playing field is good tax policy and good selling point
- **Take the opportunity to market Minnesota**
  - Low business taxes, getting lower
  - We let business do business

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## Broaden the Consumer Sales Tax

- **Broaden to more goods and services and lower the rate**
  - Makes sales tax less regressive
  - Revenue keeps better pace with overall economic growth

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# Applying the Strategy: Three Models

Revenue-Neutral		\$1 B More Revenue
<p><b>Restructuring</b></p> <p>Higher earners pay more income tax than today and lower earners pay less</p> <p>Dramatic change in structure of business taxes — fewer, broader, lower</p>	<p><b>Rebalancing</b></p> <p>Minimizes number who pay more income tax, but no one pays less</p> <p>Less dramatic change in business tax, but no losers</p>	<p><b>Reinvesting</b></p> <p>More aggressive in the income tax, with an income surtax option for local government</p> <p>Less dramatic for business</p>

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## Restructuring

Revenue Source	Adjustments	Impact
<b>Individual Income Tax</b>	Adjusted Gross Income (AGI) model 25% pay more 75% pay less	<b>\$375M</b>
<b>Business Tax</b>	Scrap corporate income tax Scrap sales tax on most purchases Create 2.5% flat tax on business activity	<b>(\$375M)</b>
<b>Consumer Sales Tax</b>	Broaden to services, household goods & clothing Lower rate to 4.2%	<b>Neutral</b>

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## Rebalancing

Revenue Source	Adjustments	Impact
<b>Individual Income Tax</b>	New top bracket (9%) Cap itemized deductions at \$100K Tax municipal bond income 8% pay more 92% pay the same	<b>\$375M</b>
<b>Business Taxes</b>	Lower corporate income tax rate Sales tax rate on business declines	<b>(\$20M)</b> <b>(\$350M)</b>
<b>Consumer Sales Tax</b>	Include most services, except health care Lower the rate from 6.5% to 5.3%	<b>Neutral</b>

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## Reinvesting






Revenue Source	Adjustments	Impact
<b>Individual Income Tax</b>	More aggressive version of AGI 25% pay more, 75% less Give local governments income surtax option	<b>\$492M</b> <b>\$280M</b> <i>(if 3/4 used)</i>
<b>Business Taxes</b>	Pay less due to lower sales tax rate	<b>(\$200M)</b>
<b>Consumer Sales Tax</b>	Include consumer services (not health) and set rate at 5.75%.	<b>\$200M</b>
<b>Tobacco Tax</b>	Raise \$1 a pack Offset with a credit for all low-income taxpayers	<b>\$260M</b> <b>(\$26M)</b>

Total new state/local revenue: About \$1B a year

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## Assessing Other Tax Proposals

<b>No New Taxes</b>		Means no new <u>state</u> taxes. Property tax rise* is regressive and adds back tax on business. Forces up regressive fees.
<b>Local Sales Tax Hike</b>		Regressive and raises taxes on business. Local-option income tax surtax is much better.
<b>Cigarette Tax</b>		Regressive tax can be good policy when it has desirable side effects. Offset with income tax reduction for low income.
<b>Gas Tax</b>		OK with offset on income tax, but tolls are better policy. Business pays both, benefits from reduced congestion.
<b>Raise Income Tax</b>		The more focused on high earners, the better.

\* 3-year projected rise: 40+%

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## Special Thanks to:

- Sarah Aadland & Bill Mague—Project researchers
- Rep. Connie Bernardy—Legislative sponsor
- House nonpartisan research & fiscal staff—tax analysis
- David Schultz, Pam Neary, John James, Julie Bunn and others—contributions to early research
- Charlie Quimby, Words At Work, presentation development
- Our board of directors and advisors
- More than 700 individual and foundation donors
- More than 150 citizens engaged in roundtables and discussions

This work was made possible by a grant from the **Otto Bremer Foundation**, as well as operating support from **Robins, Kaplan, Miller and Ciresi, LLP, Foundation**, a supporting organization of the Minneapolis Foundation.

Other contributing foundations: the Oakleaf Foundation, Pax Christi Catholic Community, and the Elmer and Eleanor Andersen Foundation.

