REPORT

of the

Minnesota Interim Committee

ON

Tax Research

Submitted to

THE MINNESOTA LEGISLATURE

OF 1951

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FROM THE HOUSE

Representative Frederick P. Memmer, Chairman, Saint Paul
Representative Roy E. Dunn, Pelican Rapids
Representative A. B. Anderson, Duluth
Representative Harold R. Anderson, Secretary, North Mankato
Representative Michael R. Moriarty, Jordan

FROM THE SENATE

Senator William L. Dietz, Vice Chairman, Montgomery
Senator Donald O. Wright, Minneapolis
Senator Gordon Rosenmeier, Little Falls
Senator Helmer Myre, Albert Lea
Senator George L. Siegel, Saint Paul

Report of the Legislative Tax Research Committee

GENERAL INFORMATION

The Legislative Tax Research Committe was provided for by the 1949 Legislative of Minnesota by a concurrent resolution, the text of which is the following:

House Concurrent Resolution No. 8:

"Whereas, the tax structure of the State of Minnesota under existing laws contains many inequities placing unnecessary burdens upon some of the people and permitting others to avoid a fair share of the responsibility for the cost of the government at state, county and municipal levels; and

"Whereas, The people of Minnesota are entitled to the benefit of a thorough study of our present laws and methods of taxation and the allocation of funds collected thereunder, and investigation of the tax laws of other states to the end that such inequities may be reduced or eliminated in the future and such burdens be diminished in the best interests of all the people.

"Now, Therefore, Be It Resolved, By the House of Representatives, the Senate concurring therein;

"There is Hereby Created an interim committee to be known as the Legislative Tax Research Committee, consisting of five members of the House of Representatives, to be appointed by the Speaker, and five members of the Senate, to be appointed by the Committee on Committees, of the Senate. The appointment of such interim committee shall be made upon the passage of this resolution, and any vacancies that may occur shall be filled by the appointing powers.

"The interim committee hereby created is authorized and directed to ascertain, study, and analyze all facts and matters relating to the tax laws of the State and the administration thereof; to investigate and study the tax laws of other States with a view to developing recommendations for consideration at the next regular session of the Minnesota Legislature; to consider plans to reduce existing inequalities in the field of taxation within the State; and to make recommendations for improving the tax structure of this state in the best interest of all the people of the state.

"The interim committee is authorized to function until the commencement of the next regular session with authority to file its final report and recommendations not later than ten days after the opening of the next regular session of the Legislature.

"The interim committee shall have the authority and power to hold meetings at such times and places as it may designate for the purposes of this resolution. The Committee shall select a chairman, a vice chairman, and such other officers from its membership as it may deem necessary.

"The members of the interim committee shall be reimbursed for all expenses incidentally and necessarily incurred in the performance of their duties within the limit of the appropriation provided herein. The committee is vested with powers and authority to subpoena witnesses and records, to employ legal aid and assistance, to purchase stationery and other supplies, to rent and otherwise provide for the use of offices and equipment, to cooperate and secure the services of the Legislative Research Committee, the Tax Department of the State, and any other governmental subdivision or agency of the state in investigating any matter within the scope of this enactment, and the officers of any governmental subdivision or agency of the State shall assist the interim committee with such information and data as it may require. The interim committee shall do any and all things reasonably and necessarily convenient to enable it to adequately exercise its powers, perform its duties, and accomplish the obligations and purposes of this enactment.

"The sum of $7,500.00 is hereby appropriated out of the Legislative Fund in the state treasury, or so much thereof as may be necessary to pay all expenses incurred pursuant to this act. For payment of such expense the interim committee shall draw its warrants upon the state treasurer, which warrants shall be signed by the chairman and at least one other member of the committee who has been so designated, and the state auditor shall then approve, and the state treasury pay such warrants as and when presented, but not exceeding in the aggregate the amount herein appropriated."

The Committee met on July 22, 1949, in St. Paul, Minnesota, and organized. Officers elected unanimously were:

Representative Fred P. Memmer............Chairman
Senator William L. Dietz...............Vice Chairman
Representative Harold R. Anderson..........Secretary

The office of the committee was designated as 1118 Commerce

Building, St. Paul, Minnesota, the law office of Representative Fred P. Memmer. All committee meetings were held at the State Capitol, except when meetings were held outside of St. Paul.

In addition to several meetings held in various municipalities throughout the state at different times, the committee met at Duluth, Minnesota, on July 12, 1950, and at Hibbing, Minnesota, on July 13th and 14th, 1950. The Duluth meeting was held at the Duluth City Hall and the meeting in Hibbing was held at the Hibbing City Hall. During the time of the Hibbing meeting the committee visited a number of open pit mines and also the Taconite processing plant near Aurora.

At the outset of the committee's work, the following letter was sent to the organizations named below requesting their cooperation and assistance in analyzing Minnesota tax problems:

"August, 10, 1949

Name
Address

Gentlemen:

The 1949 Legislature established an interim committee on taxes and directed it as follows:

"The interim committee hereby created is authorized and directed to ascertain, study, and analyze all facts and matters relating to the tax laws of the state and the administration thereof; to investigate and study the tax laws of other states with a view to developing recommendations for consideration at the next regular session of the Minnesota Legislature; to consider plans to reduce existing inequalities in the field of taxation within the state; and to make recommendations for improving the tax structure of this state in the best interest of all the people of the state."

The committee, at its first meeting decided to officially contact all groups and organizations within the state as a means of sounding public opinion on the general question of taxes in Minnesota.

This letter is directed to your organization as a request for cooperation and assistance in dealing with this ever-present challenge of potentially oppressive and inequitable taxation—a question that is vital to the whole future of our state.

The next meeting of this committee will take place about September 1st, and by that date we would appreciate a letter from your group indicating:

1. What your group thinks are the three most important tax problems for the 1951 Legislature to deal with.

2. Whether or not your group is doing any special work this year on the problem of taxation.

3. If you have research facilities, what particular phase of taxation, if any, you are studying.

4. Whether your research section can or will give any assistance to this committee if requested.

5. Whether your group desires to appear before this committee at a hearing date to be arranged for that purpose.

Your reply will be appreciated, as the committee believes its task to be one requiring united effort on the part of Minnesota's citizens.

Very truly yours,

Frederick P. Memmer, Chairman
LEGISLATIVE TAX RESEARCH COMMITTEE"

This letter was sent to the following named persons and organizations:

Norman E. Biorn
Executive Secretary
Minn. Associated Businessmen, Inc.
520 Endicott Bldg.
St. Paul 1, Minn.

Lake Superior Industrial Bureau
c/o William Montague
1200 Alworth Bldg.
Duluth, Minnesota

J. S. Jones
Minnesota Farm Bureau Federation
478 St. Peter
St. Paul, Minnesota

Minnesota Farmers Union
Willmar, Minnesota

Henry W. Haverstock
Chairman, Tax Committee
Junior Chamber of Commerce
1010 Midland Bank Bldg.
Minneapolis, Minnesota

Harold Henderson
Minnesota Institute of Governmental Research
702 Empire Bank Bldg.
St. Paul, Minnesota

Walter E. Englund
Executive Secretary
Minnesota Education Association
2429 University Avenue
St. Paul, Minnesota

William Pierson
Master of the Grange
Ogilvie, Minnesota

CIO Regional Directors Office
901 Commerce Building
St, Paul, Minnesota

Carl Herbert
St. Paul Bureau of Municipal Research
St. Paul, Minnesota

Harry R. Reed, Executive Secretary
Governmental Research Bureau, Inc.
809 Torrey Building
Duluth 2, Minnesota

Minneapolis Chamber of Commerce
10 Groveland Terrace
Minneapolis, Minnesota

Mrs. Malcolm Hargraves, President
League of Women Voters of Minnesota
84 South Tenth Street
Minneapolis 2, Minnesota

Robert M. Adams
Fidelity Building
Duluth, Minnesota

Kay Todd
W-2681 1st National Bank Bldg.
St. Paul 1, Minnesota

Robert Olson, President
Minnesota State Federation of Labor
418 Auditorium St.
St. Paul, Minnesota

James P. McDonnell
President
Minnesota Taxpayers Association
Buffalo, Minnesota

J. J. Faust
Secretary
Minnesota Chamber of Commerce
Brainerd, Minnesota

George Bestrom
Minneapolis Taxpayers Association
203 Pillsbury Building
Minneapolis, Minnesota

St. Paul Association of Commerce
332 Cedar
St. Paul 1, Minnesota

Duluth Chamber of Commerce
Duluth, Minnesota

Business and Professional Women's Association
410 Frontier Bldg.
St. Paul, Minnesota

Edward Scallon
Butler Building
137 East 8th Street
St. Paul, Minnesota

During the course of the committee's work nearly all of these individuals and organizations appeared before the committee or sponsored meetings or otherwise gave active assistance to the committee in the conduct of its studies.[1] The committee is grateful to all those who assisted it.

After holding 11 public meetings, plus a number of public meetings in various localities throughout the state at which subcommittees of the committee were present, the committee spent its time in St. Paul studying, analyzing, tabulating and drawing its conclusions from testimony and information it had obtained.

[1]Footnote: Certain organizations who have been making a political issue of Minnesota tax policies failed to respond to the committee's invitation to appear and failed to offer any assistance or to make any recommendations.

Following is a table on Minnesota Tax System reproduced from C. C. H. Tax Systems.

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MINNESOTA

A* Title and Citation	B Basis—Measure	C Rates	D Reports and Payment	E* Yields
1 Corporate organization and qualification fees: Secs. 300.49, 301.02, 303.03, 303.07, 303.15.	Domestic — authorized capital stock. Foreign — proportion of issued capital stock represented by property and gross receipts from business in the state.	Domestic—$25.00 for $25,000 or less; over $25,000, $25 plus 50¢ per $1,000 in excess of $25,000; increases in capital stock, 50¢ per $1,000. Foreign — same as domestic. Minimum, $50.	Domestic—payment to Secretary of State at time of incorporation or increase in capital stock. Foreign—minimum fee paid at time of qualification; additional fee based on information in annual report due 30 days after notice.	$150,091. (.092%)
5.1 Corporation annual report fees: Secs. 303.14, 303.21.	Foreign corporations—flat rate.	$5.	April 1 to Secretary of State.	Included in corporate organization and qualification fees.
10 Income tax: Secs. 290.01—290.62; Chs. 642 and 734, Laws 1949.	Net taxable income. Exemptions: Corporations—$500. Individuals — (Flat deductions made from computed tax). Single—$10. Married or family head — $30. Dependents — $10 each.	Corporations — (excise) 6.3%. Minimum, $15, if return is required. Individuals: First $1,000—1.05%; next $1,000—2.1%; next $1,000—3.15%; next $1,000—4.2%; next $1,000—5.25%; next $2,000—6.3%; next $2,000—7.35%; next $3,500—8.4%; next $7,500—9.45%; over $20,000—10.5%. Banks—8.4%.*	15th day of 3rd month after end of income year, to Commissioner of Taxation. Payment may be in installments on said day and 6 months thereafter, or if tax is $30 or more, on said day and 3, 6 and 9 months thereafter. No withholding.	$49,875,045. (30.594%)
20 General property tax: Secs. 88.47—88.51, 270.071—270.079, 272.01—285.15.	All real and personal property, except money and credits, within the state and personal property owned by residents, valued according to numerous classes of property from 5% to 50% of its true value. Homestead exemption—from state taxes to full and true value of $4,000 except for taxes to retire state indebtedness incurred prior to January 1, 1937.	Aggregate of state and local rates fixed annually to meet budget. Transmission lines of electric light and power companies lying outside corporate limits—average rate of levy throughout the county for all purposes. Airline flight property—average levy throughout state for all purposes. Auxiliary forests—6¢ per acre.	Returns—personal property, between April 1 and June 30 to county, city, town and village assessors, as required.* Payment—realty, ½ May 31 and ½ October 31 to county treasurers; personalty, up to $10 last day of February, over $10 ½ last day of February and ½ June 30; airline flight property, February 1 to Commissioner of Taxation.	$8,552,230. State tax only. (5.246%)
20.8 Vessel tonnage tax: Sec. 289.01.	Registered tonnage of vessels employed in navigation of international waters; in lieu of property tax.	5¢ per net ton.	Reports—July 1 to State Auditor. Payment—July 1 to State Treasurer.	$23,688. (.015%)
20.15 Grain tax: Secs. 286.01—286.11.	Bushels of grain handled; in lieu of property tax.	Wheat, soy beans or flax—½ mill per bushel. Other grain—¼ mill per bushel.	Returns—May 1 to local assessors. Payment—Same as personal property taxes.	County tax.
35 Alcoholic beverage tax: Secs. 340.01—340.56; Ch. 642, Laws 1949.	Licenses—classification of business and population of cities where located. Excise—sale of intoxicating liquor, wines and fermented malt beverages.	Licenses—$1 to $2,500. Excise—beer, 3.2% or less, per barrel of 31 gallons, $1.10; over 3.2%, $2.20; wines per gallon, unfortified, 22¢; fortified to 21% alcohol, 66¢; 21% to 24% alcohol, $1.32; over 24% alcohol, $2.75; sparkling wines, $2.75; liquors, $2.75.	Reports—10th of each month to Liquor Control Commissioner. Payment—licenses, to Liquor Control Commissioner or local governing bodies; excise, by purchase of stamps from state Treasurer.	$13,701,552. (8.405%)

For footnotes, see last page of chart.

Continued on next page.

MINNESOTA—Continued

A* Title and Citation	B Basis—Measure	C Rates	D Reports and Payment	E* Yields
40 Gasoline tax: Secs. 296.01—296.49.	Gallons of gasoline and special use fuel used to propel motor vehicles on public highways and of aviation gasoline and special use fuel received, sold, stored or withdrawn from storage.	Motor vehicle fuel, 5¢ per gallon; aircraft fuel, 4¢.* Inspection fee, not to exceed 1¾¢ per 50 gallons.	23rd of each month to Commissioner of Taxation.	$26,154,652. (16.044%)
45.4 Occupation and royalty taxes (iron ore): Secs. 298.01—299.14; Ch. 642, Laws 1949.	Occupation — valuation of ores mined or produced. Royalty—amount in money or value received.	Occupation—12%* plus 5¢ per ton of concentrate from taconite increased 1/10 of 1¢ for each 1% that iron content exceeds 55%. Royalty—12%.	Reports—occupation, March 1 to Commissioner of Taxation; royalty, February 1. Payment—occupation, June 14 to State Treasurer; royalty, May 31.	$13,915,621. (8.536%)
45.8 Timber yield tax: Secs. 88.51, 88.52.	Full and true value of merchantable timber on land under auxiliary forest contract.	Merchantable timber growing at time of filing contract, cut within 1 year after June 30 following—40%; reduced by 2% annually until it reaches 10%. Other merchantable timber—10%.	Reports — January 15 to county auditors. Payment — when cut, to county treasurers.	County tax.
50 Motor vehicle taxes: Secs. 168.031—168.35, 221.01—221.46; Ch. 694, Laws 1949.	Passenger automobiles and hearses — manufacturer's shipping weight. Farm and urban trucks—unloaded weight. Miscellaneous trucks and buses—gross weight. Truck trailers—carrying capacity. Others—flat rate. Carrier permits—flat rate.	Passenger automobiles and hearses —$7.50 to $75, according to weight and age. Intercity buses—$250 to $1,782. Farm and urban trucks—24¢ to 80¢ per cwt. Miscellaneous trucks and buses—$12 to $170 plus $30 per ton over 14. Others—$1 to $250. Carrier permits—$7.50 per vehicle.	November 15 or within 7 days after vehicle is operated in the state, to Secretary of State (Registrar of Motor Vehicles). Carrier permits—annually to Railroad and Warehouse Commission.	$15,548,674. Including operators', chauffeurs' and dealers' licenses and permits and carriers' fees. (9.538%)
50.2 Aircraft tax: Secs. 360.51—360.67.	Manufacturer's list price as of August 1 of preceding year.	1%. Minimum, $10. Depreciation allowed at rate of 10% 2nd year and 15% each succeeding year up to 75%.	February 17 to Commissioner of Aeronautics.	$37,288. (.023%)
55 Cigarette tax: Secs. 297.01—297.15; Ch. 553, Laws 1949.	Cigarettes sold, used or stored within the state; measured by weight and number.	2 mills per cigarette weighing 3 pounds or less per 1,000; 4 mills on those weighing more. Consumers—1½ and 3 mills, respectively.	20th of each month to Commissioner of Taxation; sales tax paid by purchase of stamps.	$8,872,548. Including cigarette license fees. (5.443%)
55.9 Oleomargarine tax: Secs. 33.10—33.21.	Pounds sold or offered for sale within the state.	10¢ per pound.	Payment—by purchase of stamps from Commissioner of Agriculture, Dairy and Food.	$228,689. (.140%)
56.1 Mortgage registry tax: Secs. 287.01—287.12.	Amount of debt secured by real estate mortgage.	15¢ per $100.	Payment — at time of registration, to county treasurers.	$91,166. (.056%)
80 Utilities earnings taxes: Secs. 294.01—295.36	Gross earnings within state; in lieu of all property taxes.	Railroads—5%. Express companies—9%. Freight lines—7%. Sleeping car companies—6%. Telegraph companies—6%. Telephone companies—7% in cities and villages over 10,000, 4% of other earnings; if gross earnings are $100 or less, 15¢ per telephone.	Reports — February 1 to Commissioner of Taxation; railroads, earnings February 15 and August 15, freight line rentals February 1 and August 1. Payment—March 1 to State Treasurer; railroads, earnings tax and freight line tax withheld, March 1 and September 1.	$15,812,415. Including electric cooperative associations' tax. (9.700%)

For footnotes, see last page of chart.

