Minnesota 1994-95 Biennial Budget

- **Major Revenues**
- **Local Government Aids and Property Tax Relief**

Presented by
Governor Arne H. Carlson
to the
78th Legislature

Local Aids & Credits and Tax Document
Governor's 1994-95 Proposed Biennial Budget

TAX REV[illegible]UES
($ in thousands)

Tax Revenue	Nov. '92 Frcst F.Y. 1992–93	Nov.'92 Plng F.Y. 1994–95	Percentage Change
Individual Income Tax	6,369,236	6,793,700	6.7%
Corporate Franchise	909,178	1,087,000	19.6%
Sales & Use Tax	4,591,417	5,232,532	14.0%
Motor Vehicle Excise	563,556	622,300	10.4%
Inheritance, Estate, Gift	40,341	36,060	–10.6%
Liquor, Wine, Beer	107,341	104,620	–2.5%
Cigarette & Tobacco Products	311,936	324,697	4.1%
Iron Ore & Taconite Occupation	4,165	8,710	109.1%
Taconite Production	110	110	0.0%
Deed & Mortgage Registration	128,988	108,000	–16.3%
Insurance Gross Premiums	266,317	284,000	6.6%
Telephone & Telegraph Gross Earnings	18,646	1,512	–91.9%
Controlled Substances Tax	724	800	10.5%
Pari–Mutual Taxes	2,059	1,406	–31.7%
Lawful Gambling Tax	4,819	4,195	–12.9%
Pull–Tab & Tipboard	51,843	50,322	–2.9%
Lawful Gambling Combined Receipts	50,928	48,237	–5.3%
Income Tax Reciprocity	46,370	47,316	2.0%
Other Gross Earnings	113	112	–0.9%
Health Care Surcharge	56,545	148,846	163.2%
Rental Car Contract Tax	10,643	10,662	0.2%
All Other Tax Refunds	(27,080)	(34,259)	26.5%
TOTAL / Non–Ded. GF Tax Revs	13,508,195	14,880,878	10.2%
Governor's Recommendations			
Individual Income Tax			
Collection loss due to revised salary est.	6,369,236	6,783,700	6.5%
Sales & Use Tax			
Exemption of replacement equipment	4,591,417	5,213,332	13.5%
TOTAL / Governor's Recommendation	13,508,195	14,851,678	9.9%

REVENUE NAME: Individual Income Tax

STATUTORY CITATION: Minnesota Statutes, Section 290.03

DESCRIPTION:

The individual income tax is imposed on the taxable income of resident and nonresident individuals, estates, and trusts. The tax base is federal taxable income plus and minus state modifications. The graduated tax rates are 6%, 8%, and 8.5%, with separate rate schedules for married-joint returns, married-separate returns, single persons, and heads of households. There is an alternative minimum tax on tax preference items at a rate of 7% and a lump sum distribution tax, each of which is similar to its federal counterpart.

RECENT TRENDS:

In 1991 the working family credit was enacted which is equal to 10% of the federal earned income credit. Adoption of the federal changes in 1991 included the phase-out of the personal exemptions and the limitation of itemized deductions for higher income taxpayers.

POLICY ISSUES:

At the federal level it appears likely that the new administration will propose higher tax rates on high income individuals, and that discussion could carry over to the state tax rates.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy, but estimates a loss in collections of $5.0 million each year due to revised salary planning estimates for public employees.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$3,144,636	$3,224,600	$3,346,300	$3,447,400
RECOMMENDATION:			$3,341,300	$3,442,400
Collection loss due to revised salary planning estimates			$(5,000)	$(5,000)

AGENCY: Revenue, Department of **1994-95 Biennial Budget**

REVENUE NAME: Corporate Franchise Tax

STATUTORY CITATION: Minnesota Statutes, Section 290.02

DESCRIPTION:

The corporate franchise tax is imposed on the Minnesota taxable net income of corporations. Domestic unitary reporting is used. Income is apportioned to Minnesota using a weighted 3-factor formula of 15% property, 15% payroll, and 70% sales. Under certain conditions, separate accounting or a single sales factor can be used. The rate of tax is 9.8%. There is an alternative minimum tax on tax preference items, similar to its federal counterpart, at a tax rate of 5.8%.

In addition to any regular or alternative minimum tax, a minimum fee is imposed, which is based on the sum of the corporation's Minnesota property, payroll, and sales factors. The flat fee ranges from $100 (for a corporation with factors of $500,000-$999,000) to $5,000 (for a corporation with factors of $20 million or more).

RECENT TRENDS:

After the extensive changes made to the corporate franchise tax in 1987 through 1990, only minor changes were enacted in 1991 and 1992.

POLICY ISSUES:

Complexities in the alternative minimum tax, including depreciation adjustments necessitated by the difference in federal and Minnesota depreciation deduction for property placed in service in earlier years. The impact of the 1992 legislation relating to limited liability companies will need to be monitored.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$420,278	$488,900	$545,600	$541,400
RECOMMENDATION:			$545,600	$541,400

REVENUE NAME: Sales and Use Tax

STATUTORY CITATION: Minnesota Statutes, Sections 297A.02 and 297A.14

DESCRIPTION:

The sales and use tax is imposed upon the sales price of tangible personal property and taxable services sold or used in Minnesota. The general rate is 6.5%, with a rate of 9.0% applicable to liquor and beer sales, a 4.5% rate applicable to special tooling, and a 2.5% rate applicable to farm machinery and logging equipment. These rates include the state-administered county option tax of 0.5% which is imposed in every county.

Major exemptions include food for off-premise consumption, clothing, prescribed medicines, gasoline and special fuels subject to the excise tax, most publications issued at intervals of 3 months or less, materials used or consumed in agricultural or industrial production, textbooks, residential heating fuels and water services, and capital equipment for new or expanding industries.

RECENT TRENDS:

- In 1991, the tax rate was increased by 0.5% with the authorization and adoption of a county option tax in every county. Proceeds from the 0.5% tax plus 1.5% of the state rate was dedicated to the local government trust fund, the remaining 4.5% to the General Fund.
- In 1992, the general exemption for local governments was replaced with specific exemptions retained for school districts, publicly owned and operated hospitals and nursing homes, and specified purchases by public libraries.
- Recent legislation has included both adding some services (pet boarding, private communication) to the base and adding fairly specific exemptions--photovoltaic devices and wind energy conversion systems, for example.
- Flat taxes have been added: in 1991 to car rentals ($7.50 per rental of less than 29 days) and in 1992 to 900 telephone service ($.50 per call).

POLICY ISSUES:

- Further broadening the tax base to include more consumer purchases and services, to provide greater revenue stability, and to reduce the complexity that results from the existing exemptions.
- The application of the tax to business inputs, particularly capital equipment. Should the exemption of capital equipment for new or expanding industries be extended to all capital equipment?

GOVERNOR'S RECOMMENDATION:

The Governor recommends enacting a targeted tax exemption to help small businesses increase operations in Minnesota. This recommendation provides a sales tax exemption for replacement equipment used by manufacturing and mining firms having 100 or fewer employees. Under current law only equipment used by new or expanding manufacturers qualifies for exemption. (See investment initiative for more details).