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# Appendices

## 1. Why Tax Reform Now?

A. Price of Government: State/Local Revenue as % of Personal Income

## 2. Who Pays?

A. Regressive Impact of Fees

B. Who Pays Business Taxes?

C. Who Ends Up Paying Business Taxes?

## 3. Restructuring Model

A. Adjusted Gross Income Tax Model

B. Restructuring: Business Taxes

C. Sales Tax: Broader Base, Lower Rate

## 4. Reinvesting Model

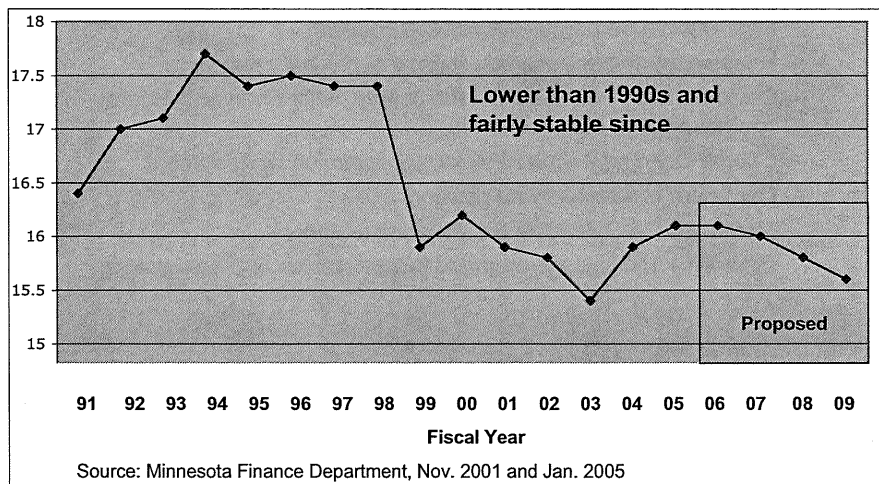
A. Reinvesting: Bigger AGI for \$1B

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# Price of Government

## State/Local Revenue as % of Personal Income



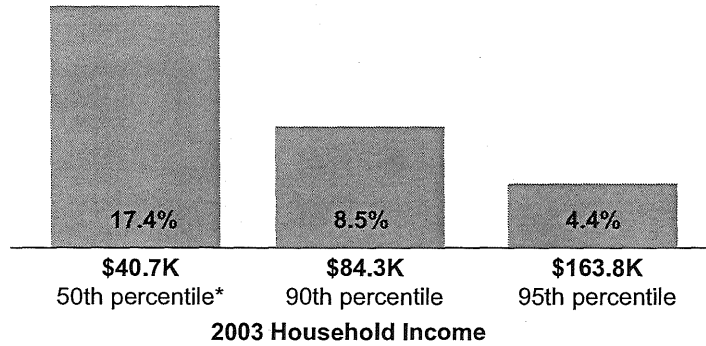
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# Regressive Impact of Fees

## Fees hit lower income families harder

Impact of \$7,100 tuition cost as a percentage of total income



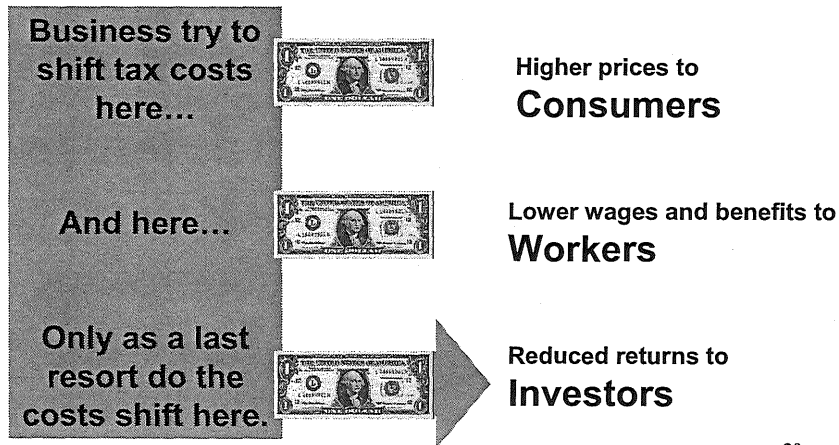
\* Rank among 2.24 million Minnesota tax-paying households

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# Who Pays Business Taxes?