Continued on next page.

MINNESOTA—Concluded

A* Title and Citation	B Basis—Measure	C Rates	D Reports and Payment	E* Yields
88 Insurance tax: Secs. 60.59, 60.63, 71.23, 73.20.	Gross direct premiums, less return premiums, received on all direct business written within the state.	2%. Fire companies also pay fire marshal tax of ½ of 1%. Foreign companies subject to retaliatory taxes.	Reports—March 1 to Commissioner of Insurance. Payment—April 30 to State Treasurer.	$4,608,869. (2.826%)
89 Inheritance tax: Secs. 291.01—291.33.	True and full value of property transferred at death, or during lifetime in contemplation of, or in manner intended to take effect at death, and relationship of transferee to decedent.	Primary rates—1% to 5%. If estate exceeds $15,000, rates increased from 2 to 12 times but not to exceed 35%. Exemptions—from $100 to $10,000 according to relationship of transferee to decedent.	Returns—within one month after appointment of legal representative, to probate court. Payment—within 15 months after death, to county treasurers. Returns and payment to Commissioner of Taxation if no probate proceedings.	$2,170,785. (1.331%)
89.1 Estate tax: Secs. 291.34—291.40.	Net estate, as defined by federal law, of resident decedents only.	Amount by which the 80% federal credit exceeds inheritance tax payable to all states.	Within 18 months after death, added to inheritance tax by Commissioner of Taxation.	Included in inheritance tax.
89.2 Gift tax: Secs. 292.01—292.14.	True and full value of gift at time of transfer and relationship of donee to donor.	Primary rates—¾ of 1% to 3¾%. If estate exceeds $15,000, rates increased from 2 to 12 times but not to exceed 35%. Exemptions—$250 to $10,000.	Reports—March 15 to Commissioner of Taxation. Payment—60 days after notice of assessment.	$90,188. (.055%)
91 Unemployment insurance tax: Secs. 268.03—268.24.	First $3,000 of wages paid during calendar year to an employee.	Employers—0.1% to 3% under merit rating; standard rate, 2.7%. Employees—none.	Last day of April, July, October and January to Division of Employment and Security.	$11,937,211.

* Footnotes are identified by reference to the figure in the left hand column and the letters in the captions.

A. Citations are to Minnesota Statutes of 1945, as amended.

E. Revenue collections are for the fiscal year ending June 30, 1949. Total state tax collections for that year were $163,022,271, not including $11,937,211 unemployment insurance tax. This amount includes the following, not charted above: Boxing exhibitions admissions taxes, $25,792; fish and game permits and license fees, $2,349,456; other miscellaneous licenses and permits, $813,422. Percentages of revenue do not total 100% due to omission from the chart of the minor tax items listed above. Unemployment insurance contributions are not considered a tax for the purpose of the percentage calculations.

10-C. Trust companies not doing a banking business pay a 6% gross earnings tax in lieu of other taxes. Trust companies that do a banking business are assessed and taxed the same as banks (Sec. 295.37).

20-D. Electric light and power company lines outside corporate limits, oil pipelines, airline flight property, and personal property of street railway, road and bridge companies in more than one district are assessed by the Commissioner of Taxation.

40-C. Distributors' annual license fee is $1. Refunds are provided for taxes paid on aviation gasoline over and above 50,000 gallons, received, stored, or withdrawn from storage during the calendar year and not sold or otherwise disposed of to others, at the rate of 1¢ per gallon above 50,000 and not more than 100,000; 2¢ per gallon over 100,000 and not more than 150,000; 3¢ per gallon over 150,000 and not more than 200,000 and 3½¢ over 200,000. Claims for refund must be made on or before March 1.

45.4-C. The taxpayer is allowed a credit at the rate of 15% of the cost of labor in excess of 65¢ per ton and 10% of the cost of labor in excess of 50¢ per ton. This credit may not exceed 75% of the total tax for underground operations or 60% for other operations. In lieu of the foregoing credit the taxpayer may elect a credit of ⅓ of 1% of the amount of the tax for each 1% of the total production of iron ore which is converted into pig iron, sponge iron, or powdered iron in Minnesota.

It is interesting to make a general comparison of Minnesota's tax system with that of other states. Tax experts and students often characterize these various systems by the kind of tax which accounts for the principal or largest return of revenue. On this kind of comparison we get the following results:

No. of States	Kind of Tax
24	Retail Sales or Gross receipts
16	Gasoline tax
1	Motor Vehicle, license and drivers' license taxes
8 (Inc. Minnesota)	Net Income
2 (Inc. Minnesota)	Severance
—	

49 (This total results from the fact that Minnesota has been included in both the income and severance tax classes because it is so exceptionally high in both).

Although 28 states levy general sales or gross receipts tax, the table above shows that 24 of them use this form of tax as their major source of revenue. It is interesting to note that our competing states of Illinois, Iowa, Indiana, Michigan and Ohio, are among the 24.

In all, 29 states levied both corporation and individual income taxes, 4 levied net income tax on corporations only and 2 levied net income tax on individuals in 1950. Of these, only New York, Massachusetts, Oregon, Delaware, Wisconsin and Minnesota depend on net income taxes for their greatest single source of revenue. Incidentally, Minnesota occupies the unique position of being the only one that dedicates its largest source of revenue to a single expense of government. In the states of Colorado, North Carolina, Vermont, Virginia and Kentucky, the income tax is a substantial, but not the most important source of revenue.

MINNESOTA'S TAX SOURCES BY PERCENTAGE COMPARED TO AVERAGE OF TAX SOURCES OF THE 48 STATES

Tax	Minnesota	48 State Average
Net Income Tax	28.3%	16.6%
Property Tax General and Selective	5.5	3.8
Death and Gift	1.2	2.1
Retail Sales or Gross Receipts	——	21.1
Motor Vehicle Fuels	18.3	19.5
Alcoholic Beverages	7.7	5.3
Tobacco Products	5.9	5.3

Gross Earnings and other Sales or Receipts Taxes	10.3	7.8
Motor Vehicle and Operators	11.6	9.4
All other License and Privilege	2.5	5.8
Severance	8.7	2.6
All Other	[2]	.4
	100.0	100.0

[2] Less than .1 per cent

Note—Exclusive of the Unemployment Compensation Tax

Source: State Tax Collections in 1950, G-SF 50-No. 4, August 1950, Department of Commerce, Bureau of the Census.

Reference to the above comparison table shows Minnesota's tax pattern in comparison with the tax pattern for the whole 48 state average. The most significant differences occur in the facts that we rely upon net income tax for 28.3% of our total state revenue, while the average for all states is only 16.6%. Then in the comparison on general sales or gross receipts tax, we are blank, while the 48 state average shows a reliance on this kind of revenue for 21.1% of the total requirements. On motor fuels we are slightly below average, while on alcoholic beverages we are substantially higher. Our cigarette taxes and motor vehicle and driver licenses are only slightly above average for the whole country. When it comes to severance taxes, we again stand out, being more than three times above the national average.

Following is a table showing total tax collections in Minnesota in 1950:

1950 STATE TAX COLLECTIONS IN MINNESOTA
ALL LEVELS OF GOVERNMENT

	Federal	State	Counties	Cities & Villages	Townships	School Districts	Total
Property ....$		$ 10,154,535	$59,244,112[2]	$56,721,400	$10,366,677	$63,292,057	$ 199,778,781
Income—Personal	298,204,624						
Income—Business	175,904,629						
Income—Total	474,109,253	51,588,870					525,698,123
Inheritance, Estate & Gift .	6,684,171	2,336,272					9,020,443
Gross Earnings		15,101,788					15,101,788
Liquor Beer, Distilled Spirits	22,844,178	13,617,186					36,461,364
Cigarette		11,142,144					11,142,144
Payroll (Social Security, Unemployment, Old Age & Survivors Insurance)	64,394,744						64,394,744
Gasoline	6,800,151	34,011,926					40,812,077
Motor Vehicle		21,238,215					21,238,215
Insurance		4,393,887					4,393,887
Iron Ore Occupation & Royalty		16,892,803[1]					16,892,803
Transportation of Property	13,504,953						13,504,953
Transportation of Persons .	7,385,051						7,385,051
Admissions	7,861,050						7,861,050
Retail Excise (Jewelry, Furs, Luggage, Toilet Preparations)	8,117,437						8,117,437
All Other Taxes	17,152,131	2,113,426					19,265,557
License, Fees, Permits		7,601,586	127,295[3]	3,909,955[4]			11,638,836
Departmental Earnings		12,357,250	2,971,159[3]	10,301,536[4]			25,629,945
Income from Trust Funds ..		4,471,574					4,471,574
All Other Income		6,688,845	449,107[3]	8,909,020[4]		4,879,678	20,926,650
Total	$628,853,120	$213,710,306[5]	$62,791,673	$79,841,911	$10,366,677	$68,171,735	$1,063,735,422

[1] - Includes total occupation tax.
[2] - 1949 levy collectible in 1950.
[3] - 1947 calendar year—Report of Public Examiner—Page 24.
[4] - 1948—Report of Public Examiner on Cities and Villages for 1949
[5] - Includes $9,913,289 surtaxes for soldiers bonus.

This committee was not able to make a comprehensive study of all these taxes. As thorough a study as was permissible by time and appropriation was given to principal phases of the following subjects, which are treated in this report:

1. Ad Valorem Taxes
   a. Real Property
   b. Personal Property
2. Income Tax
3. Iron Ore Occupation and Royalty Taxes
   a. Iron Range Resources and Rehabilitation Commission
4. Beverage Tax
5. Cigarette Tax
6. Aviation Gasoline and Flight Property Taxes
7. Trust funds as a source of money for governmental expenses

Principles Observed

In general this committee has agreed upon the following underlying principles which it considers basic with respect to the study of taxes and tax systems:

The Committee is unanimously of the opinion that the policy of maintaining surpluses of accumulated tax receipts is undesirable. The very existence of surplus encourages spending. It is obvious that if the problem of raising necessary revenue had to be first considered, the expenditures would be more carefully analyzed.

Furthermore, the development of surplus unnecessarily deprives the taxpayer of money that would, if spent on the taxpayer's own needs, stimulate private economic activity within the state. It is not the purpose or the intent of this committee to invite or encourage deficit spending, but rather to urge that tax rates be adjusted as appropriations change.

The Committee fully agrees on the proposition that dedication of revenue is an impediment to sound management of government finances. The history of dedication indicates clearly that the fact of dedication is not important when the proceeds of a dedicated tax are less than the expenditures required for the purpose of the dedication. It is only when receipts substantially outdistance the demonstrable need for expenditure that dedication becomes a serious problem. At this point, the dedication is subject to all the criticisms that are applicable to the surplus, plus the objection that tax receipts in one category lie useless while needs in another category force the imposition of other kinds of taxation.

Another important fundamental agreement by this committee is that state taxation generally must be studied with full recognition of the effect it has upon the competitive position of the state among the several states. A federal tax can be levied by the Government of the United States with uniformity throughout the country, but the state tax must necessarily be levied only upon the economic activity over which the state has taxing jurisdiction.

This Committee agrees that taxes are paid by people. Corporate and business taxes are passed on to the public in the price of the final product or service.

Minnesota in its early years enjoyed a higher than national average per capita income, which tapered off after the turn of the century until by 1920 Minnesota was below the national average. In recent years, we have moved ahead in per capita income by increasing industrial activity within the state. Industry in Minnesota is at a disadvantage both as to climate and market accessibility. Although Minnesota's death rate is below normal and its birth rate is and has been for a long time up to or slightly above the national average, it is quite significant that during the past decade Minnesota's population increase was far below the national average. The national population increased 14.3% between the years 1940 and 1950, while the population of the State of Minnesota increased only 6.3%. This bad population record indicates that there is a sizable migration of our young people to other states since the war, mainly because opportunities for work appear to be more available elsewhere. This trend can be substantially aggravated or reversed by state tax policy. The Committee therefore believes that every effort must be made in developing future tax policy to encourage economic growth and thereby retain our young workers. Political expediency will contribute nothing to a sensible long-term tax program. Therefore, to every extent it is humanly possible, politics should be relegated to the background in establishing this long-term tax policy.

Since 'the power to tax is the power to destroy', the committee believes that taxation must be levied primarily and principally for the purpose of supporting constitutional government services, neither to favor one group at the expense of another nor to transfer the economy from private to government ownership.

Since this committee started its work, world affairs have so developed that the nation as a whole finds itself forced to undertake a tremendously expensive military program which will immediately increase federal taxes to an unprecedented level. Last year the federal government took 700 million dollars out of the State of Minnesota and what will happen under the drastic federal tax increases now being proposed is a matter of conjecture. In the face of this overwhelming fact, it is the unanimous opinion of this committee that the 1951 legislature should undertake every possible economy and should strive in every way possible to reduce the government expenditures within its control. Certainly no new taxes should be imposed at the state level.

The State should have enough control over its policies of financial aid to local government, so that the legislative policy cannot be distorted by decisions of the local units of government. The importance of this fundamental principle is emphasized by the fact that in the fiscal year 1949-1950, the state paid aids to local government in the total sum of $105,927,251.00. Of this total sum, $78,725,045.00 is paid out of state revenue while $27,202,206.00 comes out of federal revenue sources. The significance of this aid is further exemplified by the fact that if this money were to be raised at the local level by a general property tax, it would mean an increase on the average of more than 68 mills, in every taxing district in the state.

This study was made during a period of rapidly changing conditions and while these conditions have a direct bearing upon the immediate fiscal policy of this state, the underlying long-term problems are not substantially changed. In making its recommendations, the committee has attempted to meet both the immediate and the long-term problem.

In submitting this report and in making its recommendations, the Committee has been guided by these general principles, and has sought to avoid political consideration to the greatest extent it is humanly possible to so do.

Real Property Tax

Valuation is the major problem in the field of real and personal property taxation. Since valuation for tax purposes must start from fair market value there can be no such thing as an exactly scientific formula for valuation. No matter how much is said about it, the fact remains that market value is the price at which a willing buyer and willing seller will make a sale.

The 1947 Supervisor of Assessments Act passed by the Minnesota legislature in that year is recognized as an attempt to overcome the problem of unequal valuations. Since the adoption of this act, the 87 county supervisors and assessors have cooperated under the direction of the state tax commissioner in an effort to achieve uniformity throughout the State.

The following is a quote from the report made to this committee by G. Howard Spaeth, Commissioner of Taxation:

> "As Commissioner of Taxation I have urged upon these county officers from the beginning of their service, that their first duty is to effect an equalization of values between taxpayers in the assessment districts of their counties, and in the standards of assessment as between the taxing districts. This objective and the means of accomplishing it was explained to members of county boards and county auditors at nine regional meetings conducted by myself and my deputy before the county boards chose the assessors and supervisors in the fall of 1947. At the annual county schools of instruction for assessors, and at three day schools for assessors held annually at the center for continuation study on the University campus we have continued to present methods by which equalization may be accomplished. Every effort is being made to place in the hands of local assessors the means to standardize valuation methods to the end that the various classes of assessable property may be equitably assessed throughout the state.
>
> In evaluating the results of the work of the county assessors and supervisors it is necessary to look behind the tabulated summaries of figures which show substantial increases in the value of both real and personal property since the installation of these officers in order to discover the areas where values have been reduced, shifted or raised to effect equalization. The fact that the total true and full value of real estate increased by over $456,000,000 between 1946 and 1950 and that the true and full value of personal property increased $265,000,000 between 1947 and 1950 is not as significant as the less obvious equalization which has taken place. Notwithstanding the general increases in value a detailed analysis of township and village values discloses hundreds of instances where types of property and individual valuations have been decreased as well as increased to meet a general standard."