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$2,193,451	$2,397966	$2,548,072	$2,684,460
RECOMMENDATION:			$2,539,672	$2,673,660
Exemption of replacement equipment for small manufacturers.			$(8,400)	$(10,800)

REVENUE NAME: Motor Vehicle Excise Tax

STATUTORY CITATION: Minnesota Statutes, Section 297B.02

DESCRIPTION:

The tax is imposed on each purchase of a motor vehicle required to be registered in Minnesota. The tax is 6.5% of the purchase price less the value of a trade-in vehicle. The 6.5% rate includes the state-administered county option tax of 0.5% which is imposed in every county. For a vehicle transferred for a nominal or no monetary consideration, the purchase price is deemed to be the average value of similar motor vehicles. In lieu of the 6.5% tax, a flat tax of $10 applies to passenger cars 10 years or older, and a flat tax of $90 applies to collector vehicles.

RECENT TRENDS:

In 1991 the tax rate was increased by 0.5% with the authorization and adoption of a county option tax in every county. Proceeds from the 0.5% tax plus 1.5% of the state rate are dedicated to the local government trust fund, the remaining 4.5% to the General Fund. Dedication of a portion of the proceeds for highway and transit use was eliminated.

POLICY ISSUES:

In the past, the portion of the tax dedicated to highway and transit purposes was an ongoing issue and was changed virtually every year. With 2% of the 6.5% tax now going to the local government trust fund, this may no longer be an issue.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$270,356	$293,200	$304,700	$317,600
RECOMMENDATION:			$304,700	$317,600

REVENUE NAME: Inheritance, Gift, and Estate Tax

STATUTORY CITATION: M.S. Section 291.01

DESCRIPTION:

The Minnesota estate tax was enacted in 1979, replacing the inheritance and gift taxes. Under current law, the estate tax is computed from the federal maximum credit for the state death tax. The tax equals the maximum federal credit multiplied by the proportion of the federal gross estate attributed to Minnesota. Estate returns must be filed if the federal gross estate exceeds $600,000.

POLICY ISSUES:

No proposed state tax law changes are currently considered which would affect the revenue estimates. At the federal level, legislation has been proposed to reduce the $600,000 exemption to $200,000.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$22,311	$18,030	$18,030	$18,030
RECOMMENDATION:			$18,030	$18,030

AGENCY: Re... ue, Department of

REVENUE NAME: Liquor, Wine, and Beer

STATUTORY CITATION: M.S. Section 297C.02

DESCRIPTION:

Under current law the tax on distilled spirits is $5.03 per gallon; beer containing 3.2% or less alcohol, $0.0774 per gallon; and beer containing more than 3.2% alcohol, $0.1484 per gallon. Wines with alcohol contents ranging from 14% or less to more than 24% are taxed at graduated rates ranging from $0.30 to $3.52 per gallon. Sparkling wine is taxed at $1.82 per gallon.

POLICY ISSUES:

None are factored into the estimates.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$53,600	$53,741	$52,763	$51,857
RECOMMENDATION:			$52,763	$51,857

REVENUE NAME: Cigarette and Tobacco Products Tax

STATUTORY CITATION: M.S. Sections 297.02, 297.22, and 297.32

DESCRIPTION:

Under current law the tax on cigarettes is 48 cents per pack of 20 cigarettes. The General Fund portion of the cigarette tax includes bond debt service but excludes allotment to the Minnesota Future Resources Fund and the Health Care Access Fund from 7-1-92 to 12-31-93.

The current tax on other tobacco products is 35% of wholesale price. All of the tobacco products tax goes to the state General Fund.

POLICY ISSUES:

No pending or proposed change of the current tax law is factored into the estimates.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$157,157	$154,779	$158,447	$166,250
RECOMMENDATION:			$158,447	$166,250

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$2,040	$2,125	$5,710	$3,000
RECOMMENDATION:			$5,710	$3,000

REVENUE NAME: Iron Ore and Taconite Occupation Taxes

STATUTORY CITATION: M.S. 298.01

DESCRIPTION:

The Occupation Tax is a form of income tax (passed 12 years before Minnesota had an income tax) based upon the value of the ore mined or produced in Minnesota, not upon the income from the sale of the ore. The primary reason for this distinction was that iron ore was generally not sold since most mining companies were owned by one of many vertically integrated steel companies.

Beginning in 1990, the Occupation Tax was modified to be determined under the same rules as the Corporate Franchise Tax, with 2 very notable exceptions: 1) the tax continues to be based upon the value of the ore produced, with limited, specified deductions for expenses, and 2) the tax applies only to the Minnesota mine and processing plant (non-unitary) rather than the total nationwide activities of the owners (unitary). The applicable tax rate is 9.89% beginning in 1990. Firms are also subject to the corporate alternative minimum tax.

Since 1986 production of taconite has steadily increased and the production of iron ore has steadily decreased. The production of both taconite and iron ore are expected to decrease in 1991, due primarily to a weakened demand for steel and steel products.

	Taconite		Iron Ore	
	Tons	Tax	Tons	Tax
1990 (F.Y.1991)				
Production actual	43.2M	$2.5M	500,000	$100,000
Tax estimated				
1991 (F.Y.1992)				
Production actual	37.0M	$2.0M	300,000	$ 75,000
Tax estimated				

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

REVENUE NAME: Taconite Production Tax

STATUTORY CITATION:

DESCRIPTION:

The production tax is paid by mining companies in lieu of local property taxes on land, buildings, and equipmemt used in taconite mining, quarrying, or production.

The 1990 Taconite Production Tax (payable 90% in February, 1991 and 10% April, 1991) was $78,929,346. This money is paid to the Iron Range counties, who distribute it to various county funds, cities, townships and school districts within the county, the Taconite Property Tax Relief account, the IRRRB, and a small portion to designated agencies: .3¢ per taxable ton ($108,230 for 1990) to the Range Association of Municipalities and Schools (RAMS), and $55,000 to the Department of Revenue, for administering this tax.

This $55,000 was intended to go directly to the Department of Revenue, but during the legislative process, the money was appropriated to the General Fund. The result was that the legislature withheld the $55,000 from the allocation to the Department of Revenue and the Department of Revenue never received the $55,000 from the Production Tax.

Beginning with production year 1991, the rate is increased annually by the implicit price deflator. The 1990 taconite tax rate was $1.975 per ton.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$55	$55	$55	$55
RECOMMENDATION:			$55	$55

REVENUE NAME: Mortgage Registry Tax and Deed Transfer Tax

STATUTORY CITATION: M.S. Sect. 287.05 and 287.21

DESCRIPTION:

The mortgage registry tax is $.23 per $100.00 of principal debt which is secured by a mortgage of real property is the state. Organizations exempt from the property tax are exempt from this tax.

The deed transfer tax is $1.65 for each $500.00 of consideration in the transfer of real estate by any deed, instrument, or writing. Exemptions include cemetary lots and deed of distribution by personal representatives.

The counties collect both taxes and retain 3% of the revenue.

RECENT TRENDS:

In 1987, the rates for both taxes were increased and the deed transfer tax was extended to personal property transferred as part of total consideration. In 1991, reverse mortgages were made subject to the mortgage registry tax.

POLICY ISSUES:

No proposals at this time.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$63,488	$65,500	$54,000	$54,000
RECOMMENDATION:			$54,000	$54,000

AGENCY: Revenue, Department of

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REVENUE NAME: Insurance Premiums Taxes

STATUTORY CITATION: M.S. Sections 60A.15, 60A.198, 69.54, and 299F.21.

DESCRIPTION:

Tax Base: Gross receipts less return premiums received on all business in Minnesota.

Rates:

2.0% - Domestic and foreign companies' premiums.
0.5% - Mutual companies other than life with assets less than $1.6 billion.
3.0% - Surplus line agents.
0.5% - Fire marshal tax on fire premiums.
2.0% - Surcharge on fire premiums for property located in cities of the first class.