Businesses don't pay taxes — people do



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## Who Ends Up Paying Business Taxes?

Over \$116,136	2.2%
\$84,343 - \$116,135	3.0
\$66,029 - \$84,342	3.4
\$52,134 - \$66,028	3.7
\$40,756 - \$52,133	4.0
\$31,749 - \$40,755	4.4
\$24,133 - \$31,748	4.8
\$17,110 - \$24,132	5.2
\$10,236 - \$17,109	6.3
Under \$10,235	11.0

After shifting to households, the effect of business taxes is highly regressive

Source: MN Department of Revenue, Tax Incidence Study, 2003

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## Adjusted Gross Income Tax Model

Income	Change in Taxes Paid*
To \$75K	-7% to -13%
\$75K - 150K	- 2% to -9%
\$150K +	+ 22 to 28%**

\*1.5M households pay less, 547K pay more

\*\* Above \$400K

**Marginal Rates (married filing jointly):** 5.2% to \$75K; 7.6% \$75K-150K; 9.5% over \$150K

**Exemptions—Adult:** \$8.2K, **Dependent:** \$5.5K **Senior/disabled:** \$1K (Exemptions phased out, \$150K to \$250K)

**Create Unified Family Credit:** Up to \$600 bigger than Working Family Credit, dropping other child credits

**Keep credits to offset marriage penalty and for taxes paid other states**

**Tax municipal bond income**

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## Restructuring: Business Taxes

- Eliminate sales tax on most business purchases (not entertainment) — \$1.9B
- Eliminate Corporate Franchise Tax — \$660M
- Add activity tax — base could be NH model of labor costs plus dividends plus interest
- MN share determined by nexus and single sales factor
- Exempt first \$500K of base — could exempt more to ensure no tax for, say, smallest 30% of firms
- 2.5% estimate to raise back all but \$375M comes from state estimate made in 90s. Not precise.
- Revenue Dept. report on activity tax, using confidential tax data, expected this spring — should identify winners and losers

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## Sales Tax: Broader Base, Lower Rate

### Revenue-Neutral Methods to Broaden Sales Tax (Maintaining current \$2.4B in revenue)

Category	Base	Rate**
Current	\$37.0B	6.5%
Services*	+ 9.0B	5.22%
Clothing	+ 7.5B	4.5%
Household Goods	+ 3.3B	4.2%

\* Not including health care

\*\*Assumes previous categories also taxed

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## Reinvesting: Bigger AGI for \$1B

- Rates are 5.2%, 8.0% and 9.8%
- Exemptions and credits as in other model
- \$75K to \$125K still ahead, slightly less
- \$125K to \$150K group now a wash
- Impact on higher groups up about 4 points
- 15K households shift to the pay-more side
- Total added revenue from income tax is \$492M, or 8.2%

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# GROWTH & JUSTICE

*Center for a fair, prosperous and sustainable Minnesota economy*

**PRESS RELEASE**  
**FOR IMMEDIATE RELEASE**  
February 23, 2005

**Contact:** Lori Schaefer  
Growth & Justice  
#651-917-6037

## **Rethinking Minnesota Taxes: A tax strategy that is fairer for families and better for business**

**ST. PAUL, MN** – Growth & Justice, a Minnesota think tank, is proposing that Minnesota make its tax system fairer for families and better for economic growth by agreeing to a swap: higher individual income taxes on high earners and lower taxes on business. The swap can be done on a revenue neutral basis. Or, the same strategy can be used to raise more revenue.

After a year of research and discussions with citizens around the state, Growth & Justice concludes that this trade would deal with a major inequity in the current way Minnesota raises its money. At the same time, it would strengthen the state's pitch to business that Minnesota is a great place to locate or expand. "All that's required," said Joel Kramer, executive director of Growth & Justice, "is for conservatives and liberals to each give up a sacred assumption about taxes that isn't supported by the facts." Tax conservatives must let go of their belief that a more progressive tax system is bad for business growth. And, tax liberals must let go of their cherished belief that taxing business more heavily is a progressive step.