While the quality of assessment practices between districts is getting some attention as a result of this 1947 Act, the individual county supervisors are more presently concerned with the large and pressing task of equalization *within* the district.

The big problem confronting the state legislature and which this committee feels is most vital from the standpoint of the state, is the inequality of valuations between the districts, for it is this particular inequity which causes the greatest amount of difficulty in administering the state's aid program and in establishing and developing fiscal policies at the state level. For years the State of Minnesota has been giving aid to local school districts. That aid was very substantially increased in 1947 with the adoption of the school aid plan worked out by the Governor's commission and again substantially increased by 1949 amendments to the 1947 law, which increased the unit payments for a two-year period from July 1st, 1949 to July 1st, 1951. In this 4-year period these aids have increased approximately 25 million dollars. The equalization provision of the school aid law provides:

> "That for the biennium beginning July 1, 1949 only, when the assessed valuation of all taxable property of a district is less than $2300 for every resident pupil unit in average daily attendance of the district, the state shall pay equalization aid for each resident pupil in average daily attendance in accordance with the following schedule" - - -

This schedule then contains 23 categories ranging from the category of "$2200 to $2300" within which the equalization aid per resident pupil unit is $2.00; on down to the category of "less than $100.00", where the equalization aid for resident per pupil unit is $72.00. For the year 1950, the State paid out as school aid to localities, the total sum of $45,129,790.98. Of this total, $5,193,598.30 was paid out as resident equalization aid and $4,696,848.94 was paid out as combined non-resident basic and equalization aid. The total amount of money paid out as equalization aid under this bill alone was approximately $6,350,000.00.

There has been a disposition on the part of both educators and lawmakers to be partial to the idea of greater emphasis on equalization. One of the chief deterrents to implementing this emphasis has arisen out of the lack of confidence in any formula for measuring eligibility for such aid. In every instance this lack of confidence goes right down to the fundamental question of property valuation.

Within the last four years the legislature has moved further into the field of aid to local governments.[1] There is no indication that this pressure for continuing larger state aids to local government will be relaxed. Hence, it becomes even more important for the legislature to consider carefully what can be done to bring about equalization of valuations for tax purposes among the counties so that these items can be developed on an equitable basis.

[1] 1947 Acts for sharing cigarette and liquor taxes.

The amount of the state mill levy is proportionately small. When the state levy was below 3 mills, inequality of valuations of property was not very vital. However, in the last two years that figure has mounted up to slightly more than 8 mills. Although this committee favors abolition of the state property levy, if it is continued, the legislature must make a new effort to eradicate the glaring inequality of local valuation practices. It is demonstrably unfair for any taxing district to be able, by valuation practices, to gain an advantage over other districts.

Eventually the work of the county supervisors and county assessors will result in greater uniformity of valuation. The present danger in Minnesota, however, is that this encouraging start is under attack. Analysis of the basis of the criticism shows the objections to be centered mainly around the fact that state aids are increased when local assessors deliberately reduce values. If, by legislative action the distribution of aids could be so arranged as to avoid the present practice of depending upon locally controlled valuation figures, it is highly probable that these criticizms of the county supervisors and assessors' law would nearly disappear. This committee believes that effective steps can be taken at this time to correct the situation.

OTHER STATES MEET SAME PROBLEM.

The Illinois full value assessment act of 1945 and the California inter-county equalization law of 1949 both suggest the remedy which this committee recommends.

In 1946, the League of California Cities adopted a resolution calling for an amendment to the state constitution which would place the responsibility for assessing all properties subject to the ad valorem taxation in a state agency. This proposal aroused strong opposition among county assessors and various business groups. As a result of this demand, some progress occurred in the following three years, so by 1949, California State Board of Equalization was able to report there had been a definite improvement in assessment procedures and the equalization of assessments, both intra-county and inter-county. (See Annual Report of the California State Board of Equalization, 1948-49, Page 6).

In January 1949, a bill was introduced in the California legislature proposing to add a new chapter to the Education code relating to the equalization of county assessments on which the allocations of state funds to school districts were based. The reasons for such legislation were stated in the following terms:

"There is an inequality in the apportionment of school funds based on the assessed valuation of property in each school district which arises from the use of such basis without a standard for determining the market value upon which the assessed valuation is based. Assessment practices vary widely from county to county, with the result that some school districts receive unmerited aid depending upon the county within which they are situated. Other school districts are placed at a disadvantage due to the assessment practices of the county within which they are situated and are thus unable to be judged on the basis equal to that of other school districts. There is, therefore, a need for the determination of market value of taxable property by one standard rather than by many in order to insure that all school districts are treated equally in determining the amount of allocation of state funds. There is, furthermore, a need for allowing the raising of the maximum tax rates for school district purposes in order to enable the school districts to help themselves when the assessed valuation of property within the school districts is unfairly low as shown by comparison with the total market value in the district with other districts."[1]

In the opinion of this Committee, the foregoing language of the proposed California Act seems to be in many respects quite pertinent and applicable to Minnesota's present condition.

In Illinois the legislature decided to have the Revenue Commission of the state determine, independently of the local assessors' operations, the full fair cash value of all property by taking samplings within each county. After this sampling is made, the state commission determines just what ratio the assessors' figures bear to the figures arrived at by the commission. The commission then either raises or lowers the total valuation of the county under consideration so as to be in conformity with the state's figures.

VALUATION BY TAX COMMISSIONER.

What this procedure will accomplish can be demonstrated by an example. Suppose the local assessor's figures for "X" county is $1,000,000.00. The tax department in making its independent calculations of the total assessed valuation of "X" county, by sampling, finds that the "X" county local assessor's full and true figures are only 50 per cent of what the department finds the value to be. The State Commissioner then moves "X" county's total valuation up to $2,000,000.00. Then, in figuring state aids for all purposes where the state is going to make a distribution of money,

[1] Calif. Assembly Bill 2027, 1949 Session, Section 3.

"X" county's valuation would be considered to be $2,000,000 rather than the $1,000,000.00 arrived at by the local assessor. It will not always be true that the state's valuation would be an increase. In fact, some counties may be valuing too high. Thus, without forcing the local assessors to change valuations for local tax purposes, the state will be able to provide a fair and honest basis for paying equalization aids.

Without attempting to describe these plans in detail this Committee strongly recommends that steps be taken immediately to develop a state valuation program which will provide a basis for paying state aids.

The Committee has also studied suggestions for substituting an "ability to pay" formula for allocating aid. Such a formula would include retail sales, auto license receipts, etc. However, because such figures can only be obtained on a county basis and in the larger cities, it appears that the assessed valuation must continue to be the measure for these payments.

This report, being a tax report, is not intended to present arguments for any fundamental changes in the state aid program. Our primary concern here is to point out how existing practices in assessing districts distort legislative aid policies.

Shared taxes such as liquor and cigarettes and state aids for welfare, education and highways are actually indirect taxes and thus come under the jurisdiction of this survey. This is an important item in the state's financial problem as 42% of all state revenue receipts were passed on to local units of government in 1950. The total amount of aids to local government in Minnesota in 1949-50 was $105,927,251. In fact, Minnesota is one of the 8 or 9 states which are unusually liberal with their own receipts in respect to sharing them with local units of government.

RECOMMENDATION.

The recommendation this committee makes is that before paying aids to any district, or county under the terms of any state aid or assistance law, which is measured by assessed valuations of property, the allocation authority shall use the valuation figures of the State Tax Commissioner. The Tax Commissioner should be given a field operating force of at least 25 people who would develop state valuation figures. This field work would continue throughout the year so adjustments could be made before the allocation of aid is determined. At the same time these fieldmen would be of invaluable help in assisting local assessors to improve assessing practices in the various counties. Again, we repeat that if it became known there was no advantage to be gained in deliberate under or over assessment, the practice would tend to cease. In a few years Minnesota would then have a property tax system that would be equitable. We can then be sure that state aids are going to the districts which actually need assistance.

ABILITY TO PAY FORMULA.

In order to provoke some additional thought on this subject, we have had studies of "ability to pay" formulas developed in the form of tables, which appear in the appendix[1] of this report, together with comments. These tables show the ability to pay of each individual county as based upon present assessed valuations and also ability to pay of each county based upon a formula which includes personal incomes, retail sales, auto license receipts and other factors.

USE OF AIDS ANALYSIS.

This committee requested the Department of Education to make a survey showing where the High Schools of Minnesota ought to be located with relation to the residence of the high school pupils of the state. Pursuant to the request of the committee the State Commissioner prepared and presented his survey which appears in the appendix to this tax report.[2] While the suggestions made do not constitute completed or final plans for re-locating high schools, the facts and suggestions do constitute a valid and compelling basis for serious re-study of the problem of state aid to secondary schools. Surely, if the people of Minnesota finance a continuously larger proportion of high school costs by state aid, the least they can expect is that the legislature will try to get the greatest return from the money spent. The survey reveals very many small high schools being operated at high cost or low efficiency. Certainly, before the state legislature embarks upon a state aid program for school building construction, steps ought to be taken to insure that any money so spent will develop wisely planned facilities instead of scattered, inadequate education plants of which we already have too many.

[1] Appendix page 73.
[2] Appendix page 87.

Personal Property Tax

The personal property tax has been one of the most bitterly criticized taxes in the entire Minnesota system of taxation. The average person has wrestled with the subject until in a spirit of disgust he says, "Let's abolish this personal property tax." During the past year, this kind of tax has accounted for a total sum of nearly $40,000,000.00 of revenue, of which roughly 90% or more goes to pay the cost of local government. Obviously, when the suggestion is made that this tax be abolished, it means that local government in Minnesota would be compelled to locate a new source of taxation from which $36,000,000.00 could be obtained. Just a moment of reflection will serve to convince even the most uninformed citizen that such a drastic move is hardly the answer to the problem.

This committee has first sought to determine just why personal property tax is so generally condemned. To do this we have studied the reports of business people which were obtained by the Chambers of Commerce throughout the state. The committee also gathered information from tax officials and heard the complaints and oral testimony of many individuals and representatives of organizations.

It is evident that one of the reasons for the universal criticism of this tax is that it is paid once each year and the taxpayers' attention is therefore focused very strongly upon the tax at the time of annual payment. This is likewise true of real estate tax.

Another reason is that, with particular reference to household goods, this tax is unequally levied, not only as between counties, but even within municipalities. When individuals compare the results of the application of this household goods tax just within their own neighborhoods, they find so much discrimination and inequity that they become nearly violent in their criticisms.

Looking beyond the reactions of the taxpayers and into the actual workings of the law, it is apparent to the committee that all of the criticisms that can be levelled against the inequitable valuation practices, which have been treated above in this report apply to this tax. It is also apparent that the use of the single assessment date for taxing inventories is so thoroughly ridiculous that any attempt to justify it is anticlimactic. It is reasonable to expect that on at least one point most any law ought to have some strength, of justice or principle. The taxation of inventory as personal property on a single date has none. Not only is this tax, as it applies to inventory, unreasonable, inequitable, unfair, unjust, impossible of sound administration, unscientific and unrealistic; but it causes a severe disruption of normal business activity all over the state in every field of economic endeavor during the month of April.

It is apparent that the treatment of inventories of merchandise, raw materials, produce and other goods intended for resale, either with or without fabrication, is basically and fundamentally different from the taxation of personal property such as machines, manufacturing equipment and other business equipment. The difference lies in the fact that the machinery and equipment will obviously be kept by the owner for a period of years, while the inventory of goods will be turned over in the course of business once or many times a year. As to machinery and equipment, it is immaterial whether the assessment is made on May 1st or any other single day of the year. As to the inventory, it makes a great deal of difference.

CHIEF PROBLEMS.

This committee therefore feels that the chief points of weakness of the whole personal property tax are:

1. Taxation of household goods.
2. Taxation of inventories of raw materials, finished goods and goods in process.
3. Valuation of personal property.
4. Collection of delinquent personal property taxes.

Before proposing solutions for these four problems, the committee does recommend that the classification rate of 40% of full and true for machinery used for production in factories and other businesses is high and should be reduced to encourage industrial activity within our state.

HOUSEHOLD GOODS.

The committee recommends that the personal property tax on household goods be abolished. Out of a total of nearly $40,000,000.00, this classification alone accounts for only $2,000,000.00. Assessors, auditors, treasurers and other officials of the counties are in practically unanimous agreement that the taxation of household goods and furniture costs more in time, effort, money and administrative procedure than the tax itself produces. This is taking into consideration the equalization work of the counties and the State Tax Commissioner; and the State Commissioner also considers the household goods tax one that can and should be abolished.

This committee realizes that in 1934 the voters of Minnesota voted to abolish this tax on household goods, that the legislature in 1935 did abolish it, and that in 1936 the legislature re-imposed the tax. It is obvious now that the reason for this strange reversal of public demand lay in the fact that the real estate levy, generally, rose in 1935 and 1936 to take care of depression needs of government. At the same time the net effect of removing the tax on both household goods and farm machinery, resulted in a reallocation of tax burden which aggravated the real estate tax load so as to cause a public reaction in rural areas. The committee is satisfied that at this time the tax on household goods could be abolished without having a repetition of the occurrences of 15 years ago.

INVENTORIES.

It is the unanimous opinion of this committee that the personal property tax on inventories of goods, finished and unfinished, and raw materials in the hands of manufacturers, wholesalers and retailers is an unsound and improper tax. Some people have suggested a change in the date of assessment from May 1st to some other day or to an average monthly inventory. While the legislature may wish to explore the possibilities of such a move, we feel that it is not the answer to the problem. Michigan did amend its laws last year (1949) to permit the taxpayer to have a choice of either his inventory as of January 1st or an average monthly inventory. Inquiries made of Michigan officials indicate that less than 1% of the affected taxpayers in that state made use of the average monthly inventory. It seems quite elementary that if the taxpayers are given a choice on reporting inventories that they will obviously take the method which promises the greatest relief from taxation. If they are not given a choice, but forced to use an average monthly inventory, this committee does not believe such a measure can be passed through the legislature.

This committee recommends the following method for dealing with the personal property tax on inventories. We recommend that a new classification be set up for inventories, separate and apart from the classification of machinery and equipment. We further recommend that this classification be assigned a rate of 30% for determining assessed valuation, instead of the present 40%, and that each two years the rate be lowered 5% until the tax on inventories is down to zero. The total amount of personal property tax proceeds from inventories last year is about $17,000,000.00. Of this about one-half or $8,500,000.00 went into the funds of local school districts. To make up for the loss of revenue to municipalities, we recommend the broadening of municipal tax power. To make up for the loss of revenue to school districts, we recommend that the school districts be reimbursed out of the income tax school fund as was done at the time of the suspension of the money and credits tax.

SUGGESTED "IN LIEU" TAX.

The Committee makes the following suggestion of a method for levying a tax in lieu of personal property tax on inventories. This alternative can be considered for replacing loss of revenue which will occur progressively under the recommendations above set forth; or it can be considered as a possible substitute for the tax in toto, so as to speed up the process of eliminating personal property tax on inventories. At present the statutes provide for the payment of a bushel tax on grain in lieu of personal property tax. This applies only to commercial grain dealers. This tax provides for one mill per bushel on every bushel handled during the year. Instead of using a specific percentage of value or a definite millage per unit, a formula for payment could be devised that would take into consideration the value of the goods, percentage of profit, number of times of turnover of inventory during the year, ratio of cost to gross income, ratio of labor costs to total cost, percentage of total sales within the state, and if necessary, other factors. From this formula a percentage figure would be developed for each kind of business, and that percentage would apply to the total annual inventory used in the income tax report of the business. This tax would be neither a tax on valuation alone, as is the present ad valorem personal property tax, nor would it be a turnover or sales tax based upon receipts. This method would be something in between these two, designed to produce revenue out of business operations in a way that would be geared to the nature of the particular business. It would, theoretically, avoid the inequities of both the ad valorem tax and the sales tax, while still requiring business to pay a tax based upon the property it handles in the course of its business operations.