Exemptions: Fraternal benefit societies; nonprofit health service plan corporations; health maintenance organizations; Minnesota's comprehensive health association plan premiums; farmers' mutual and township mutual insurance companies (fire marshal tax).

RECENT TRENDS:

- Beginning in 1996, a 1.0% tax will be imposed on the premiums of health maintenance organizations and non-profit health service plan corporations. Proceeds will go to the Health Care Access fund.
- In 1992, the ocean marine profits tax was repealed and replaced by the 2% premiums tax.

POLICY ISSUES:

No proposals are known at this time.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$130,617	$135,700	$140,000	$144,000
RECOMMENDATION:			$140,000	$144,000

REVENUE NAME: Telephone and Telegraph Gross Earnings Tax

STATUTORY CITATION: M.S. Sections 273.41, 294.22, 295.32, and 295.34

DESCRIPTION:

The gross earnings tax is levied on the gross receipts of telephone and telegraph companies. Effective in 1991 for telephone companies, the tax rate is 1.0% on income from rural subscribers and cities of the 4th class and 2.5% on income from all other business. Starting in 1992, the gross earnings tax is phased out. In the case of telegraph companies, the gross earnings tax rate is 2.0% in 1991, then zero starting in 1992.

POLICY ISSUES:

No proposed state tax law changes are currently considered which would affect the revenue estimates.

EXPLANATION OF ESTIMATES:

The estimates are based on historical tax return filings by telephone and telegraph companies doing business in Minnesota. The averages of the observed annual growth rates of gross receipts from telephone and telegraph business were used in projecting the gross earnings to C.Y. 1991. Because the phaseout of the gross earnings tax becomes effective in 1992, the estimated collections for F.Y. 1992 are due to the projected payments during the 3rd and 4th quarter of C.Y. 1991.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$17,883	$763	$756	$756
RECOMMENDATION:			$756	$756

AGENCY: Revenue, Department of

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REVENUE NAME: Controlled Substances Tax

STATUTORY CITATION: M.S. Sect. 297D.08.

DESCRIPTION:

Tax Base: Marijuana or controlled substance, as defined, that is held, possessed, transported, transferred, sold, or offered to be sold in violation of Minnesota laws.

Rates:

- Marijuana - $3.50 per gram or portion thereof.
- Controlled substance - $200 per gram or portion thereof.
- Controlled substance not sold by weight - $400 on each ten dosage units, or portion thereof.

Exemptions: Pharmacists or other persons lawfully in possession of marijuana or a controlled substance.

Who Pays: A dealer who in violation of Minnesota law, manufactures, produces, ships, transports, or imports into Minnesota or possesses more than the specified amount of marijuana or a controlled substance.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$324	$400	$400	$400
RECOMMENDATION:			$400	$400

REVENUE NAME: Pari-Mutuel Taxes

STATUTORY CITATION: M.S. Sect.240.15

DESCRIPTION:

Tax Base: Total amount bet in pari-mutuel horse racing pools at a licensed racetrack.

Rates and Disposition: State General Fund: 6% of the takeout, (17% for straight pools; 23% for multiple pools).

Revenue

Disposition: General Fund and Minnesota Breeder's Fund.

Administration

Agencies: Minnesota Department of Gaming, Division of Pari-Mutuel Racing, and the Minnesota Racing Commission.

Who Pays: Any licensed racetrack.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$1,230	$829	$703	$703
RECOMMENDATION:			$703	$703

REVENUE NAME: Lawful Gambling Tax

STATUTORY CITATION: M.S. Section 349.212

DESCRIPTION:

Under current law, the tax on the gross receipts of organizations from bingo, raffles, and paddlewheels less prizes is 10%.

DEFINITIONS:

A **paddlewheel** is a wheel with marked numbers or sections which is spun until a pointer stops on one of the spaces. The player who has previously purchased the ticket corresponding to that space wins.

POLICY ISSUES:

No proposed state tax law changes are currently considered which would affect the revenue estimates.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$2,615	$2,204	$2,119	$2,076
RECOMMENDATION:			$2,119	$2,076

REVENUE NAME: Pull-tab and Tipboard Tax

STATUTORY CITATION: M.S. Section 349.212

DESCRIPTION:

Effective in 1987, pull-tabs have been taxed separately from the other lawful gambling activities. In 1988 the state legislature made tipboards subject to the same tax as pull-tabs. Under current law the tax rate is 2% of the ideal gross of each pull-tab or tipboard deal sold by a distributor.

DEFINITIONS:

Pull-tabs are paper tickets sold by manufacturers to distributors and by distributors to gambling organizations in quantities referred to as pull-tab games. A pull-tab game consists of a quantity of pull-tab tickets in a cardboard box. The quantity of tickets in a box is referred to as a **deal** and can be any amount, but the amount in the box must equal the number printed on the box and it must equal the number reported to the State of Minnesota. Each box or deal of pull-tabs is imprinted by the pull-tab manuafacturer with a serial number and each individual ticket in the box must be imprinted with the same serial number. One serial number may not be used for more than one pull-tab game. A **tipboard** is a sectioned board with hidden numbers or symbols on it. Players purchase tickets corresponding to sections of the board in hopes that the will reveal a prize when opened. The concept of **ideal gross** is important since this is the term used in the imposition of the tax at the distributor level. **Ideal gross** means basically the total amount of receipts that would be received if every individual ticket in the pull-tab or tipboard deal was sold at its face value.

POLICY ISSUES:

No proposed state tax law changes are currently considered which would affect the revenue estimates.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$26,362	$25,481	$25,224	$25,098
RECOMMENDATION:			$25,224	$25,098

AGENCY: Revenue, Department of

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REVENUE NAME: Lawful Gambling Combined Receipts Tax

STATUTORY CITATION: M.S. Section 349.212

DESCRIPTION:

Under current law which took effect October 1989, the combined receipts tax is levied on the fiscal year gross receipts of an organization from pull-tabs and tipboards. The tax rates are as follows:

Gross Receipts	Tax Rate
Not over $500,000	0%
$500,001-$700,000	2%
$700,001-$900,000	4%
$900,001 and Over	6%

POLICY ISSUES:

No proposed tax law changes are currently considered which would affect the revenue estimates.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:

	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$26,350	$24,578	$24,300	$23,937
RECOMMENDATION:			$24,300	$23,937

REVENUE NAME: Income Tax Reciprocity

STATUTORY CITATION: M.S. Section 290.081

DESCRIPTION:

The income tax reciprocity agreement between Minnesota and Wisconsin has been in effect since 1972. Whenever the Wisconsin tax on Minnesota residents, which would have been paid without the reciprocity agreement, exceeds the Minnesota tax on Wisconsin residents, which would have been paid without the agreement, or vice versa, the state with the net revenue loss resulting from the agreement shall receive from the other state the amount of such loss. In F.Y. 1993, the net revenue received from Wisconsin was $24.1 million.

POLICY ISSUES:

No proposed state tax law changes are currently considered which would affect the revenue estimates.

GOVERNOR'S RECOMMENDATION:

The Governor recommends a continuation of current tax policy.