The inequity is that the highest earners do not pay their proportional share of all state and local taxes. On average, that share is just under 11%. But a typical family earning about \$45,000 pays about 12% of its income in all state and local taxes, while the family earning \$450,000 pays only 8%. The inequity is even greater when federal income tax deductions and fees, such as tuition, are taken into consideration.

The way to fix that inequity is by raising the income tax on high earners. This clashes with the first sacred assumption: conservatives argue that higher income taxes will harm business growth, and cost the state jobs. However, Growth & Justice concludes that there's no statistical link between the share of taxes paid by the wealthy and the state's economic growth. In fact, states with high income taxes do just as well economically as those with low or no income taxes.

Kramer explained that the second sacred assumption, supported by many liberals, is that because businesses are owned by people of means, taxing them is progressive. But taxes on business actually hit lower and middle-income families harder because businesses often avoid taking the hit on their bottom line by passing along the cost in the form of higher consumer prices and lower wages and benefits.

Lowering business taxes gives the state a much better economic development message. "Today we say: 'We're a high-tax state, but if you operate in certain zip codes and follow certain rules, we'll relieve you of part of the burden,'" Kramer said. "Instead, we could say, 'Minnesota offers businesses a level playing field, with business taxes that are low and getting lower.'"

**[OVER]**

Besides this swap, Growth & Justice is also proposing broadening the base of the sales tax to include most consumer services, clothing and household goods, and lowering the rate. This would make the sales tax more stable and fairer.

Growth & Justice offers three possible approaches to the proposed tax swap, ranging from a dramatic restructuring to more modest changes. Two of the models are revenue neutral and one offers a way to raise about \$1 billion more per year.

### **Model 1: Restructuring**

In this revenue neutral plan, the individual income tax would be calculated starting at the Adjusted Growth Income line on the federal return, before deductions, and income from municipal bonds would be taxed. As a result, about 25% of Minnesota households would pay more than they do today (mostly households earning over \$150,000 a year), and 75% of households would pay less. The corporate income tax would be abolished, and sales taxes on purchases by business would be virtually eliminated. In their place, the state would add a new tax on business activity of about 2.5%. The total amount of tax paid by businesses would decline by hundreds of millions of dollars, though some businesses would pay more.

### **Model 2: Rebalancing**

In this less dramatic revenue neutral version, the individual income tax would continue to start at the Federal Taxable Income line (as it does today), and a new top rate of 9% would be created. Itemized deductions would be capped at \$100,000 per household, and municipal bond income would again be taxed. About 8% of taxpayers (mostly earning over \$150,000), would pay more, and the other 92% would pay the same as they do now. No business tax would be eliminated, but both corporate income taxes and business sales taxes would decline – no business would pay more than today.

### **Model 3: Reinvesting**

This model could be used to increase revenues by \$1 billion a year. One added element in the Reinvesting model would be giving local governments the option to collect an income tax (up to 5% of what the taxpayer owes the state), instead of relying so heavily on local property taxes and sales taxes, which hit lower and middle-income families hardest. A second element would be raising the cigarette tax by \$1 a pack, and using 10% of the gain (or \$26 million) to reduce income taxes on lower-income families.

“There’s an intense debate at the Capitol this session about how much revenue we should raise to best serve the needs of Minnesotans,” Kramer said, “and it’s clear that the sentiment to raise more is growing. So it’s important to ask, ‘Which taxes?’ and ‘Who Pays?’ By challenging both conservative and liberal assumptions that are not backed up by the evidence, we can make our revenue system a lot better for both economic justice and economic growth.”

If you would like to discuss the Growth & Justice tax plan, called “Rethinking Minnesota Taxes: A strategy that’s fairer for families and better for business,” call Lori Schaefer at 651-917-6037 or email [lori@growthandjustice.org](mailto:lori@growthandjustice.org).

##