VALUATIONS.

As to valuations of personalty for tax purposes, the subject of equalization of valuations is covered in a preceding section of this report. By following the recommendations of the committee in that section, the valuation problem of personal property taxes would be well met.

ADMINISTRATION AND COLLECTION.

There remains the problem of collecting taxes once they are levied upon the predetermined assessments. This collection problem varies throughout the state, but appears to be least troublesome in those counties where the least effort is made to collect household goods taxes. It is obvious that if household goods were eliminated as a subject of personal property taxation, the delinquency and collection problem would be minimized. In those municipalities where licenses are withheld pending payment of all taxes, including personal property taxes, the problem is partially eliminated. However, as long as taxes are levied, they will inevitably become delinquent in a small percentage of cases. All inquiry directed to this problem indicates that reducing these to judgment and then collecting them through the county law enforcement agencies is most distasteful to local officials. We recommend that the statutes be amended to compel the county officers to collect delinquent taxes on personal property or else provide by statute for periodic sale of tax judgments at public sale to highest bidders and leave the final collection to private persons, thereby eliminating the political obstacles to collection by public officers. Furthermore, the sale of tax judgments to private persons becomes far less objectionable politically when it is remembered that by abolishing the tax on household goods, these judgments will be almost exclusively judgments against businesses.

Income Tax

As indicated in the tables on Page 11, the income tax in Minnesota produces about 28% of the total state revenue. Ours is one of the six highest state income taxes in the country. While Minnesota and 7 other states rely upon this form of taxation for the largest part of their state revenue, 24 other states use the general sales or gross receipts taxes. It is interesting to note that both the state income taxes and the sales sales taxes were depression born developments throughout most of the nation.

The federal law for taxing net incomes followed the adoption of the 16th Amendment. The proponents of this form of taxation used as their most forceful argument the theory that the payment of taxes ought properly be based upon the ability to pay. Since the net income of persons was the best measure of their wealth, or potential wealth, it seemed to follow without any doubt whatsoever that the net income would logically indicate in the fairest manner the taxpayers' ability to pay. We see today that income tax produces by far the greatest portion of the revenue required by the federal government. As everyone knows, the statements made in the congressional debates preceding the adoption of the first federal income tax statute indicated that the people expected the rates never to exceed 3 per cent. The revenue requirements of World War I soon blasted that idea. As a matter of fact, most people considered the income tax to be nothing more than a tax upon rich men. That notion still seems to prevail, in spite of the fact that every workingman's pay check has a substantial deduction made before the worker gets it.

HISTORY OF INCOME TAX.

During the decade of the 20's the states had no apparent difficulty in meeting all their revenue requirements out of ordinary selected excise, franchise and privilege taxes. The demands upon state revenues were meager, since the greatest amount of government service to people occurred at the local level. Local governments therefore had the greatest taxing power, which consisted of taxation of real and personal property, plus license and franchise taxes.

Following the collapse of 1929, the whole complexion of government and the public demand for government services changed. While previously the idea of public assistance to individuals had been considered a sort of tax-paid charity, the great pall of unemployment resulting from the economic collapse forced officials at all levels of government to accept the idea that government, through the use of its tax powers must take up the burden private economy had apparently failed to carry. People generally refused to accept the argument that government had no right or power to provide a living for those who could not find the means to carry on when jobs disappeared. The finances needed to underwrite a living for unemployed persons simply were not available at the local levels of government. The early depression years saw cities and counties struggling with mounting expenses of public welfare operations that could not be paid out of general property taxes, because the increased tax load on property had reached the point of diminishing returns. Delinquencies grew higher and higher and the local governments turned to the state legislatures. Since it was a national debacle, Congress moved into the scene with federal allotments for made work and federal aid for helping states finance welfare activities. The states in turn tried for a few years to borrow enough money to finance their obligations to allot aid to localities.

A REPLACEMENT TAX.

By 1932 and 1933, the states began to look for new forms of revenue. Some states followed the route of income taxes and some turned to sales taxes. A few adopted both taxes on a modified scale. The Minnesota income tax was the direct outgrowth of an attempt to aid the local governments in financing their education costs. In fact, both the amendment to the constituion of the state and the income tax statutes adopted pursuant to the amendment were openly advertised and advocated as a means of replacing the tax-load on real estate. Everyone referred to the tax on net income as a "replacement tax." Interestingly enough the state tax was also considered to be one that would always be levied at low rates and never on low incomes. The revenue collected in this way was allocated to the localities through their school districts. The law provided that the allotments must "first be applied to the retirement of outstanding bonds" before any money could be used for current maintenance costs. In this way it was thought the localities would be able to reduce their property levies—therefore the tax would automatically be a replacement tax.

In the early 1930's the State of Minnesota also adopted an ambitious plan for granting state aid to school districts to (1) encourage the expansion of high school facilities throughout the state and, (2) to equalize educational opportunities by giving financial aid to low valuation districts. By 1936, the demonstrable need for continually increasing these aids began to weigh heavily upon the general revenue fund of the state. The equalization aids were being paid only at 60% of what the statutory formula defined. Since the areas receiving equalization aids were few in number, the legislatures cut their aids below par to be able to pay in full those aids which went to all districts. After the statutory amount per pupil had been paid out to each district as income tax aid, the balance remaining in the income tax school fund each year was used to pay the other statutory aids. Even so, the income tax school fund did not meet the total appropriations, so that year after year more and more money had to be paid out of the general revenue fund to meet the budgets.

The Legislature of 1937 drastically increased the income tax by changing the method of calculating the tax so as to give a tax credit instead of granting personal and dependency allowances as deductions from income. At the time this was done it was done TO RELIEVE THE GENERAL REVENUE FUND! All this time the law had provided that the receipts from the tax had to be placed in the "Income Tax School Fund" after deducting refunds and costs of administration, but the fund never had enough money to meet the appropriations for school aids. All this time the appropriations had been supplemented from the General Revenue Fund.

SURPLUS OF FUND.

Between the year 1941 and the present time the Income Tax School Fund has steadily developed a surplus. After 1941, the receipts reached the point where there was enough money in the fund to pay all aids without any supplementing sums from General Revenue. The annual receipts shot up from $13,000,000 in 1939 to $44,000,000 in 1947 without raising the rates at all. In fact, during that time the credit for dependents had been raised from $5.00 to $10.00, which constituted a reduction for many taxpayers. By 1949, the surplus, unused money in the Income Tax School Fund had reached $50,000,000.00. During the biennium which will end July 1, 1951, the state will have paid out of the fund as aids to schools, approximately $85,000,000.00, and as a supplement to the general revenue fund the sum of $6,000,000.00, or a total of $91,000,000.00 in disbursements. During the same biennium there will have been paid into the fund approximately $92,000,000.00 in income tax receipts, so that the balance as surplus will still be $50,000,000.00. The $6,000,000.00 mentioned above as a supplement to the general revenue fund, was voted by the 1949 legislature over the opposition of the school people who are represented by the teachers' organizations, the PTA and the school boards of the state. This act of the legislature was referred to as a violation of the rights of the school children and by some of the more bombastic political groups and candidates as "robbing the chidren." Actually, no one was deprived of any rights or robbed of anything. As it turned out, the $6,000,000.00 was not needed because the 1949 legislature had appropriated more money than the administration was able to spend in the biennium, and the school fund, which is always spoken of as a sum set aside for a "rainy day", remained intact at its robust figure of $50,000,000.00. The $6,000,000 was, however, transferred to the general revenue fund, which will have a surplus balance of approximately $14,000,000.00[1] for the 1949-1951 biennium.

[1] Estimate of dept of administration as of Aug. 31, 1950.

DEDICATION OF FUND.

Minnesota is the only state in the union which dedicates to a specific purpose its largest single source of revenue. By statute, which the legislature can change at any time the majority chooses to so do, the proceeds of the net income tax on both personal and corporate incomes is dedicated to be used only as aid for the schools of the state. By this is meant the primary and secondary schools. The definition is quite narrow, since it does not even permit use of the money for teachers colleges or the University. The trust funds as pointed out in another part of this report, are set up in two parts, one fund for the schools and one fund for the University. As this committee has previously pointed out, the principle of dedicating tax receipts is no problem until the receipts outrun the appropriations for the purpose for which the tax is dedicated.

The income tax policies of Minnesota provide fertile ground for tax study and serious review. Following the general propositions set forth at the beginning of this report, the existence of a huge surplus is a constant invitation to free and easy spending. Furthermore, it is palpably unfair to the people of the state who pay these taxes to take money from them that is not acually needed for government operations. It borders on the fantastic for the people of the state to so tie the hands of their legislators that the largest single source of revenue is dedicated and that about 80% of all state revenue is dedicated. The use of these locked compartment procedures in handling public funds forecloses the adoption of flexible policies of fiscal management needed to fit the changing requirements of the people and the varying proportions of receipts from the several types of taxes employed for state financing. In the 1920's the idea of trust funds as a mechanism to absorb the shock of constantly varying volumes of tax receipts became quite popular. That theory went by the boards and completely lost its appeal when the vast depression proved such a device too rigid for any practical value. Special group interest obviously dictated the swing to dedications of revenue receipts. Dedications were looked upon by interested popular groups as a fool-proof method of insuring that the legislators woud not be able to siphon tax receipts into channels which would not directly benefit the groups who had promoted the tax for the particular activity they favored.

The obvious fallacy in this theory is that too many interests finally pyramid into an agglomeration that is inimical to the overall best interests of all taxpayers. Or, stated as it applies to the individual, he suddenly realizes that splitting himself into a parent, a sportsman, a conservationist and an auto driver eventually shaves him too thin as a total citizen; and his diluted individual strength and meaning as a group member or member of several groups puts him in the amazing position of opposing his own total best interests as a citizen and taxpayer. In the long run, the multiplicity of dedications must fall of its own weight in a democracy.

Applying the principles stated at the outset, this committee is firmly convinced and in complete agreement that when the dedicated fund develops a surplus the dedication must be abolished, or the rate of taxation must be reduced until the surplus is used.

Iron Ore Tax

The taxation of Minnesota's iron ore resources constitutes a most vivid segment in Minnesota's legislative history. It has demonstrated enduring qualities as a perennial political issue. It cannot be denied that this highly spirited political approach to the subject has played a great part in developing our present tax policy.

The most recent comprehensive study of the subject made by any legislative commission was the report of the Minnesota Interim Commission on Iron Ore Taxation submitted to the legislature of 1941. That report is a very reliable guidepost. We are here bringing its conclusions up-to-date and projecting a policy which we believe harmonizes with the factual developments of the intervening years.

The State of Minnesota imposes not only the ad valorem tax on iron ore unmined, but also severance taxes known as the Occupation and Royalty Tax. Minnesota is the only state in the union, with one or two possible exceptions, which levies both an ad valorem and a severance tax on minerals. For more detailed comparison of Minnesota's ore taxes with other states see the Legislative Research Committee's Report on "Iron Mining Taxation."

Iron ore taxation is not easily understood by the average citizen. One of the members of this committee was asked why it is "that Minnesota does not levy any taxes on iron ore." Indeed, when the confusion has reached such a degree that ordinary citizens of Minnesota think there is no tax on iron ore, the chances for calm, unbiased treatment of the subject by the legislature seem very dim. The total of all ad valorem and severance taxes on iron ore during the last year was $31,452,161. (See table on p. 45)

In brief, the history of iron mining taxation begins with an act passed in 1881 during an extra session of the legislature, which by its terms was intended to "encourage mining in this state by providing a uniform rule for the taxing of mining property and products." This statute placed a tax of 1c on each ton of iron ore mined. In 1898, the Supreme Court declared the law invalid because it conflicted with Article 9, S. 1, of the Constitution requiring property to be taxed according to its true value in money. In 1897, the tonnage tax was repealed and since then iron ore, both mined and unmined, has been assessed and taxed on the basis of its value.

AD VALOREM TAX.

The ad valorem tax on iron ore deposits in the ground is levied in the same way as real estate taxes are levied generally throughout the state. The valuation of ore-bearing property has been and still is a source of political argument. After a series of battles in the legislature and the courts, the so-called Hoskold Formula is now accepted by both the state and the owners or lessees, as the best available basis for valuing ore deposits. Once valuation is arrived at by the State Tax Commissioner, the matter of levying and collecting taxes is performed by the local government for local purposes, and the state levy added as on all other real estate. In classifying property for determining assessed value after full and true value has been established, iron or property stands in a class separate and apart from other real property. It is assessed at 50% of full and true, while non-homestead real estate is assessed at 40% of full and true value. These ad valorem taxes like the regular real estate taxes throughout the state, are levied principally for the financial support of municipalities and school districts. Iron ore, after it is mined and stockpiled, is taxed as personal property with certain statutory exemptions for some ore mined underground.

SEVERANCE TAXES.

The occupation tax and the royalty tax, so-called severance taxes, are different from and in addition to the ad valorem taxes. The proceeds of occupation and royalty taxes go to the state and are not levied by or for the benefit of local government. These severance taxes when collected are deposited in the general revenue fund and the trust funds, 40% of the occupation tax to the common school trust fund, 10% to the permanent University trust fund, and the remaining 50%, together with 100% of royalty taxes to the general revenue fund; One per cent was added to the 11% rate of these taxes in 1949 for the veterans' bonus. Of the portion of occupation tax which goes into the general revenue fund, 10% is earmarked for the use of the Iron Range Resources and Rehabilitation Commission. Later in this report we will deal with that commission.

LAKE ERIE PRICE.

It is pertinent at this point that the manner of calculating the occupation tax be reviewed. This subject is covered in the 1941 Interim Committee Report, but it bears repetition here since every legislator who wishes to deal intelligently with the subject should understand the manner in which this tax is computed.

The base from which the whole collection procedure starts is the so-called "Lake Erie Price." Standard Lake Erie selling values for iron ore as quoted in trade journals and ore sales contracts, are per gross ton of 2,240 pounds delivered at rail of vessel at Lower Lake ports, and are based upon classifications and guaranteed base analyses requiring natural iron content of 51.5%. Ores having a 51.5% natural iron content are called "base ores" in the pricing system. Since the establishment of iron ore prices occurs in a specialized market, there has grown up through the years the practice of establishing a "Lake Erie Base Price." Early each year, usually before the opening of navigation on the Great Lakes, a sale of iron ore is made which constitutes the base price for that year. Whether or not the actual price quoted in this initial contract at the beginning of the year involves or carries any discount from that price, is information possessed only by the makers of the contract. Irrespective of how this price is arrived at, no evidence has ever been advanced to show that ore has been sold above the Lake Erie price during the year to which that price applies. As a matter of fact, a substantial portion of the ore sales made during the year to which the price applies are made at prices lower than the Lake Erie base price. Therefore, using the Lake Erie price each year for the occupational tax results in a higher valuation for tax purposes than would be the case if the actual selling price were used.

Critics of this system have said that the "Lake Erie price is not fair," that "it is a pegged price," that "it is a device created by and used for the benefit of the steel manufacturers" and many other similar charges. The federal government made an extensive investigation of the Lake Erie price as late as 1942 when OPA had hearings. Every comparison and analytical device that could be thought of have been applied to this subject and to date no one has been able to prove that the so-called Lake Erie price is not a fair market price arrived at by the ordinary workings of competitive economic elements within the trade. By applying to a plotted curve of the Lake Erie price a comparative study of the rise and fall of other commodity prices, it appears that this price has followed almost identically the rise and fall of general commodity prices. This committee is compelled to state that no evidence has been disclosed to it upon which any criticism of the use of the Lake Erie price for computing taxes can be based. The State Tax Commissioner has informed this committee that he has no evidence which would cast doubt upon the validity of the Lake Erie price.

Minnesota courts in State vs. Oliver Iron Mining Company, 198 Minn. 385, referred to above, clearly indicated that the effect of the use of the highest Lake Erie price at which the evidence shows any Mesabi ore was sold, is to give the state the highest possible profit spread under the Hoskold formula and therefore the maximum valuation insofar as selling price determines it.

It appears that if any critic of the use of the Lake Erie price has a better method for determining the value of iron for occupational tax purposes that it would be willingly explored by all parties concerned.

HOW OCCUPATION TAX IS ASSESSED.