NOVEMBER 1992 FORECAST BASIS:	Actual F.Y. 1992	Forecast F.Y. 1993	Forecast F.Y. 1994	Forecast F.Y. 1995
	$22,245	$24,125	$23,676	$23,640
RECOMMENDATION:			$23,676	$23,640

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LOCAL AID [illegible] CREDITS

Governor's Recommendations / General Fund & Local Government Trust Fund

($ in thousands)

Projected Spending	FY93 Current Spending	F.Y. 1994 Govs Rec	F.Y. 1995 Govs Rec	F.Y. 94–95 Govs Rec
Homeowners Property Tax Refund	51,000	58,600	65,100	123,700
Renters Property Tax Refund	85,900	88,700	100,300	189,000
Targeting PTR	12,200	16,000	5,500	21,500
Workstead	0	0	10,000	10,000
Local Government Aid	305,864	281,878	281,878	563,756
Equalization Aid	21,079	19,428	19,428	38,856
Disparity Reduction Aid	42,618	41,824	41,063	82,887
Border City DRA	2,596	2,592	2,592	5,184
Attached Machinery Aid	3,218	3,218	3,218	6,436
HACA Basic/Non–School	367,289	410,961	428,477	839,438
HACA Basic/School	164,717	186,166	194,226	380,392
HACA/Mobile Home	6,032	6,032	6,032	12,064
HACA/PriorYr Adj	274	217	217	434
TIF HACA	23	23	23	46
Supplemental Homestead	344	344	344	688
Taconite Reimbursement	561	561	561	1,122
Transition Credit Aid	108	49	49	98
Aid to Police & Fire	43,306	45,200	45,306	90,506
RTB Levy Reduction	2,076	2,076	2,076	4,152
Enterprise Zone Credit	29	29	29	58
Human Services Aid	142,363	142,363	142,363	284,726
HACA–Deed & Mortgage	54,542	54,542	54,542	109,084
CSSA	55,949	50,002	49,809	99,811
County Criminal Justice Aid	0	0	0	0
Fin Dept/Cnty Reimb Corr Aid	0	0	0	0
Pub Def HACA Offset	0	0	0	0
IGR Information System	350	1,200	1,200	2,400
Transfers to the GF from LGTF:				
HACA Court Offset	6,116	0	0	0
State Auditor Cost	217	217	217	434
Administration Dept	205	205	205	410
Employee Relations	55	55	55	110
State Planning/Demographer	16	16	16	32
Interest	24,716	0	0	0
LGTF Administration:				
Dept of Revenue	560	300	300	600
Dept of Finance	105	105	105	210
ACIR	25	525	525	1,050
Met Council	0	500	500	1,000
TOTAL	1,394,453	1,413,928	1,456,256	2,870,184

AGENCY: Revenue, Department of

1994-95 Biennial Budget

AID/CREDIT: Property Tax Refund (PTR)

REVENUE SOURCE: General Fund

LEG. CITATION: M.S. 290A

PURPOSE: To provide property tax relief to homeowners and renters based on an income definition of ability to pay.

DESCRIPTION:

The property tax refund program is designed to "target" state paid financial assistance to households which have high property taxes relative to income. In addition to the regular refunds provided to homeowners and renters, the legislature provides additional "targeting" refunds to specified property owners who are affected by high property taxes due to certain economic conditions or other related state property tax policies.

TRENDS:

	Dollars in Thousands				
	F.Y. 1991	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
PTR					
Homeowners	$36,311.0	$48,072.0	$51,000.0	$58,600.0	$65,100.0
Renters	86,481.0	77,933.0	85,900.0	88,700.0	100,300.0
Targeting	0	19,554.0	12,200.0	16,000.0	5,500.0
Total	$127,768.0	$145,559.0	$149,100.0	$163,300.0	$170,900.0

POLICY ISSUES:

The property tax refund for homeowners is currently underutilized. This type of program is far more efficient than other state aid policies in "targeting" property tax relief to households who need it. The targeting refund is an important property tax relief mechanism especially during periods when other major state property tax law changes are being implemented.

EXPLANATION OF ESTIMATE:

The Department of Revenue estimates PTR costs by modeling growth in state personal income, change in the number of applicants, changes in property taxes on homesteads and rental property, and changes, if any, made to the property tax refund schedule.

GOVERNOR'S RECOMMENDATION:

The Governor recommends an additional $14.2 million in F.Y. 1994 and $21.8 million in F.Y. 1995 over current spending to fund forecasted increases in the property tax refund programs.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$145,559	$149,100	$149,100	$163,300	$170,900

AGENCY: Revenue, Department of

1994-95 Biennial Budget

AID/CREDIT: Local Government Aid (LGA)/Equalization Aid

REVENUE SOURCE: General Fund

LEG. CITATION: M.S. 477A

PURPOSE: To Provide General Support Aid and Property Tax Relief to Local Governments

DESCRIPTION:

Counties (M.S. 477A.012: The initial aid allocation to counties has been generally frozen since 1987. In F.Y. 1993 permanent court cost and public defense cost offsets and a general aid reduction reduced county aid to zero.

Townships (M.S. 477A.013, Subd. 1): The initial aid allocation to townships was frozen in F.Y. 1992 and 1993. However, final aid amount for F.Y. 1992 was reduced by $694,000 by a temporary aid cut, and F.Y. 1993 township aid was increased by $189,000 by a local government trust fund adjustment.

Cities (M.S. 477A.013, Subd. 2-3): The formula for cities has changed many times since enacted in 1971. In general, the formula attempts to target aid to those cities with the lowest tax capacity and high need. Under current law for taxes payable in 1990 (F.Y. 1991) and subsequent years, the formula is:

Initial Aid - City Revenue Guarantee - 23% of Net Tax Capacity

In F.Y. 1993, the final aid amount was reduced by $38,241,000 by a general aid reduction, but increased by $23,810,000 by a local government trust fund adjustment.

Cities also receive aid under a supplemental formula which is referred to as "equalization aid" (M.S. 477A.013 subd. 5). This formula was established in 1989 for taxes payable in 1990. In general, the aid amount for each city is a product of 30% of a city's 3 year average levy times one minus the ratio of the city's net tax capacity per capita to $900. For F.Y. 1994 and subsequent years the statewide appropriation is increased by $584,000. For F.Y. 1993, equalization aid is increased by $1.7 million from a local government trust fund adjustment.

Waste Management (M.S. 477A.012, Subd. 2): Under this provision counties are eligible to receive an additional $6,000 per month in LGA upon contracting with the office of Waste Management for location and development of a stabilization and containment facility pursuant to M.S. 115A.191, subd. 1.

Trends:
($ in millions)

	F.Y. 1990	F.Y. 1991	F.Y. 1992	Crnt. Spnd. F.Y. 1993
Counties	$15.1	$7.5	$0.1	$0.0
Cities Reg.	375.9	317.8	283.6	303.5
Equalization	0.0	19.5	19.5	21.1
Township	11.9	2.3	1.5	2.4
Waste Mgmt.	.1	.1	.1	.1
Total	$402.9	$347.1	$304.7	$327.0

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$304,704	$301,306	$326,943	$301,306	$301,306

POLICY ISSUES:

The primary policy issues are determining the appropriate level of state "general support" aid to local governments and how to best "target" that aid to communities with higher need and low wealth.

EXPLANATION OF ESTIMATE:

Dollar amounts are appropriated by law.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for F.Y. 1994 and F.Y. 1995 at the F.Y. 1993 estimate level. The F.Y. 1993 current spending level includes $25.6 million in LGTF balance money. The 1992 legislature required that any surplus in the LGTF balance be redistributed to LGA, Equalization Aid, and Community Social Services Aid in relationship to each aids' portion of the LGTF spending. The F.Y. 1992-93 LGTF balance totaled $30.0 million and LGA and Equalization Aid shares totaled $25.6 million.

AID/CREDIT: Disparity Reduction Aid (DRA)

REVENUE SOURCE: General Fund

LEG. CITATION: M.S. 273.1398, Subd. 3

PURPOSE: To provide aid to jurisdictions which have relatively high property tax rates.