To determine, then, the actual value of the ton of ore to which shall be applied the rate of occupation tax as established by statute, the Department of Taxation first takes the Lake Erie price and goes backward to the mouth of the mine, deducting costs until it arrives at a net figure. So far as the occupation tax liability of any producing company for a given year is concerned, the tax commissioner first takes the total tons mined by that company during the year. From this total tonnage is deducted the loss of tonnage which occurs in beneficiation. The difference is the net tonnage which is multiplied by the Lake Erie price for that year. The product of these two factors is the value of the iron ore which is to be taxed. From this value is then deducted the following costs:

1. Cost of stockpiling and loading.
2. Cost of beneficiation.
3. Transportation costs:
   a. Transportation from mine to dock.
   b. Lake transportation.
   c. Dockage fees and the cost of loading the boat.

4. Marketing Expense.
   (This is established at a uniform rate of 5c per ton.)
5. Miscellaneous Items.
   a. Marine insurance.
   b. Cargo analyses.

After these five items of cost are deducted there remains a subtotal. From this subtotal the following statutory allowances are deducted:

1. Cost of Development.
   (On a capitalized per ton basis.)
2. The Cost of Mining.
   (Includes labor and supplies.)
3. Administrative Costs.
   (Includes Mine or District office and central office in Minnesota.)
4. Depreciation of Plant and Equipment.
5. Miscellaneous.
   a. Engineering.
   a. Laboratory and other items.
6. Royalty Paid.
   (This is deducted if the mining company is a lessee. No deduction if the mining company is the owner.)
7. Ad Valorem Tax.
   (Only that part of the ad valorem tax assignable to the tonnage mined in the current year because most mining leases require payment of ad valorem tax by operating company.)

The foregoing costs having been deducted, the balance then remaining is the amount to which the current rate of 11% is applied. An additional 1% is then applied, the proceeds of which go directly into the bonus fund.

In 1941, the legislature allowed a labor credit as a tax credit. This credit was intended to stimulate the exploitation of low-grade ore deposits which require unusually large outlays for labor expense. In those cases where the labor credit applies, the tax at 11% which we just described above is reduced by crediting against it a specific amount not in excess of 75% of the tax. This additional labor credit is allowed for the cost of labor in:

(a) Mining; (b) Development and (c) Beneficiation.

Following is a summary of the labor credit law as originally enacted and subsequently amended:

Year	Reference	Labor Credit Provision
1941	Ch. 544, Sec. 3-2373-2 298.02	"An amount equal to 10% of that part of the cost of labor. except administrative labor . . . in excess of 20 cents per ton . . . (Limited to 2/3 of gross tax).
1945	Ch. 445 298.02	". . . 10% of that part of cost of labor in excess of 30 cents per ton . . . and not in excess of 40 cents per ton; and 15% . . . that part of cost of labor in excess of 40 cents per ton. (Limited to 75% of gross tax.)
1947	Ch. 541, H. F. 1569 298.02	". . . 10% of that part of cost of labor in excess of 40 cents per ton and not in excess of 50 cents per ton; and 15% of that part . . . in excess of 50 cents per ton. (Limited to 75% of gross tax).
1949	Ch. 639 H. F. 30 298.02	". . . 10% . . . labor in excess of 50 cents per ton, and not in excess of 65 cents per ton; and 15% . . . labor in excess of 65 cents per ton. (Limited to 75% of gross tax for underground and taconite operations, and 60% for all other operations).

As to the payment of 1% for the soldiers' bonus, this is a special tax to which the labor credit does not apply.

In considering these taxes it must be remembered that the ad valorem tax is a tax on the value of the iron ore remaining in the ground each year, while the occupation tax is a tax on the occupation of removing ore, measured by the value of the ore mined. The operating companies do not pay an income tax since occupation tax takes the place of income tax.

ROYALTY TAX.

The royalty tax on iron ore is a levy based upon the value of the ore at the time it is removed from the ground and is theoretically a tax upon the ownership of the mineral itself. Practice has developed over the years whereby the operating company, which does the actual mining, pays the tax as one of the provisions of its lease arrangement with the owner. The rate of this tax is the same rate as that of the occupation tax. If an owner receives $10,000 in royalty he pays his tax of 11% of that royalty, plus 1% for veterans' bonus. This is not in lieu of income tax since the recipient of the royalty must still pay a tax on all of his income, of which his royalty receipts may be a substantial or incidental portion. Furthermore, the proceeds from the royalty tax do not go into the trust funds but are deposited 100% in the General Revenue Fund.

LOOKING AT 1941 REPORT TODAY.

When the 1941 report was made to the legislature in that year, the Minnesota Interim Commission on Iron Ore Taxation made a number of recommendations and conclusions. Some of those conclusions dealt with the ad valerom tax and others with the severance taxes.

We agree substantially with the study made 10 years ago in its general conclusion that " the mining industry, because it involves the development of a rich natural resource, justifiably sustains a relatively high tax burden." This committee believes, however, that developments in the 10 intervening years clearly indicate very little time remains during which that approach can be the guiding principle in developing an over-all policy for iron ore taxation.

The observation of 10 years ago to the effect that "the study of ad valorem, occupation and royalty taxes as applied to the mining industry reveals no other industry in the state taxed on a comparable basis," is still valid today. The occupation tax is in lieu of income tax; but the manner in which it is applied is similar to a tax on net income. The chief differences are that after the net value of the ore is determined, the rate applied is 11% instead of 6%, and there is no allowance for federal income taxes paid.

COMPETITIVE SOURCES.

Ten years ago the committee stated that Minnesota does not have a monopoly on iron ore since there are other fields from which ore is being produced. Competition of natural ore bodies today is a far more imminent factor than it was 10 years ago. For a complete factual report on these competitive ore bodies, we refer to the report of the Legislative Research Committee released during the year 1950. The compilation of source material and factual data made by the Research Committee, is perhaps the most comprehensive and complete report on the subject extant today. This committee believes that the effects of competitive ore deposits in other parts of the United States and outside of this country will occur much more rapidly than the committee of 1941 was able to anticipate. Heavy depletion of Minnesota deposits between the years of 1941 and 1945, guarantee that these competitive deposits will now be developed. An additional reason is the enormously large peacetime out-put of the American steel industry. The tremendous requirements for military defense in the immediate future added to these peacetime needs, have pressured the steel industry as a whole to announce its intended increase in total production capacity of now nearly 100 million tons per year by at least 20 per cent.

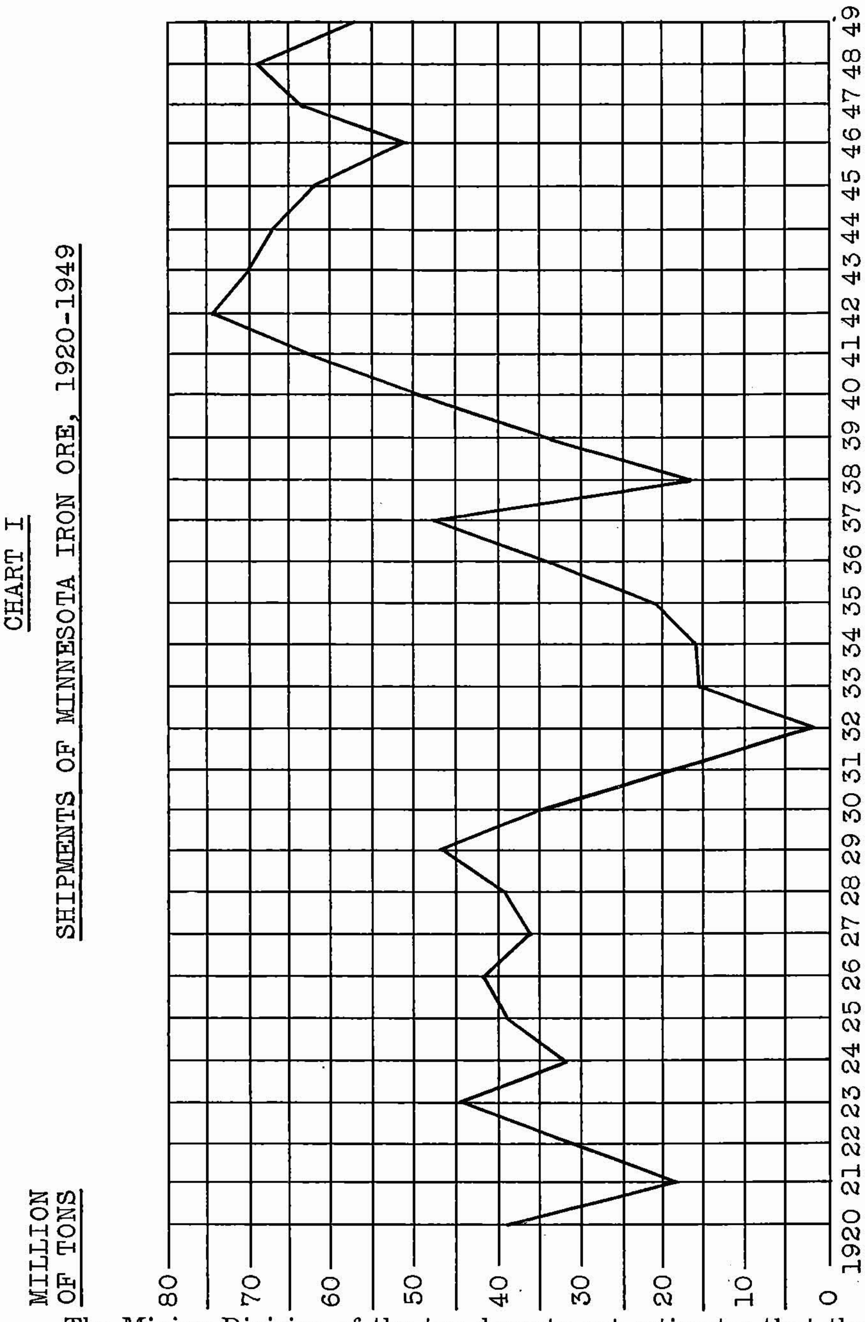
INCREASED DEMAND FOR ORE.

Ten years ago the interim commission voiced the opinion that the definite "ceiling of blast furnace capacity in steel production imposed a limitation upon the production of Minnesota's iron ore." They also said that scrap iron was definitely a competitor with iron ore in the production of steel. We feel at this time that national steel production in the neighborhood of 100 million tons annually and plant expansion rapidly moving to a total of 120 million tons annually has altered this picture greatly. This huge annual steel capacity has proportionately reduced the importance of scrap iron as a competitor to Minnesota ore and also removed what might have been a limitation to ore production. In fact, the vast removal of tonnages during World War II from Minnesota's reserves, plus present demand, place the emphasis upon the obvious short expectancy for continued mining of high grade shipping ores in Minnesota.

All of the evidence and factual data which is avaiable to anyone who wishes to study it, overwhelmingly indicates that continuance of the present rates of depletion of Minnesota's high grade ore reserves, even with materially increased proportionate use of competitive deposits outside of Minnesota, will approximate total depletion of our reserves within 20 years. The shipments during the 1940's and in the year 1950 will doubtless have to be maintained during the next five years. All reasonable estimates of progress in the exploitation of foreign deposits such as Venezuela and Labrador indicate that no substantially large tonnage can be expected from those foreign sources until the end of this five year period. So the speculation of how long Minnesota's high grade shipping ores will continue is no mystery.

CHART I

SHIPMENTS OF MINNESOTA IRON ORE, 1920-1949

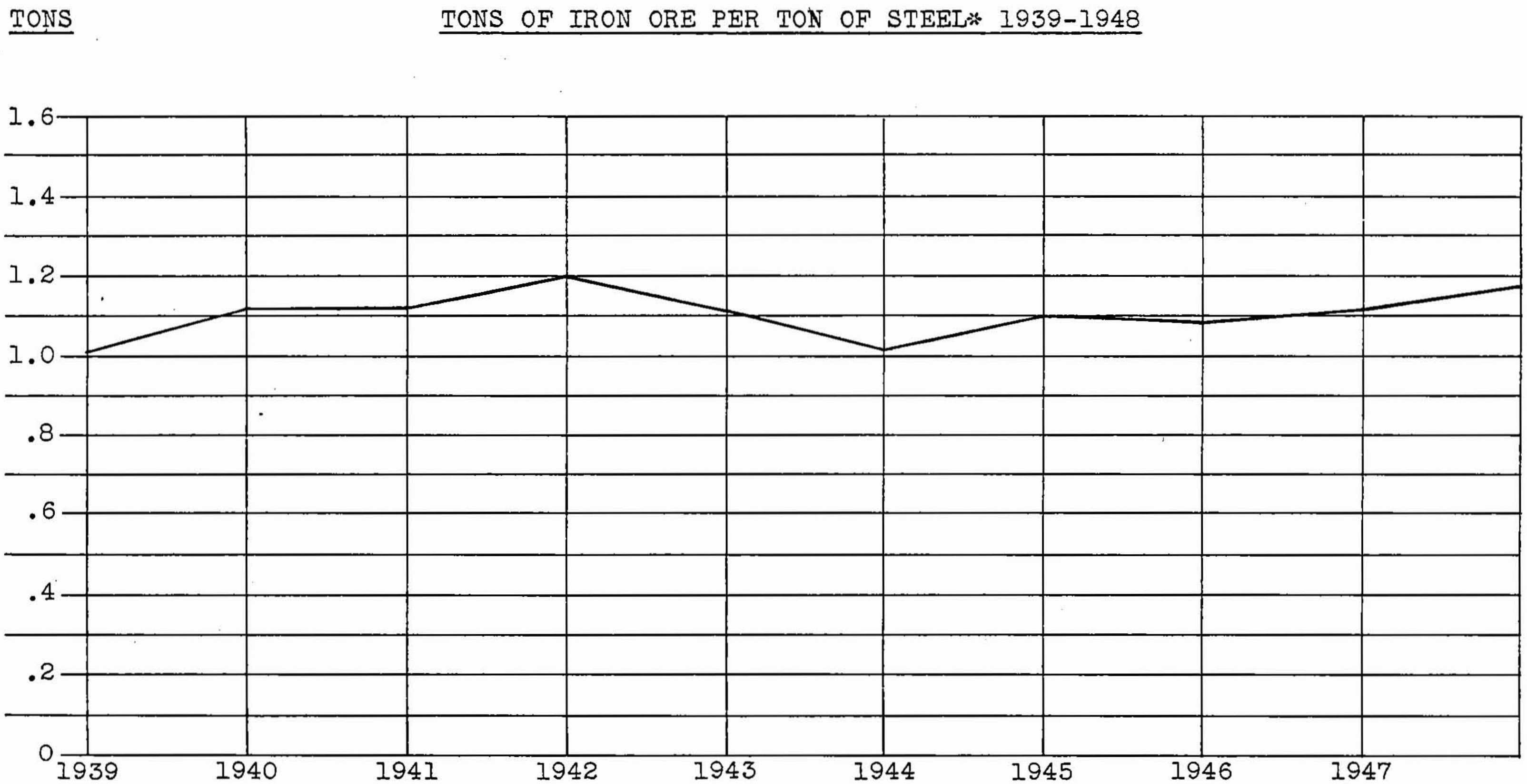


The Mining Division of the tax department estimates that the total tonnage of taxable ore in the ground as of May 1, 1950 was as follows:

Type of Ore	**Estimated Tonnage**
Open pit—direct ore	503,041,200 tons
Open pit—concentrate	128,240,200 tons
Underground—direct ore	296,027,600 tons
Underground—concentrate	40,975,500 tons
Total	968,284,500 tons

CHART II

TONS OF IRON ORE PER TON OF STEEL* 1939-1948



*These figures were obtained by adding to the U. S. production of iron ore, the tonnage of imports of ore and subtracting the exports of ore, then dividing by the steel production.

This committee believes that the conclusion of the 1941 report, to the effect that "the goal or objective of a wise taxation policy should be the preservation or strengthening of the economic structure, while at the same time raising revenue without undue encroachment upon potential revenues of the future," is a very sound principle upon which to proceed. However, in analyzing this conclusion, we must make sure that the people and government officials of Minnesota acquaint themselves with the fact that the "potential revenues of the future" will not be and cannot be the same revenues we now have been receiving from the taxation of unusually rich iron ore. It must become more clearly accepted and recognized that the "potential revenue of the future" when we look beyond the next five years, will *have* to be the ordinary revenues paid by industrial activity in the range areas which can be greatly increased by the processing of taconite.

Taconite processing will be a completely different occupation from mining. Taconite is not iron ore, it is an iron-bearing rock. It will, in fact, be a quarrying and manufacturing process. We doubt whether an occupation tax on mining is strictly applicable to this new process. This committee is unamiously of the opinion that this process should be taxed on no different basis from any other manufacturing business.

Taconite is the key to the Range future. Taconite processing can provide more plant investment, more industrial activity, and more employment for Northern Minnesota than our iron ore producing areas have ever seen.

FAIR TAXATION.

Ten years ago the interim committee concluded that "unless steps are taken toward fair taxation . . . before the high grade shipping ores are gone, there is every reason to believe that our low grade deposits will remain largely undeveloped until the competitive fields in other places have been exhausted." This is one of the most portenous conclusions which that committee placed into its report. In attempting to capture the full import of these words from where we now stand in 1950, the tax policy makers of our state must clearly and carefully evaluate the individual elements which comprise the whole Minnesota mining industry.

It is obvious that we have communities, municipalities, railroads, power lines, power plants, huge ore docks and a low cost water shipping route from our state to the principal steel producing sections of the country. It is quite elementary that not one of the owners of huge mining investment while it can be made to pay, would willingly *abandon* such assets to establish new business elsewhere. In addition to these things we have the great advantage of the technical skill—the mining know-how—of large numbers of peope who operate this gigantic industry. In all the preparations to exploit foreign ore deposits, it is significant that technical skill from Minnesota has consistently been called upon.

Because of the very things we have enumerated here, together with the fact that military strategy requires a domestic source of supply, those who think only of the expediency of the moment are inclined to say "Lets increase the tax while we still have time." This committee believes that such a conclusion would be indeed short-sighted and ill-advised. Now, more than ever before, it becomes necessary, in order to insure development of Minnesota's future mineral potential, that we adopt a tax policy which will stimulate and encourage the exploitation of low-grade ores upon which this future must be built while at the same time we extend the production of high grade ores as far as possible into the future.

We believe that America's great increase in capacity for both production and consumption of steel since 1940, coupled with an outlook for greater continuing defense needs and imminent possibility of another world war, compel the realization that we cannot for long occupy the position of competitive pre-eminence which makes present ore tax policies possible. On the other hand, our existing facilities, skilled manpower and managerial genius in this field make it far more probable that iron extraction from taconite has a better potential for succeding here than in almost any other place. There is one big "IF"—that is, the question of whether or not we, as a state will recognize that we cannot tax this industry as we have hereofore taxed the occupation of mining high grade direct shipping iron ores—if we can recognize that iron ore taxes as a substantial portion of the state revenue will eventually come to an end.

The speed and degree to which users of iron ore will look to sources other than the State of Minnesota, will in a large degree be determined by what this state does politically to recognize the inevitable end results of the operation of economic law.

TACONITE DEVELOPMENT.

The whole underlying force which will determine whether or not vast investments are made in taconite is economic and not *technical.* The technical problems have already been sufficiently answered to make large commercial operation possible. The economic problems have *not* been answered. The economic problems will not be answered by making appropriations of public funds for technical research; but they very likely can be partially answered by stabilizing our tax policy sufficiently to make it possible for operating companies to have a stable basis for figuring possible return on investment with a reasonable degree of accuracy.

This committee was reliably informed that cost factors in crushing and processing taconite to produce a shipping concentrate, have now been brought down to the point where they are competitive with underground mining of direct shipping ores.

It is the opinion of this committee that the high initial investment required for taconite processing ought to be forthcoming from those who have profited on the mining of high grade ore. It is quite apparent that these people are ready and willing to make that investment because they have all spent vast sums on technical research relating to taconite. Their present hesitancy obviously is based upon a two-fold fear; (1) their fear that higher rates of tax on high grade ores will consume the profit needed to finance the initial period of taconite development; (2) their fear that once taconite plants are built and operating, the state will so alter its taconite tax policy as to make operations unprofitable and impossible to continue in the face of competition from outside sources of high grade shipping ore.

The only possible way that anyone who is fully aware of all the facts and implications can advocate more and higher ad valorem, occupation and royalty taxes is for that person to willfully and deliberately gamble on the possible effects of such a program. It constitutes an outright gamble as to whether or not the continuance of our traditional policy of constantly raising rates will discourage huge investments in low grade ore beneficiation plants and processes. We believe that the ability to firmly hold to an established occupation tax rate as a state policy, not continually revising it upward, will do more to stimulate the iron ore industry and Range prosperity than any other single thing. We feel very strongly on this subject because we believe that all of the elements which make up the true picture of iron mining in Minnesota point to the vast and compelling need for early and substantial investment in the processing of extremely low grade ores and taconite. We believe the greatest incentive for such investment to be a leveling off of Minnesota iron ore tax at some established rate. Unless and until Minnesota can show that it is dropping its traditional approach and substituting therefor a new one—one which will be grounded upon science and economics rather than politics and emotion—such progress will be forestalled.

YIELDS FROM EXISTING RATES.

We submit the following tables prepared by the Tax Department.

TABLE NO. I

APPROXIMATE AMOUNT OF AD VALOREM, OCCUPATION AND ROYALTY TAXES AND AVERAGE TAX COST PER TON OF IRON ORE PRODUCED

1939 - 1949

	Amount of Taxes Levied				Average Tax Per Ton			
Year	Ad Valorem Taxes	Occupation Taxes	Royalty Taxes	Total Amount	Ad Valorem	Occupation	Royalty	Total
1939	$16,431,322	$ 4,888,964	$ 865,926	$22,186,212	$.502	$.155	$.027	$.684
1940	15,579,856	6,387,700	1,107,914	23,075,470	.323	.132	.023	.478
1941	14,564,253	8,399,387	1,823,592	24,787,232	.228	.132	.029	.389
1942	13,244,037	8,233,102	2,167,065	23,644,204	.189	.118	.031	.338
1943	13,300,103	6,711,683	1,945,807	21,957,593	.192	.097	.028	.317
1944	12,477,270	6,301,570	1,888,845	20,667,685	.192	.097	.029	.318
1945	12,588,313	6,289,279	1,762,134	20,639,726	.201	.101	.028	.330
1946	12,732,769	6,507,835	1,358,864	20,599,468	.257	.131	.027	.415
1947	13,923,528	9,700,773	1,654,392	25,278,693	.232	.162	.028	.422
1948	13,257,828	11,762,769	1,907,354	26,927,951	.204	.181	.029	.414
1949	14,901,587	14,355,466[1]	2,195,108	31,452,161	.270	.260[1]	.040[1]	.570[1]

[1] Includes 1% for Veterans' Compensation Fund.

Prepared by: Tax Research Division
Minnesota Department of Taxation
November 24, 1950

TABLE NO. II

AD VALOREM TAXES FOR STATE PURPOSES, COUNTY PURPOSES, LOCAL PURPOSES AND OCCUPATION AND ROYALTY TAXES LEVIED ON IRON ORE 1939 - 1949

Year	Ad Valorem Taxes						
	State	County	Local	Total	Occupation	Royalty	Total Taxes
1939	$1,953,413	$4,601,422	$9,876,487	$16,431,322	$ 4,888,964	$ 865,926	$22,186,212
1940	1,810,014	4,374,856	9,394,986	15,579,856	6,387,700	1,107,914	23,075,470
1941	1,507,775	3,951,242	9,105,236	14,564,253	8,399,387	1,823,592	24,787,232
1942	1,451,024	3,506,085	8,286,928	13,244,037	8,233,102	2,167,065	23,644,204
1943	893,996	3,677,474	8,728,633	13,300,103	6,711,683	1,945,807	21,957,593
1944	662,665	3,462,913	8,351,732	12,477,270	6,301,570	1,888,845	20,667,685
1945	1,026,087	3,714,909	7,991,773	12,588,313	6,289,279	1,762,134	20,639,726
1946	1,026,087	3,714,090	7,991,773	12,732,769	6,507,835	1,358,864	20,599,468
1947	888,768	5,125,429	7,909,331	13,923,528	9,700,773	1,654,392	25,278,693
1948	914,255	4,823,156	7,520,417	13,257,828	11,762,769	1,907,354	26,927,951
1949	1,141,709	5,195,204	8,564,674	14,901,587	14,355,466[1]	2,195,108[1]	31,452,161

[1] Includes 1% for Veterans' Compensation Fund.

Prepared by: Tax Research Division
Minnesota Department of Taxation
November 24, 1950

It can be seen from these figures that revenue from occupation tax is increasing continually. Increases in recent years result from (1) higher rates; (2) more tonnage mined, and (3) higher Lake Erie Prices.

It should be recognized in studying these comparative figures that annual "per ton" totals of all kinds of iron ore tax are misleading because ad valorem taxes come from constantly diminishing reserves each year. Valuations of existing tonnages have increased and new tonnages have been added by reason of new discoveries during the last few years.

At the time this report is being prepared for issuance, additional facts have developed that ought to be reported. It appears that the estimate of occupation tax receipts for the year ending June 30, 1951 will approximate $18,000,000. Of this amount $8,-167,500 will go to the general revenue fund. The Lake Erie Price which was set on December 2, 1950 for the year 1951 at $8.30 may be caught in the price roll-back which required prices to be frozen at December 1, 1950 levels. The Oliver Iron Mining Company is seeking a government ruling. If the Mining Company can prevail so that the price will be $8.30 per ton for the next year instead of $7.70 as it was during the past year, the total amount of occupation tax for Minnesota for the year ending July 1, 1951, as estimated above, will be increased by $4,000,000, of which approximately $2,000,000 will go into the general revenue fund. If, however, the government price-roll back affects the ore price the State will not get that additional $4,000,000.00.

LABOR CREDIT.

The labor credit law of 1941 as amended has come in for a great deal of scrutiny and criticism. This labor credit was intended as an incentive for mining operators to undertake the development of low-grade ore deposits, thus stimulating employment in the area. The labor credit is a tax credit; in other words, it is a specific credit to be deducted from the occupation tax. After all the statutory deductions and allowable operating expenses, which include labor, have once been deducted, the labor costs again are used for the purpose of calculating this tax credit. The law as presently written grants a tax in an amount equal to 10% of the labor costs in excess of 50c per ton and not in excess of 65c per ton plus 15% of labor credits in excess of 65c per ton, limiting the deduction, however, to not more than 75% of the gross tax on all underground and taconite operations and not more than 60% of the gross tax on all other operations.

It appears that the use of labor costs alone is not the best standard by which the cost burden of mining a low-grade ore deposit can fairly be measured. The labor expenses included for this credit consist of labor costs in mining, development, and beneficiation. The labor for development is not a continuing cost but one which, when liquidated, comes to an end. Cost of labor for beneficiation is but one cost of the process since the use of media, power and mechanical equipment play an enormous role in latest beneficiation methods. The suggestion has been made that tax credit as an incentive could better be measured by some standard which would reflect the differences between competitive mining operations more accurately than labor cost alone. Labor is an item of cost in developing high grade direct shipping ore deposits, and, as the labor credit law is now written, the credit, though small, is available to these direct shipping ore operations. It is questionable whether this was intended or fully understood at the time of the law's original enactment. As a possible substitute for the labor credit as now written, the legislature might well consider the use of percentage recovery. Percentage recovery means the percentage of concentrates derived from one ton of the ore treated. If it is necessary to treat two tons of 'run of the mine' ore to obtain one ton of salable concentrate, the recovery would be 50 per cent.

This committee has not considered all of the technical problems involved so as to properly re-write this tax credit, but we do believe that percentage recovery is well worth studying. The engineers and experts in the Tax Department and the Mines Experiment Station of the University of Minnesota could develop the technical information and factual data necessary to write a workable tax credit statute. We do not believe that such a credit should exceed 75% of the normal tax.

Some mines which had been abondoned 20 or 30 years ago are now being reopened because the application of new beneficiation techniques make possible a profitable operation. Higher market prices, of course, put some of the marginal properties back into the profit column again. With the prospect of a continuing demand for steel products at more than 100 million tons per year in the United States, it is obvious that increased economic activity with its attendant corrollaries of high employment and local prosperity can be stimulated for many years on Minnesota's iron range, and incentive tax policies will be some of the most important stimulants to this desirable end.

LOCAL TAX POLICIES.

The Interim Commission of 1941 indicated that the state as a whole through the medium of state revenue should receive more returns from this source and they said that the increases, if any, ought to be offset by decreases in locally collected revenues. Probably as a direct result of that report, new per capita limitations were imposed upon the taxing power of local governments in the Range area; and since then the state occupation tax has risen from 9% to 11%. At this time there can be no repitition of this procedure of taking from local tax revenues to increase the state funds. Since 1941, the Range communities have done a creditable job toward reducing their local expenditures. While they may still have considerable distance to go in some instances before they get down to expenditure averages which are normal for the rest of the state, they do recognize that these reductions must be made.

The tax policies of local governments in the Iron Range area will necessarily reflect local political action and thinking. At the hearing which this committee conducted in Hibbing on July 14, 1950, Mr. Howard W. Siegel appeared as Chairman of the Mining and Taxation Committee of the so-called Northeastern Minnesota Rehabilitation Committee, made up of members of the Junior Chambers of Commerce of Chisholm, Duluth, Eveleth, Grand Rapids, Hibbing and Virginia. Statements made by Mr. Siegel at that time seemed to reflect the thinking of the majority of the people of the range area who are really studying this subject. His committee made a report which includes specific recommendations, formal recommendations and a conclusion. That report was respectfully submitted to our committee and appears in full in the appendix to this report.[1] Mr. Siegel's remarks to our committee and his committee's report both indicate a fear over the final effect on the Range of a tax policy which is primarily motivated by "a whim of somebody who would like to see some added revenue come to the state."

[1] See Appendix p. 84.

Iron Range Resources & Rehabilitation Commission

The subject of the Iron Range Resources & Rehabilitation Commission we believe should be a part of this report on taxes.

That commission was established by the act of 1941 at the same session the per capita limitations were imposed upon the Range municipalities. These two developments in the same session were doubtless tied together, and the establishment of the commission was obviously intended to bolster the morale of the Range citizens. In 1943, the legislature by Chapter 590, created the Iron Range Resources and Rehabilitation Commission as a continuing commission headed by a director appointed by the governor, who was to be guided by an advisory committee of legislators. It received for its operations 10% of that portion of the occupation tax which goes into the General Revenue Fund, or 5% of the total occupation tax receipts. The powers of this commission are as follows, which is quoted from the law:

> "When the commissioner shall determine that distress and unemployment exists or may exist in the future in any county by reason of the removal of natural resources or a possibly limited use thereof in the future and the decrease in employment resulting therefrom, now or hereafter, he may use such amounts of the appropriations made to him in this section as he may determine to be necessary and proper in the development of the remaining resources of said county and in the vocational training and rehabilitation of its residents."

This gives wide authority to the commissioner, for apparently he is the final authority in determining when and how these problematical projects are in order.

In exercising its powers, the commission undertook a number of projects, many of which were agricultural, a few related to forestry, some to peat, some to mining, one related to vocational training and one or two projects were industrial. Since the commission actually started functioning in 1944, receipts have been as indicated on the following table:

IRON RANGE RESOURCES & REHABILITATION

RECEIPTS

	F.Y. 1945	F.Y. 1946	F.Y. 1947	F.Y. 1948	F.Y. 1949
TAXES					
Occupational Tax on Iron Ore	335,490.75	316,799.53	313,723.85	318,620.65	479,088.55
STORES FOR RESALE					
70 Stores for resale	2,853.45	46,976.57	26,957.98	4,898.24	11,231.16
REIMBURSEMENT AND REFUNDS					
80 Red. of Exp. (pr. yrs.)				1.05	84.25
TRANSFERS (IN)					
90 Transfers (in)			22,023.67	4,143.78	6,403.37
TOTALS	$338,344.21	363,776.10	362,705.50	327,663.72	496,805.33

It will be noted in this table that items of "Stores for Resale" amount to sizeable sums, but this money was received from the sale of products made on various projects.