DESCRIPTION:

Disparity Reduction Aid (DRA) was legislated in 1988 and became effective for taxes payable in 1989. The aid is designed to reduce local government property taxes in areas which had relatively high tax rates. It is a permanent aid to be paid at a relatively fixed level (it is adjusted each year for class rate changes) to each qualifying taxing jurisdiction. In F.Y. 1991 the amount declined by $21.1 million due to a technical adjustment and interaction with the calculation of HACA.

POLICY ISSUES:

In effect, the aid was a one-time buy down of high local government property tax rates. The formula does not provide for future growth nor other adjustments to effectively "target" aid to communities which have both high need and low tax capacity.

EXPLANATION OF ESTIMATE:

For taxes payable in 1991 and subsequent years the aid amount is basically a fixed amount. However, the Department of Revenue is required to recompute the aid if changes are made to the property tax classification rate system.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for F.Y. 1994 and F.Y. 1995 at the forecasted levels.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$43,251	$42,618	$42,618	$41,824	$41,063

AID/CREDIT: Disparity Reduction Credit

REVENUE SOURCE: General Fund

LEG. CITATION: M.S. 273.1398, Subd. 4

PURPOSE: To provide a property tax credit for apartment and commercial/industrial property in the border cities of Breckenridge, Dilworth, East Grand Forks, and Moorhead.

DESCRIPTION:

The credit amount for each commercial or industrial parcel is set at a level that will yield a tax equal to 4% of market value; the credit for apartment property is set to yield a tax equal to 3.3% of market value. All commercial/industrial or apartment parcels in the eligible cities receive the credit. The credit began for taxes payable in 1989.

POLICY ISSUES:

The cities eligible for this credit also have designated border city enterprise zones under the provisions of M.S. 469.168, Subd. 4. The availability of the disparity reduction credit may allow much of the enterprise zone appropriation to be used for job credits rather than property tax credit within the enterprise zones. The credit should be evaluated in tandem with the enterprise zone credit program.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for F.Y. 1994 and F.Y. 1995 at the current spending level.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$2,355	$2,596	$2,596	$2,592	$2,592

AID/CREDIT: Attached Machinery Aid

REVENUE SOURCE: State General Fund

LEG. CITATION: M.S.1990, 273.138

PURPOSE:

To compensate counties and school districts for lost revenue due to the removal of ponderous attached machinery (previously classed as taxable personal property) from the tax base.

DESCRIPTION:

The aid is a fixed amount, paid to counties based on the 1972 assessed value of attached machinery times the counties' total mill rate for 1983 times 1.25; the aid to schools is based on the 1972 assessed value times the pay 1973 mill rate for certain school levies, and the aid is subtracted from school levy limits.

TRENDS:

The aid is a fixed amount each year.

POLICY ISSUES:

The aid is based on attached machinery 1972 assessed values. Only 13 counties qualify for the aid. The limited eligibility and dated basis suggests that a new look at the purpose of the aid is needed.

EXPLANATION OF ESTIMATE:

The aid is a fixed amount each year.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for F.Y. 1994 and F.Y. 1995 at the current spending level.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$3,218	$3,218	$3,218	$3,218	$3,218

AGENCY: Revenue, Department of

1994-95 Biennial Budget

AID/CREDIT: Homestead-Agricultural Credit Aid (HACA)

REVENUE SOURCE: General Fund

LEG. CITATION: M.S. 273.1398

PURPOSE:

This program provides general property tax relief aid to local governments to compensate for a reduction in taxable value class rates on homesteads, rental, commercial/industrial, and other selected properties.

DESCRIPTION:

The homestead and agricultural credit aid (HACA) was adopted in 1988 with the first effective year being for taxes payable in 1990. In general, the intent of HACA is to replace the homestead and agricultural credit property tax relief system with a general aid that compensates local governments for the loss in tax capacity resulting from lower class rates (taxable assessment value) on selected property types. The original aid was determined by a complicated formula which basically computes the difference between "gross" tax capacity and "net" tax capacity. The initial base year for this computation is 1989 and the aid is apportioned to all types of local governments. The formula has various inflation and other growth adjustment factors for taxes payable in 1991 and subsequent years. The final aid amounts distributed to local governments are also subject to general aid reduction provisions and program offsets for state takeover of income maintenance and court costs.

TRENDS:

	Dollars in Thousands			
	F.Y. 1992	F.Y. 1993	F.Y. 1994	F.Y. 1995
HACA	$497,381.0	$538,335.0	$603,399.0	$628,975.0

POLICY ISSUES:

HACA is an "undesignated" property tax relief aid that is not well targeted to "needy" communities nor targeted to individuals with little ability to pay. In general, this aid mechanism is very inefficient in targeting property tax relief to needy individuals.

EXPLANATION OF ESTIMATE:

The Department of Revenue estimates the cost of HACA by modeling the interaction of gross and net tax capacity, inflation in market values, changes in local tax rates, and other adjustments at the unique taxing jurisdication level.

For taxes payable 1992 the initial HACA is estimated, in part by using growth in households and pupil units applied to the previous years allocation for each taxing jurisdiction (i.e. city, county, school district, special district). The final aid amount is determined by applying aid reductions or program offsets as specified in law.

GOVERNOR'S RECOMMENDATION:

The Governor recommends an additional $65.1 million in F.Y. 1994 and $90.7 million in F.Y. 1995 over current spending to fund forecasted increases due to class rate changes and pupil growth. The Local Government Trust Fund share of the increase is $43.7 million in F.Y. 1994 and $61.2 million in F.Y. 1995. The General Fund share is $21.4 million in F.Y. 1994 and $29.5 million in F.Y. 1995.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$497,381	$538,335	$538,335	$603,399	$628,975

AGENCY: Revenue, Department of

AID/CREDIT: Supplementary property tax relief

REVENUE SOURCE: State General Fund

LEG. CITATION: M.S.1990, 273.1391

PURPOSE:

To provide property tax relief similar to the taconite homestead credit for school districts that do not meet the eligibility requirements of section 273.134 as a taconite tax relief area but are located in a county where taconite is mined or quarried.

DESCRIPTION:

A total of 4 school districts receive this aid. The supplementary property tax relief program is a homestead credit with the same formula as the taconite relief credit and thus the credit reimbursement varies each year.

POLICY ISSUES:

The fact that the school districts receiving this aid do not have sufficient unmined ore or do not have taconite plants or quarries that qualify them for regular taconite property tax relief suggests that their need for relief is less than nearby taconite communities.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for F.Y. 1994 and F.Y. 1995 at the current spending level.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$346	$344	$344	$344	$344

AID/CREDIT: Taconite aid reimbursement

REVENUE SOURCE: State General Fund

LEG. CITATION: M.S.1990, 477A.15

PURPOSE:

To provide aid to the Deer River School District (317) that the district formerly received in taconite production aid.

DESCRIPTION:

The taconite aid reimbursement is a fixed aid payment of $561,000 per year. The aid was first paid on 7-15-81, to the Deer River School District and has remained constant since then.

POLICY ISSUES:

If the Deer River School District is affected by taconite mining activity, the aid should be paid from the taconite tax.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for F.Y. 1994 and F.Y. 1995 at the current spending level.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$561	$561	$561	$561	$561

AID/CREDIT: Police and Fire Aids & Insurance Surcharge Aid

REVENUE SOURCE: Insurance Gross Premium Tax & State General Fund

LEG. CITATION: M.S.1990,69.011,69.021,69.54

PURPOSE:

To support retirement pensions of local police and firefighters.