By far, the largest single projects undertaken by this commission were the Iron Powder plant, the peat processing plant, the hardboard project and the wood processing plant. Of all of these, the hardboard project appears to be the only one destined to be a real success. Following is a breakdown of the expenditures of the projects:

ORGANIZATION CHART - - FINANCE

Iron Range Resources and Rehabilitation
EXPENDITURES BY PROJECTS

PROJECT	F. Y. 1945	F. Y. 1946	F. Y. 1947	F. Y. 1948	F. Y. 1949
1. Administration	16,067.99	18,100.72	20,167.08	18,442.42	21,387.61
2. Agricultural Projects	9,636.27	11,390.55	9,487.09	7,912.46	3,633.64
3. Artificial Breeding	5,512.70	3,824.51	4,050.00	4,050.00	
4. Cedar Oil Extraction					
5. Consultants Fees	82.50				
6. Cow Testing	9,828.24	15,653.13	10,500.00	7,200.00	5,400.00
7. Farm Forest Education	2,875.00	3,000.00	3,125.00	6,000.00	3,422.00
8. Fish Canning			51,625.35	900.00	24.62
9. Flax Program					
10. Forest Survey			7,375.31	24,170.50	36,787.27
11. Greenhouse (Two Harbors)	2,280.46				
12. Hardboard Project				87,832.90	222,167.10
13. Iron Powder Plant	901.85	649,948.40			116,311.56
14. Land Clearing Machine	11,219.05	3,898.14	139.26		

ORGANIZATION CHART—Continued

PROJECT	F. Y. 1945	F. Y. 1946	F. Y. 1947	F. Y. 1948	F. Y. 1949
15. Land Use Aitkin Co.	3,880.00	7,040.00	7,370.00	3,900.00	3,139.98
Beltrami Co.	3,761.67	7,265.00	7,447.34	3,642.50	3,707.50
Clearwater Co.			4,520.00	3,420.00	2,430.00
Crow Wing Co.		970.00	6,700.00	3,680.08	2,188.68
Itasca Co.	12,600.00	10,577.50	9,660.00	7,480.00	8,520.00
Koochiching Co.	8,709.66	10,050.00	10,022.50	4,560.00	3,420.00
Milaca Co.					
St. Louis Co.	12,415.62	12,426.23	12,800.06	6,249.99	4,787.50
16. Milkhouses	1,586.70	1,994.81	37.60	53.16	
17. Mining	886.13				
18. Minn. N. D. Res. Dev. Com.	122.69	244.71	48.90	391.83	100.00
19. Motion Picture					7,449.89
20. Peat Research		1,025.35	11,325.50	16,451.55	21,760.09
21. Peat Processing Plant	28,109.57	71,655.32	31,121.98	24,861.84	47,601.42
22. Rutabaga Project		50,401.95	13,914.93		
23. Seed Potatoes	3,996.00				43.48
24. Small Fruit	4,701.86	3,485.48	3,234.38	3,226.90	3,994.19
25. Sulphite Drilling					19,960.60
26. Titanium Drilling		154.30	39.60	22,627.35	3,297.02
27. U. S. Geological Survey (water)	1,250.00	1,250.00	1,250.00	1,500.00	1,575.00
28. University of Minnesota		107.14	1,259.56		
29. Vocational Training	13,264.03	3,641.82	17,495.08		
30. Warehouse Cook	2,762.53	2,197.85	121.28		
Embarrass	1,808.12	1,233.23	512.02	39.75	
Lakeland		5,724.89	468.65		
31. Wood Processing Plant		80,151.43	154,423.18	6,489.02	11,867.65
GRAND TOTALS	$158,258.64	$977,412.46	$400,241.65	$265,082.25	$554,976.80
Transfers (out)					
Lands and Minerals	12,000.00	14,350.00	14,000.00	23,985.00	30,467.00
University of Minnesota	22,000.00	50,000.00	50,000.00	60,000.00	60,000.00
Lands and Minerals (deficiency)					190.00
	$192,258.64	1041,762.46	$464,241.65	$349,067.25	$645,633.80

These figures are taken from figures submitted by the Iron Range and Rehabilitation Commission and it will be noticed that there are a great number of projects.

The Iron Range Resources Commission, according to the report given to this committee by its then director, Ben Constantine, received last year about $650,000 which was 5% of the occupation tax. Some of this money goes to the University, some to the Lands & Minerals Division and some for the settlement of claims originating out of the iron ore power plant at Aurora. Mr. Constantine judged that about $450,000 a year would be available for the Iron Range Resources and Rehabilitation Commission to use as it saw fit. Of this, he said $40,000 a year was necessary for administrative expenses to cover salaries, traveling, etc. He indicated then that they have several other projects under way which include an aerial photography project at about $10,000 a year which is in cooperation with a 16-county forestry survey committee. The commission regularly pays out $4000 a year in salary to a man in St. Louis county who works continuously and full time with farmers for developing better farming methods in that county; $10,000 to $12,000 a year is still being spent for cow testing and working with breeding associations; while $3500 is regularly spent each year for farm forest education. This latter item is the salary for an individual who spends all his time traveling around among rural schools talking to children and farmers on proper management of their farms and their tree planting program. The so-called 16-county forest survey program is costing $65,000 per year and they have also initiated a land-use program for several Northern Minnesota counties which require $15,000 a year. Another item is a topographic mapping project under the supervision of a board created by the legislature at a cost of $30,000 per year.

Mr. Constantine pointed out that the real test of the success of these ventures is whether private individuals will invest their money in such enterprises. To date, the hardboard is the only one that comes near to meeting the test.

At the present time there are $2,000,000 worth of requests in the department from people and organizations for projects in northern counties. It is apparent from the foregoing that this commission has developed into a sort of a perennial 'boondoggle' which bears no recognizable resemblance to what the legislature originally intended. Since July 1, 1941, the commission has spent $2,800,000 and at the present time there are 30 people on the payroll, including 18 foresters engaged in their survey, 4 in the administrative department and others.

Mr. Constantine stated to this committee that he felt the office is presently endowed with too much power and some of the money spent by it had probably not been spent properly or with the greatest efficiency.

LARGE SUMS INVOLVED.

Since the main reason for the existence of the Iron Range Resources & Rehabilitation Commission was to devise ways and means to eliminate distress resulting from unemployment in any county where removal of natural resources has caused or might cause such unemployment and, since it is quite apparent that the greatest relief that any really important resource area of the state could have would be the vast full scale exploitation of its low grade mineral resources as pointed out above in this report, there appears to be very little that the Iron Range Resources & Rehabilitation Commission can actually accomplish. While this was a well-intentioned idea, it appears that it is demonstrably ineffectual. The termination of this function will make available to the General Revenue Fund one-half million dollars or more annually to pay for more vital services. Estimated ore tax receipts for the year ending June 30, 1951, will top $18,000,000 of which over $800,000 will go into Iron Range Resources & Rehabilitation Commission if the law is not changed. Surely, the surveys, researches, studies and other short-lived projects which do not lead to any widespread employment are not in keeping with the intent of the law. Since the money for this commission would otherwise go into the General Revenue Fund, the legislature itself can consider the value of forest surveys, topographical maps, etc. and appropriate merited funds directly to the departments which should logically handle these respective projects.

RECOMMENDATIONS.

It is the opinion of this committee that the laws relating to the Iron Range Resources & Rehabilitation Commission should be repealed, that the commission should be abolished and that the remaining work of the commission should be liquidated as soon as possible, keeping one or two employees for that purpose, who could be placed under the supervision and direction of the Department of Administration. If the commision is not abolished, the total diversion of occupation tax receipts to this commission should certainly be limited to not more than $150,000 per year.

PERCENTAGE DEPLETION.

Owners of iron mining properties have been requesting that they be granted a depletion allowance in figuring their income tax, as a deduction from their income received as royalty. The federal government allows a flat 15% depletion deduction. The State of Minnesota in adopting its original income tax law made provision for depletion allowance on iron ore deposits on the tax rolls in 1933. Ores which have been placed on the tax rolls since 1933 are not covered by this depletion clause in the income tax law, so that owners who receive royalties on such properties do not receive any depletion allowance. This committee heard the owners of ore properties in the public hearing at Duluth, Minnesota, on July 12, 1950, at which time spokesmen for the group advanced their arguments for depletion allowance. The general tenor of their argument was based upon the theory that costs were involved in acquiring, proving and holding iron ore property and that these costs ought to be considered deductible items in figuring income tax on the earnings or royalties received. They said that a depletion allowance on a flat percentage rate would be the best way to give proper recognition to these costs.

This committee has no recommendation with reference to this subject, but we do make the observation that if there was any basis for granting a depletion allowance in the original income tax law that basis might still be considered by the legislature in reviewing the request of these owners.

Beverage Tax

Minnesota beverage tax, which includes tax on spirits, wine and beer, produced $13,279,399.84, during the fiscal year ending June 30, 1950. Of this, the sum of $1,297,068.46 was the total surtax applied for payment of the soldiers' bonus. According to our present statutes, the tax on wine and spirits is divided between the state general revenue fund which gets 70% of the total, and the municipalities of the state which on a per capita basis receive 30% of the total receipts. During the same fiscal year the total wine and liquor tax was $9,505,033.22, of which $2,820,223.00 was distributed to local governments as a shared tax.

Among the states, Minnesota ranks first in its tax rate on wine and second on liquor. We are, by a substantial amount, the second highest in the entire United States on liquor tax rate. Under these circumstances it seems hardly feasible to consider any change in this tax other than downward. The possibility of revising the tax downward is dependent almost wholly upon what the next legislature does with reference to expenditures. The municipalities will obviously use their combined influence to retain the income they receive from this tax which militates strongly against proposals for reduction of our rates. The soldiers' bonus law of 1949 imposes the surtax equal to 10% of the regular tax and this is a contractual commitment included in the bonds which were sold to raise the cash for bonus payments, so it is impossible to expect any reduction of that surtax until the bonds have been paid, which would be in 1960.

Minnesota ranks 22nd among the states in its rate of taxation on beer. The basic beer tax accounted for a yield of $2,477,298.14 during the year 1950, plus an additional sum of $268,214.71 from surtax, which goes into the bonus payment fund. The regular beer tax without the surtax goes directly into the state's general revenue fund and no part of it is distributed to local governments. This is a tax on a beverage that is generally considered to be the workingman's drink and from the total figure it is easy to understand that to raise this beer tax rate in any amount sufficient to make a substantial increase in the receipts for the general revenue fund would require doubling or tripling the rate. This is, of course, highly impractical.

CONCLUSIONS.

As a committee we do not recommend any upward revision of either of these beverage taxes. The interest of sound control of legal liquor sales dictates a downward revision of our wine and spirits taxes which are so inordinately high when compared with the rates in other states. We have indicated reasons why we do not think it feasible at this time to reduce these rates, but the committee does feel that eventual reduction when possible, is in order.

Cigarette Tax

Minnesota's cigarette tax produced $11,122,573.00 during the fiscal year ending June 30, 1950. According to our present statutes, this tax is divided between the state general revenue fund, which gets 70% of the total and municipalities of the state, which on a per capita base receive 25% of the total receipts. There is no surtax on the cigarette tax. A great deal of propaganda and misinformation has been circulated to the effect that proceeds from the tax on cigarettes goes toward retirement of bonus bonds. The entire proceeds are divided between general revenue fund and local government.

Forty-one states impose a tax on cigarettes. Of these, 25 impose a tax of 3c or less per package. Minnesota is one of a group of 9 states, all of which impose the 4c rate. During the past year, of the remaining states, 6 impose a tax of 5c per pack, while one state imposes a tax of 8c. During the past year, the states of Massachusetts and Florida, which had been levying a cigarette tax of 4c per pack have increased their rate to 5c per pack. Also during the past year the District of Columbia has imposed a 1c per pack cigarette tax.

It is apparent from these figures that Minnesota is not imposing an inordinately high tax, since there are 15 other states which have a tax as high or higher. This is another source of revenue for the general revenue fund. If it were reduced in rate, loss of a substantial portion of $8,341,929.00, which now goes into the revenue fund would occur, and a substantial proportion of $2,780,643.00 which now goes to local government would also be eliminated.

The Committee has no recommendation to make with reference to this tax.

Aviation Tax

In 1945, Minnesota adopted the aviation gasoline tax, the airline flight property tax, and the aircraft registration license tax, receipts of which were placed in the Minnesota Aeronautics Fund. This was an attempt to develop a system of user taxes to aid in financing airport expansion and operation in Minnesota.

Since that time, $2,900,000.00 in bonds have been appropriated for the State Airport Program, and an additional $650,000.00 was granted by the 1949 legislature to aid in building local airports. When Mr. Schroeder, Commissioner of Aeronautics for the state department, appeared before this committee in April, 1950, he stated that it would not be necessary to use this $650,000.00 since the largest projects have been completed. The proceeds from the gasoline tax and the flight property tax and license tax are all credited to the state airports fund, which will pay off the $3,550,000.00 of indebtedness.

Following is a table of receipts from these taxes for the years 1947, 1948, 1949 and 1950:

	1947	1948	1949	1950
Aviation Gas (Net after refund)	$101,719.00	$363,267.00	$146,342.00	$181,077.00
Aircraft Carrier Flight Property	18,823.00	54,853.00	84,903.00	129,188.00
Aircraft Licenses (1% of value of aircraft)	36,772.00	44,974.00	38,143.00	37,089.00

FLIGHT PROPERTY TAX.

The flight property tax is imposed on flight property including spare parts of certified air carriers. It does not apply to planes used only in intrastate flying. The Commissioner of Taxation determines the full and true value of the flight property and apportions this value to the state on a formula basis. The factors which make up the formula are:

1. Percentage of traffic tonnage received in the state to the total within and without the state.
2. The percentage of time the aircraft is flown in the state and is on the ground in the state, to the total of such time in flight and on the ground within and without the state.
3. The percentage of revenue time-miles flown in the state to the total flown within and without the state.

This flight property is assessed at 40% of full and true value and the tax rate applied is the average personal property rate throughout the state. This was a little over 118 mills in 1950. This tax was developed to prevent duplicate taxation in other states and could be considered a sound system of taxation if all states had adopted it. Unfortunately, no other state has adopted it, thus placing Minnesota in a highly unfavorable competitive position.

REGISTRATION TAX.

The registration tax act imposes a tax on non-transport carrier aircraft in lieu of other personal property taxes at the rate of 1% of the value of such aircraft.

Few states tax aeroplane gasoline. As of the date of March 1, 1949, 30 states exempted or fully refunded the gasoline tax paid by aviation companies, 12 states made a partial refund, among which is included the State of Minnesota, and 7 levied a tax and made no refund. These figures include the District of Columbia. The failure of most of the states to adopt a gasoline tax used by aircraft again places the interstate carrier industry in Minnesota at a second disadvantage.

AVIATION GASOLINE TAX.

The aviation gasoline tax is levied at the rate of 4c per gallon with graduated reductions, as follows:

4c per gallon on the first 50,000 gallons used annually;
3c per gallon on the next 50,000 gallons;
2c per gallon on the next 50,000 gallons;
1c per gallon on the next 50,000 gallons and
½c per gallon on all in excess of 200,000 gallons.

Since the states of Washington, North Dakota, Wisconsin, New York, Illinois, Ohio and the District of Columbia, all make a full exemption or full refund, it is quite apparent that the Northwest Airlines, principal operator in Minnesota, can refuel at points where no gasoline tax is collected and thus cut down to a minimum the amount of gasoline purchased in Minnesota. This is an unsound policy of taxation if this industry is to remain in Minnesota.

RECENT DEVELOPMENTS.

Although Minnesota has embarked upon an ambitious program of airport construction throughout the state for use of small airplanes, the use by the public of such plans has not developed at anywhere near the rate expected when these laws were adopted in 1945. This is shown by the fact that registration of planes in this state has dropped from 1924 in 1948 to 1777 in 1950.

Since a great development of private air travel has not occurred, in spite of the fact that airports have been constructed in many municipalities throughout the state, it would seem the entire aeronautics tax and airport appropriations act is subject to review and reconsideration by the state legislature. The very fact that $2,900,000.00 has already been spent would make it virtually impossible to reduce the airflight property taxes or the aviation fuel taxes until the state debt for airport construction is retired in 1957. The over-all problem however, is one which bears considerable rechecking and should have a careful unbiased study. Minnesota is not alone in this situation. Other states have likewise had to make a second guess on this matter of private aircraft use and development. It is probably due to this same situation in Tennessee and Colorado that they abolished their state aeronautics departments. In Tennessee the aeronautics functions were given to the Highway Department, while in Colorado a non-salaried commission took the place of the Aeronautics Division. Something along this line is also true with respect to aviation gas tax. The states of Oklahoma, Tennessee and Ohio repealed their aviation gas taxes the last three years.