DESCRIPTION:

Current law provides for aid equal to 2% of a portion of auto and fire insurance premiums; because the insurance gross premium tax rate is 1/2% for F.Y. 1992, and following years, 75% of the aid is paid from the General Fund.

EXPLANATION OF ESTIMATE:

A 6.0% annual growth rate in police aids was assumed for F.Y. 1993 and 1994; fire aid and insurance surcharge aid were held constant at the F.Y. 1992 level.

TRENDS:

F.Y.	Insurance Gross Premium Tax ($M)	Police and Fire Aid ($M)
1990	$124.0	$ 38.0
1991	129.0	39.0
1992	131.0	41.0

GOVERNOR'S RECOMMENDATION:

The Governor recommends an additional $1.9 million in F.Y. 1994 over current spending to fund forecasted increases and an additional $2.0 million in F.Y. 1995 to partially fund forecasted increases.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$41,408	$43,306	$43,306	$45,200	$45,306

AID/CREDIT: Regional Transit Board Reimbursement

REVENUE SOURCE: State General Fund

LEG. CITATION: M.S.1990, 473.446, Subd. 1

PURPOSE:

This state aid reimburses the regional transit board for a reduction in levies collected from property in suburban portions of the metropolitan transit district that receive limited transit service.

DESCRIPTION:

Since 1986 property in suburban areas of the metropolitan transit district has received a reduction in the regional transit board levy. Under current law the reduction is equal to .01209% of market value for property receiving "full peak and limited off-peak" service, and the reduction is .01813% of market value for property receiving only limited peak service. Because Dakota County failed to reduce its levy for taxes payable 1992 (F.Y. 1993) by the amount of this aid, the Dakota County portion was withheld for F.Y. 1993 and paid in F.Y. 1994.

POLICY ISSUES:

The policy of levying a lower transit tax rate in areas of limited service could be preserved by allowing a differential tax rate without a state reimbursement, though the core transit area would have a higher tax burden given the same total levy.

GOVERNOR'S RECOMMENDATION:

The Governor recommends funding for F.Y. 1994 and F.Y. 1995 at the ~~current spending~~ forecasted level.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$2,849	$2,076	$2,076	~~$2,076~~ $3,505	~~$2,076~~ $2,930

REVENUE NAME: Human Services Aid

STATUTORY CITATION: M.S. 273.1398, Subd.1

DESCRIPTION:

The Human Services Aid program was established during the 1989 First Special Session in conjunction with the state takeover of income maintenance spending. The Human Services Aid program consists of 2 parts: 1) a dollar-for-dollar offset to the Homestead and Agricultural Credit Aid (HACA) program to fund the counties' calendar 1990 share of base income maintenance spending, and 2) an amount equal to the calendar 1990 mortgage registration and deed tax collections which were deducted from county human services expenditures to replace the counties' share of the mortgage registration and deed tax offset.

County share growth of income maintenance spending (above calendar 1990 base spending) is funded directly in the Department of Human Services' budget. Therefore, the dollar-for-dollar HACA offset for base income maintenance spending will remain constant. Since the mortgage registration and deed tax base is also established as the calendar 1990 collections, that too will remain constant.

In total, the Human Service Aid amount will remain constant at $196,905,000 in future years except for the 6-year period (beginning in F.Y. 1994) during which the state and counties will jointly share the cost of buying back a prior expenditure shift that prevented the state from completing a concurrent takeover of county income maintenance costs in the 1989 First Special Session. During this 6-year period, Human Services Aid spending will total $202,812,000 a year.

The Human Services aid is appropriated to the Department of Revenue and transferred annually to the Department of Human Services.

GOVERNOR'S RECOMMENDATION:

The Governor recommends appropriating the Human Services Aid program directly to the Department of Human Services for F.Y. 1994-95 and delaying the beginning of the base buyback until F.Y. 1996.

GOVERNOR'S RECOMMENDATION:

Actual F.Y. 1992	Estimate F.Y. 1993	Crnt.Spnd. F.Y. 1993	Rec. F.Y. 1994	Rec. F.Y. 1995
$193,078	$196,905	$196,905	$196,905	$196,905

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LOCAL GOVERNMENT TRUST FUND
Minnesota Statutes 16A.711

PURPOSE: Established in 1991 as a separate fund to finance non-school intergovernmental aid programs for counties, cities, towns, and special districts.

REVENUES:
- 1.5 % of the state sales and motor vehicle excise tax
- 0.5% of a local option sales tax

Revenues total an estimated $1.8 billion for F.Y. 1994-95.

EXPENDITURES: Intergovernmental aid programs which are designated to be paid out of the Trust Fund for F.Y. 1994-95 are as follows:

- Local Government Aid (LGA)/Equalization Aid
- Homestead & Agricultural Credit Aid (HACA)
- Disparity Reduction Aid
- Homeowner's Property Tax Refunds
- Community Social Services Act Grants (CSSA)
- County Criminal Justice Aid
- Various miscellaneous aids

(see attached spreadsheet for Governor's recommendations for expenditure amounts by year)

TRUST FUND BALANCE SURPLUS OR SHORTFALL:

If Trust Fund revenues exceed Trust Fund expenditures (surplus), aid amounts for LGA, Equalization Aid, CSSA, and County Criminal Justice Aid are to be increased proportionately to bring total expenditures into conformance with total revenues.

If Trust Fund expenditures exceed Trust Fund revenues (shortfall), each jurisdiction's aid is to be reduced according to reduction formulas set in law.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS (ACIR):

Purpose: to develop and recommend to the Minnesota Legislature a formula(s) to allocate the receipts of the Local Government Trust Fund to counties, cities, towns, and special taxing districts.

Membership: ten non-legislative members appointed by the Governor to represent counties, cities, towns, and the state executive branch and four legislative members.

GOVERNOR'S RECOMMENDATION:

The Governor recommends current spending level funding for all aids and credits paid from the Local Government Trust Fund, with the following exceptions:

1) Homeowners's Property Tax Refund - an increase of $7.6 million in F.Y. 1994 and $14.1 million in F.Y. 1995 to meet forecast demand.

2) Non-School HACA - an increase of $43.7 million in F.Y. 1994 and $61.2 million in F.Y. 1995 for class rate change adjustments.

3) IISAC - an increase of $850,000 each year to meet current law goals for development of an intergovernmental information system.

The Governor also recommends appropriations of $500,000 each year from the Local Government Trust Fund to the Advisory Commission on Intergovernmental Relations (ACIR) and $500,000 each year from the LGTF to the the Metropolitan Council. These dollars will be appropriated to the Department of Revenue and transferred to the ACIR and Met Council. The Governor wants to encourage the cooperation and consolidation of services delivered by local units of government. The Metropolitan Council has been involved in this effort, in the metropolitan area, and the ACIR, with its broader statewide perspective, should become involved in this effort outside the metro area. The $500,000 each year for ACIR and the Met Council is to be used to develop a base of knowledge, reference materials, research analysis and data bases for local units of government to access in the locals' efforts to more effectively and efficiently deliver services through cooperation and consolidation.

In addition, the Governor wants to encourage cities, counties, towns and school districts to cooperate in service delivery through expanded use of existing regional service organizations. Since 1976, the nine regional Educational Cooperative Service Units, ECSU's, have provided collaborative services including health and safety programs, grant writing, equipment repair, professional development, cooperative purchasing, management information systems, risk management pools, and long distance communications to educational institutions. In 1992, the ECSU's role was expanded by amending Minnesota Statutes 1990, section 123.58. This amendment enabled the ECSU's to provide cities, counties, and other units of government the opportunity to participate in the programs and services offered by the ECSU's.

The Governor further recommends that the current policy of redistributing any balance, positive or negative, in the LGTF to specified aids should be changed in order that any surplus or shortage in the LGTF would be transferred to the General Fund at the end of the biennium. The General Fund would benefit from a positive balance in the LGTF and the LGTF would be held harmless in the event of a deficit in available revenues in the Trust Fund. Under this recommendation, a transfer of $51.7 million would be made from the LGTF to the General Fund at the end of the 1994-95 biennium.

LOCAL GOVERNMEN. TRUST FUND
Governor's Recommendations
($ in Thousands)

	FY93 Current Spending	F.Y. 1994 Govs Rec	F.Y. 1995 Govs Rec	F.Y. 94–95 Govs Rec
Projected Revenues:				
Sales Tax 2% Dedication	733,290	780,173	821,858	1,602,031
Motor Vehicle Excise Tax 2% Dedication	90,060	93,560	97,560	191,120
TOTAL Revenues	823,350	873,733	919,418	1,793,151
Projected Spending (Non–School):				
Homeowners Property Tax Refund	0	58,600	65,100	123,700
Local Government Aid	281,878	281,878	281,878	563,756
Equalization Aid	19,428	19,428	19,428	38,856
Homestead & Agricultural Credit Aid	367,289	410,961	428,477	839,438
HACA/Mobile Home	0	0	3,006	3,006
HACA/PriorYr Adj	121	121	121	242
Disparity Reduction Aid	29,856	29,300	28,745	58,045
Attached Mach Aid	2,382	2,382	2,382	4,764
Border City DRA	2,596	1,761	1,761	3,522
Supplemental Homestead	344	0	0	0
Transition Credit Aid	108	26	26	52
Human Services CSSA Grants	51,566	50,002	49,809	99,811
Human Services Aid	5,695	0	0	0
County Criminal Justice Aid	0	0	0	0
Subtotal Aids & Credits	761,263	854,459	880,733	1,735,192
Trust Fund Administration	690	430	430	860
Intergovernmental Info System	350	1,200	1,200	2,400
Met Council/Coop & Consol. Grants	0	500	500	1,000
ACIR/Coop & Consol. Grants	0	500	500	1,000
Transfers to General Fund	31,325	493	493	986
Trust Fund Balance/Transfer to GF in '94 & '95	0	16,151	35,562	51,713
TOTAL Expenditures	793,628	873,733	919,418	1,793,151
Trust Fund Balance / End of Biennium	30,021 *	0	0	0

* The F.Y. 1993 LGTF balance is redistributed to Local Government Aid – $24.0 million, Equalization Aid – $1.6 million, and Commur· · Social Service Aid – $4.4 million in F.Y. 1993.

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STATEWIDE CERTIFIED LEVIES
($ in millions)

	PY91	PY92	Percent Increase	PY93	Percent Increase
Cities	$745	$783	5.1%	$836	6.8%
Counties	$1,199	$1,240	3.4%	$1,305	5.2%
Towns	$87	$90	3.4%	$95	5.6%
Special Districts	$150	$133	−11.3%	$141	6.0%
Schools	$1,683	$1,806	7.3%	$1,997	10.6%
TOTAL	$3,864	$4,052	4.9%	$4,374	7.9%

NOTE: Certified Levy = spread levy + fiscal disparities + HACA + DRA
Based on Truth–in–Taxation survey information.

Dept. of Revenue: 1/26/93

PERCENT CHANGE IN NET LEVIES BY MAJOR PROPERTY TYPE AND REGION

Taxes Payable 1990 – 1993

Property Type	STATEWIDE			METRO			NON–METRO		
	Pay 91/90	Pay 92/91	Pay 93/92	Pay 91/90	Pay 92/91	Pay 93/92	Pay 91/90	Pay 92/91	Pay 93/92
Farm Hmstd	13.3%	11.5%	21.9%	18.0%	12.4%	17.4%	12.8%	11.4%	22.4%
Ag Land	7.0%	9.1%	20.9%	8.8%	13.7%	16.8%	6.9%	8.7%	21.2%
Res Hmstd									
1st Tier	11.5%	14.7%	17.8%	12.6%	15.5%	16.4%	9.4%	13.3%	20.6%
2nd Tier	39.5%	4.4%	21.3%	38.9%	2.8%	19.9%	44.0%	15.8%	30.3%
3rd Tier	8.8%	−7.2%	−5.5%	9.3%	−8.4%	−5.7%	−1.3%	16.5%	−2.2%
TOTAL RESIDENTIAL	16.6%	8.3%	14.8%	17.9%	6.6%	12.8%	12.5%	13.7%	20.9%
Non–Hmstd	4.6%	0.4%	21.9%	4.6%	−0.7%	25.3%	4.6%	3.1%	13.7%
Apartments	8.9%	5.2%	6.4%	9.4%	4.0%	5.8%	6.0%	11.8%	9.6%
Commercial/Ind.									
1st Tier	5.0%	6.7%	9.7%	6.6%	8.2%	7.5%	3.8%	5.6%	11.4%
2nd Tier	10.9%	4.6%	10.4%	11.0%	3.9%	9.2%	10.4%	8.4%	15.7%
TOTAL C/I	10.2%	4.9%	10.3%	10.6%	4.1%	9.1%	8.8%	7.6%	14.6%
GRAND TOTAL	11.2%	6.0%	10.7%	12.6%	4.8%	8.2%	8.8%	8.4%	15.9%

Prepared by: Minnesota Department of Revenue
Tax Research Division
August 26, 1992

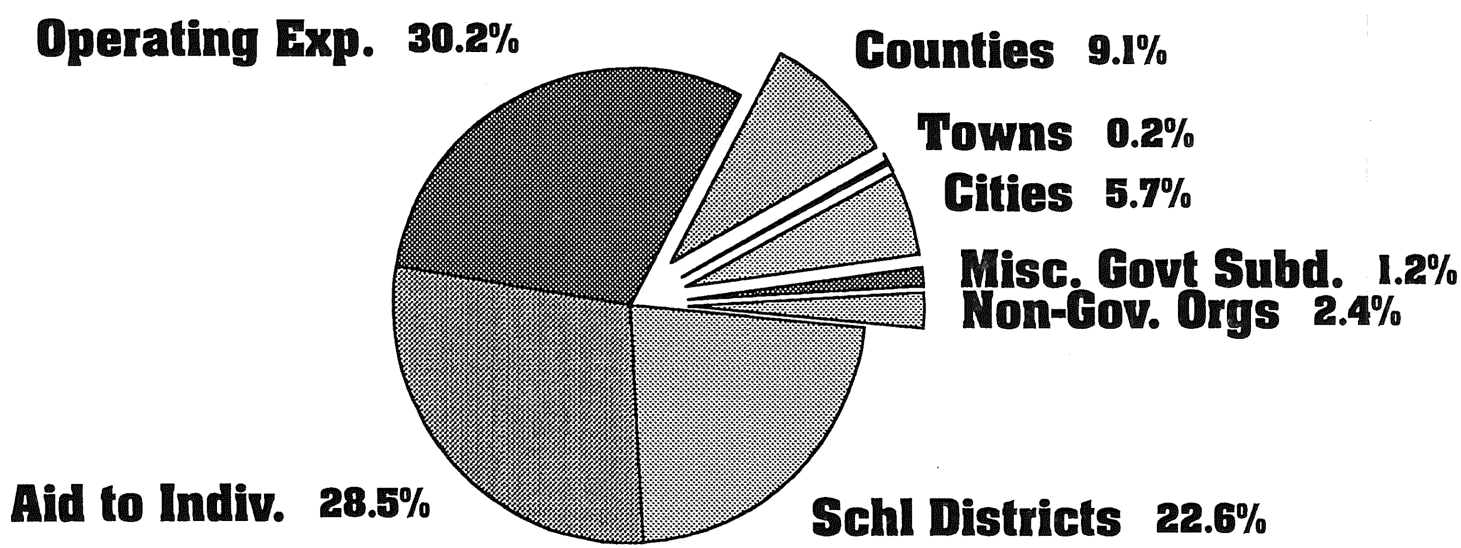
COMMERCIAL & INDUSTRIAL CLASS RATES
Taxes Payable 1989 – 1994

Taxes Payable	Class Rate
1989	5.25%
1990	5.06%
1991	4.95%
1992	4.75%
1993	4.70%
1994	4.60%

Prepared by: Tax Research Division
Minnesota Department of Revenue

Spending - All State Funds

By Object Classification



F.Y. 1994-95 INVESTMENT INITIATIVE

AGENCY: Revenue, Department of
PROGRAM:
ACTIVITY:

ITEM TITLE: Workstead

	1994-95 Biennium		1996-97 Biennium	
	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Expenditures: ($000s)				
General Fund	$-0-	$10,000	$10,000	$10,000

Statutory Change? Yes _X_ No ____
If yes, statute affected:

GOVERNOR'S RECOMMENDATION:

The Governor recommends, as part of his jobs initiative, that a "Workstead" property tax refund be provided to owners of manufacturing businesses with 100 or less employees. Specifically, the Governor recommends that the refund be based on property taxes paid the previous calendar year and pay up to 70% of a firm's property tax in excess of 3.8% of market value. The refund will be limited to $3,000 per firm. The Governor also recommends that the Workstead program have a capped appropriation of $10 million per year beginning in F.Y. 1995. If total refunds for all eligible firms exceed the $10 million appropriation, then the Department of Revenue would reduce the "70%" factor accordingly.

PROGRAM OUTCOMES:

Many of the "quality" jobs nationally are associated with small manufacturing activities. And, much of the employment growth, nationwide, is projected to occur in small businesses rather than in big corporations. However, Minnesota, currently ranks 44th nationwide in the creation of small businesses. One of the most significant factors is that Minnesota has one of the highest effective tax rates on commercial and industrial property in the nation. This high effective tax rate puts Minnesota at a distinct disadvantage relative to other states in being able to attract and maintain quality jobs.

The primary purpose of the Workstead program is to target property tax relief to small manufacturing businesses. For a small industrial firm with $280,000 of market value and having a relatively high local tax rate, the refund could reduce the property taxes paid by the business owner by $3,000 or 20%. This would help to make the firm more competitive and enhance it's ability to survive and grow in Minnesota.

LONG-TERM IMPACT:

The long-term impact of the Workstead program is to make Minnesota's business climate more conducive to small manufacturing activities and stimulate the creation of "quality" high paying jobs.

F.Y. 1994-95 INVESTMENT INITIATIVE

AGENCY: Revenue, Department of
PROGRAM:
ACTIVITY:

ITEM TITLE: Sales Tax Exemption of Replacement Equipment for Small Manufacturers

	1994-95 Biennium		1996-97 Biennium	
	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Expenditures: ($000s)				
General Fund	$5,800	$7,500	$8,000	$8,400
Local Govt Trust Fund	2,600	3,300	3,600	3,700
Total	$8,400	$10,800	$11,600	$12,100

Statutory Change? Yes __X__ No _____

If yes, statute affected: M.S. Chapter 469 and 297A.

GOVERNOR'S RECOMMENDATION:

The Governor recommends, as part of his jobs initiative, enacting a targeted tax exemption to help small businesses increase job creation in Minnesota. This initiative provides a sales tax exemption for replacement capital equipment used by manufacturing and mining firms having 100 or fewer employees, or approximately 7,000 businesses. Under current law, only equipment used by new or expanding manufacturers qualifies for exemption.

PROGRAM OUTCOMES:

The program would be effective 7-1-93. Capital equipment, as defined in Sec. 297A.01, subd.16, acquired by small manufacturers to replace equipment previously in service would qualify for a sales tax refund. The exemption would be limited to businesses classified as manufacturing or mining according to the federal Standard Industrial Classification.

Under the program, the Department of Trade and Economic Development will annually certify the businesses that meet criteria established. The plan would allow a business, once certified, to increase its work force to up to 125 employees and still remain eligible for the exemption. Certified firms would receive the benefits of the exemption at the time of purchase.

LONG-TERM IMPACT:

Long-term, this program will benefit Minnesota's economy through greater capital investment and a more productive work force.

F.Y. 1994-95 INVESTMENT INITIATIVE

AGENCY: Revenue, Department of
PROGRAM:
ACTIVITY:

ITEM TITLE: Local Property Tax Abatement

	1994-95 Biennium		1996-97 Biennium	
	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Expenditures: ($000s)				
General Fund	$-0-	$-0-	$-0-	$-0-

Statutory Change? Yes _X_ No ____
If yes, statute affected:

GOVERNOR'S RECOMMENDATION:

The Governor recommends, as part of his jobs initiative, that local governments be given greater authority to grant property tax reductions to stimulate economic development. Specifically, each city council, township and county board will be given the flexibility to reduce their share of annual property taxes paid by small manufacturing firms which qualify for the Governor's recommended workstead property tax refund. Regional cooperation on projects will be encouraged.

PROGRAM OUTCOMES:

Currently, local governments do have limited ability to offer economic incentives to businesses through Tax Increment Financing (TIF). However, TIF mechanisms tend to be controversial, complex and somewhat restrictive for economic development purposes. The primary objective of the local property tax abatement program is to provide local government officials and small business owners with an additional development tool that is simple to administer, easy to understand, enhances accountability, and encourages cooperation among communities.

LONG-TERM IMPACT:

The combined features of the local abatement program with the other small business initiatives recommended by the Governor, will increase the effectiveness of state and local government economic development partnerships and policies in Minnesota.

F.Y. 1994-95 INVESTMENT INITIATIVE

AGENCY: Revenue, Department of
PROGRAM:
ACTIVITY:

ITEM TITLE: Farm School Credit

	1994-95 Biennium		1996-97 Biennium	
	F.Y. 1994	F.Y. 1995	F.Y. 1996	F.Y. 1997
Expenditures: ($000s)				
General Fund	$-0-	$21,000	$4,000	$-0-

Statutory Change? Yes _X_ No ____
If yes, statute affected:

GOVERNOR'S RECOMMENDATION:

The Governor recommends a farm school credit of $21.0 million in F.Y. 1995 and $4.0 million in F.Y. 1996 for all farm properties (homestead and non-homestead) to reduce property taxes payable in 1994. The farm school credit is designed to specifically reduce the impact of school property tax levies and increased market values on property taxes paid by farmers.

Agricultural properties in many parts of the state have experienced a considerable increase in value over the past 3 years. In addition, school district property tax levies in many rural districts have risen to meet educational needs. The combination of market value increases and school tax levy growth increased statewide agricultural property taxes over 15% in 1993. It is anticipated that a similar pattern of increases will occur in 1994 before leveling off in 1995. The farm school credit will bring the overall property tax increases for farms on a statewide basis below 10% in 1994.

The farm school credit will be given to all farm property as a direct credit on the 1994 property tax statement.

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