The Northwest Airlines in Minnesota asked for a reduction in flight property tax during the 1949 session. An attempt to get this reduction was defeated and nothing was done by the Minnesota legislature. This was attempted at a time when the Northwest Airlines had placed its order for some $20,000,000.00 worth of flight property. It must be remembered that no other state has adopted a flight property tax. It is also worth noting that after these planes were purchased they have not been kept in Minnesota for maintenance. That function has been transferred to Seattle, Washington, where hangar space and airport facilities were procured at a very nominal cost. This fact may have been the chief reason for the transfer, but it is apparent that since maintenance is performed at Seattle, the amount of 'on the ground time' in Minnesota is materially reduced with reference to these larger planes. This obviously has cut the amount of flight property tax far below what would have been received if this property had remained in Minnesota. It certainly gives rise to the question of whether or not the tax policy is wise. If a reduction of the taxes had induced the company to leave its maintenance here, not only would flight property tax have yielded as much or more revenue but many workers whose payroll would be in Minnesota would be paying real estate, personal property and income taxes here for the benefit of both the state and the local governments.

CONCLUSIONS.

The Department of Aeronautics very vigorously defends its position with reference to these taxes, the repeal or modification of which was opposed by the Department in the 1949 session. The Department seems impressed with the fact that commercial airlines are the only ones who are critical of the state aeronautics tax program, while most of the small private owners seem to be highly in favor of it. It can therefore be concluded that the license tax and gasoline tax paid by the so-called "little aviation" groups does not present a tax problem, but the reverse is true of the transport carrier phase of the industry. A careful restudy of the subject should be made by the legislature during the 1951 session or by an interim committee for the purpose of developing a sound tax policy in respect to interstate flying transportation industry.

Minnesota's airport program was designed and intended as an airport building program. Now that the airports are built the question arises as to repairs, improvements, snow removal and even direct operation, as many of these fields are not self-sustaining. There is a disposition on the part of some to force the state government into operation and maintenance of local fields. We have reached a point in the development of this program where there must be a complete consideration of the potentials following this line of thinking. It is the belief of this committee that the state should not operate local airports, but should assist only to the extent of the yield of user taxes paid by these local flying groups. In other words, general property taxpayers should not be burdened with any part of the cost for these local flying facilities. Private plane owners, though they are a tiny minority of all the people of Minnesota, are vocal and active in their drive for more and better airports. This is understandable because the use of their airplanes depends upon landing facilities. If they are confined to only a few landing spots in the state the value of the plane to them is far less than if they could go nearly anywhere. There are 87 counties in the state of Minnesota and there are now over 84 airports in the state that have been assisted with state funds for their construction. This gives the state substantial coverage so far as airport facilities are concerned. Whatever progress is made in the field of private flying, it stands to reason it should not be made under conditions such that it will diminish for the state of Minnesota, the benefits received from commercial airline development in this state. The use of the word "benefits" here is intended to cover all phases of the air operation, including employment, handling of goods, the temporary stoppage of passengers and all other phases of the business that might in any way contribute to Minnesota's total overall economic good.

It is recommended that this 1951 session of the legislature should adjust the laws so as to eliminate friction between the Metropolitan Airports Commission and the State Department of Aeronautics. Additional time and experience will be needed to revise the aviation tax system, and to retire the state aviation debt. After that the flight property tax and the proportion of gasoline taxes paid by the interstate carriers should be modified and the balance shared with municipalities that develop the revenue. The Committee does recommend that a complete study of the subject be made during the interim following the 1951 session. The legislative interim committee, together with outside members on the panel should include private operators, commercial operators and some leading business and labor representatives, who would be interested in working the problem out without the personal bitternesses which have been heretofore injected.

Trust Funds as a Source of Money For Governmental Expenses

A subject which this committee must necessarily consider in the field of state revenue is the portion of iron ore taxes, the receipts from the sale of state swamp lands and school lands and the receipts from the sale of state-owned timber which go into the trust funds. At the present time, these funds aggregate a total of approximately $190,000,000.00. This is broken down into the following:

Permanent School Fund	$145,935,126.17
Permanent University Fund	25,660,206.00
Swamp Land Fund	17,947,634.93
Total	$189,542,970.00

The largest of all these funds is the permanent school fund, the earnings of which are distributed as apportionment aid under the Constitution to primary and secondary schools.[1]

When the legislature wrote the school aid law in 1947, it fitted these apportionment aids into the total school and structure in such a way that the present $70.00 per pupil unit aid includes apportionment of earnings of the school trust fund. For the past year, these earnings amounted to $8.70 per pupil.

This committee wishes to make a note of certain important facts with reference to our time-honored trust funds. These trust funds were established as part of the Constitution in the year 1857. Since state lands designated as "swamp lands" and "school lands" would be sold from time to time, it was determined that the proceeds thereof should be maintained as a continuing asset for the benefit of the schools of the state. There can be no quarrel with the fundamental theory that some benefits from such assets ought to be preserved for future generations.

In 1914, the Constitution was amended to provide that school and other pubic lands of the state better adapted for timber production than agriculture, be set apart as state school forests and the net revenue therefrom be used for the purposes for which the lands were granted to the state. Thus, the proceeds from the sale of timber was directed into the trust funds.

[1] Art. VIII, Sec. 2, Minnesota Constitution.

TABLE I

PAYMENTS INTO THE STATE TREASURY FROM TIMBER CUT ON STATE LANDS IN THE FISCAL YEARS INDICATED

	Perm. Univ. Fund	Perm. School Fund	General Endow. Fund	Swamp Land Fund	Swamp Land Int. Fund	Internal Improv. Fund	Total To Permanent Trust Funds	Gen'l Rev. Fund	Tax-Forf. & Acq. Funds[1]	Burnt-side Forest	Deposits Dept. Records
1932-33	....	$17,339.68	$ 3,253.95	$38,591.78	$ 6,214.80	$ 8.66	$65,408.87	....	....	....	$65,408.87
1933-34	....	4,444.25	133.84	11,275.85	97.77	32.67	15,984.38	....	....	....	15,984.38
1934-35	220.33	30,399.65	10,264.60	53,064.69	16,861.13	....	110,810.40	....	$ 471.31	....	111,281.71
1935-36	32.50	24,057.72	1,217.74	44,626.00	1,633.20	74.40	71,641.56	$ 15.75	562.30	....	72,219.61
1936-37	15.00	24,772.13	402.06	74,530.13	686.42	....	100,405.74	....	1,031.84	....	101,437.58
1937-38	9.00	38,115.89	254.74	97,648.88	319.71	5.00	136,353.22	135.46	6,825.41	....	143,314.09
1938-39	318.50	43,902.76	259.43	105,865.56	681.16	8.25	151,035.66	....	3,151.83	....	154,187.49
1939-40	100.50	63,970.54	65.05	109,870.90	122.67	....	174,129.66	....	10,284.36	....	184,414.02
1940-41	1,092.69	68,155.70	63.90	184,716.03	251.53	....	254,279.85	328.15	15,763.38	....	270,371.38
1941-42	1,551.46	97,332.78	123.81	155,406.01	46.33	221.12	254,681.51	1,183.03	17,382.84	$ 121.90	273,369.28
1942-43	143.15	141,505.94	280.54	208,916.98	392.84	....	351,239.45	533.60	18,017.74	1,981.27	371,772.06
1943-44	1,541.87	179,928.64	3,977.32	286,275.65	4,798.97	143.30	476,665.75	525.34	46,101.82	263.11	523,556.02
1944-45	1,790.01	149,037.07	3,499.02	197,888.90	3,955.41	269.98	356,440.39	800.10	30,429.39	54.80	387,724.68
1945-46	1,797.35	238,192.25	5,947.08	241,195.56	5,617.17	967.44	493,716.85	1,597.11	29,683.01	....	524,996.97
1946-47	3,335.73	233,814.48	11,048.80	291,387.94	9,940.96	1,900.60	551,428.51	7,604.69	35,732.72[2]	....	594,765.92
1947-48	2,402.83	274,369.70	14,076.94	306,937.02	10,945.10	1,629.06	610,360.65	1,019.57	35,812.89[2]	....	647,193.11
1948-49	425.85	229,906.73	13,930.73	319,522.80	14,437.12	658.87	578,882.10	935.59	26,305.62	....	606,123.31
1949-50	385.05	139,107.04	7,692.86 14.71[3]	333,876.83	12,402.04	1,812.16	495,290.69	1,386.82	28,603.52	....	525,281.03

[1] Includes—Reforestation & Flood Control, Red Lake Game, Marshall Co. Reforest. & Flood Control, Acquisition Lands, Resettlement.
[2] Same as ([1]) plus Pillsbury Forest.
[3] Permanent University Interest.

TABLE II
DIVISION OF LANDS AND MINERALS

Statement of receipts of the sale of trust fund land, timber and improvements, and rentals from trust fund lands for the fiscal years 1941 to 1950, inclusive.

Yr. Ending June 30	Annual Receipts
1941	$ 180,175.12[1]
1942	222,013.21[1]
1943	248,992.19[1]
1944	434,450.50
1945	179,412.86
1946	260,345.53
1947	359,578.63
1948	319,881.96
1949	245,783.57
1950	184,465.98
Total	$2,635,099.55

[1] Principal, interest and penalty on land sale figures for 1941-1943 inclusive were taken from State Auditor's biennial reports. Receipts covering gravel for the years 1941-1943 are not shown as these receipts were included under minerals in the State Auditor's reports.

Table (1) shows payments into the State Treasury from timber cut on state lands in the fiscal years indicated. Table (2) shows statement of receipts from the sale of trust fund land, timber and improvements and rentals from trust fund lands for the years indicated. By adding the annual totals appearing in the column specified as "Total to Permanent Trust Funds" in Table (1) to the total for the corresponding years in Table (2), we may determine the grand totals paid into the trust funds for each year. They are as follows:

Yr. Ending June 30	Grand Total
1941	$434,454.97
1942	476,694.72
1943	600,231.64
1944	911,116.25
1945	535,853.25
1946	754,062.38
1947	911,007.14
1948	930,242.61
1949	824,665.67
1950	679,756.67

Receipts from timber sold by the state from state-owned lands and from the sale of trust fund and swamp lands and the timber from those lands for the year 1950, amounts to $679,756.67.

In 1922, the people of Minnesota adopted the most recent constitutional amendment relating to the proceeds from occupation tax on iron mining, which directed that 50% of those receipts go to the state general revenue fund, 40% to the permanent school fund and 10% to the permanent University fund. Upon the basis of this theory, many millions have been accumulated as trust funds and invested so as to produce earnings which are distributed as aid to schools and the University.

It is true that mineral is a depletable asset which cannot be replaced. It is questionable whether or not timber should continue to be treated as a wasting asset. Technological changes in the use of wood have brought us to the point where today popple and aspen, the fastest growing trees in the forest area, bring a high price on the market. In 1914, when the amendment was made directing the proceeds from timber into the trust funds, these two types of trees were deemed worthless. In fact, even the picture with relation to mineral deposits has very materially changed because of the imminent probability of exploiting taconite for its iron content.

TIMBER A GROWING RESOURCE.

The State Department of Conservation, through its Forestry Division, has done notable work in the last 50 years toward accompishing the regrowth and reproduction of forests, especially when we consider the small budget they've had. Private industry, which uses timber and pulpwood, has spent huge sums of money for the purpose of redeveloping forest assets in this state. To the extent that this work goes on, it is perfecty apparent that timber can produce a much greater income than was supposed in 1914. Our fundamental policy of placing proceeds from the sale of timber into the trust funds, now seems to be quite out-dated in the face of these technological changes.

Obviously, taking money out of the general revenue fund, which is raised from various types of taxes, and using it to promote timber growth, the sale of which will provide money for the purpose of enlarging the trust fund, is taxation for the purpose of enlarging the trust fund. No one ever intended to tax the people generally to build up trust funds.

To the extent that the potential income from timber is vastly greater now than it was in 1914, it is proportionately more vital that we should undertake a more vigorous, active and well financed state forestry operation. From a sound long-term viewpoint, it appears that the state itself is the logical organization to perpetuate and promote the increase of forest assets. School funds can be enhanced and increased by a program of greater reforestation financed by part of the income from the program itself. Constitutional provisions and laws of the State of Minnesota as they operate at the present time neither stimulate nor encourage the development of forests.

HOW RECEIPTS ARE USED.

Let us trace the income from timber sales to see just where it goes. For example, let us suppose that the state sells during a given year, one million dollars worth of timber. This one million dollars would, under present provisions, be placed in the school trust funds. The money would be invested, pursuant to recent policies of the Investment Council, in long term United States government bonds, which yield 2 to 2½ per cent. Two and a half per cent on one million dollars is $25,000.00. So, although the sale of timber had brought in a million dollars, the actual amount for distribution for the children of the state through the school districts is only $25,000.00. This is an infinitesimal amount for each student. One-half million pupils in the State of Minnesota sharing in $25,000.00 means only five cents per pupil. We might carry this one step further by checking into the significance of government bonds. These bonds are issued by the government of the United States and paid out of taxes levied against all of the people of the United States, of whom Minnesota citizens constitute a substantial number. So the people of Minnesota pay the taxes which are needed to pay the interest on the bonds.

Let us suppose we could change the fundamental provisions now in force so that the money for school children could be invested in the forests and timber lands of the State of Minnesota, rather than government bonds of the United States or bonds of some other city or state.

One alternative to the present plan could be the following:

Take the money received from the sale of timber. Instead of putting it into trust funds, let's put one-half of it *directly into the apportionment fund for distribution to the pupils.* Thus, instead of receiving a per capita proportion of only 2% of the receipts, they would receive a per capita proportion of 50% of the receipts. The other half, instead of going into the trust funds would go into the growing of additional timber, and the policing and fire protection of state timber areas, so the production of those lands could be substantially increased as the years go on, thus substantially increasing the annual sum available for schools. The share of one-half for timber development could even be used in part to support a youth forestry camp as proposed by the Governor of this state in conjunction with the Youth Conservation Program. Then, instead of placing $500,000.00 in the hands of the government of the United States or some other state, for which we get only $12,500.00 a year, we would be putting our money back into education for the children, which is repeatedly pointed to *as an investment;* and into forestry lands of the state, which are *likewise a sound investment* for Minnesota and its people in all walks of life. This suggestion demonstrates the fundamental problem involved. The ultimate solution no doubt could take any one of a number of variations from the suggestion made here. At least we see what might be accomplished. Constitutional amendment is, of course, a prerequisite to whatever is done.

RECOMMENDATION.

Since a review of Minnesota's trust fund policies and provisions seem to offer such a fertile field for potential change, this committee recommends that the legislature provide for a further and thorough-going study of all of the trust funds and their administration and use. Some might argue that the proposals made here constitute a reversion to further dedications. It must be remembered however, that the sale of timber from state forestry department operations is not the collection of revenue. This is not at all like taking revenue from a totally unrelated source and dedicating it to a specific use. Here we are confronted with the question of utilizing proceeds from the *sale of state-owned property* not tax proceeds,—it is not dedicated revenue. Rather, this is a matter of sound businesslike administration of a state activity. One might compare this to operation and management of extra-curricular and non-academic activities at the University of Minnesota such as the Coffman Memorial Union and the various athletic programs. The income from these operations are obviously not proceeds from taxes—they are receipts from state activities, which are turned back into the furtherance of that state activity.

Immediate Tax Problems

Although this report has not dealt with every kind of State tax, the foregoing is mainly concerned with the long-time policies as to those taxes which we have been able to study and consider.

The immediate problems confronting the 1951 Legislature will be largely determined by what the budget problems are. The most difficult task will be to accomplish agreement on the budget, or spending aspect at this time. As we have stated above, with defense and military preparations assuming the greatest importance, other spending must be curtailed. The national administration will doubtless play down domestic spending and costly social innovations, and the State should even more drastically curtail its desires to increase costs.

At various times during the two year interim, this committee has sought information from the Department of Administration so as to keep abreast of the financial developments. During the past year revenues showed a marked tendency toward receipts at substantially higher levels than originally estimated. At the same time, spending by the various state departments and bureaus showed a tendency to be less than anticpiated. During the calendar year 1949 and up to May of 1950, costs of food, clothing, supplies, etc., were less because prices dropped below those prevailing in 1948. The last six months very drastically reversed this trend.

In September, 1949, when this committee first met, the Administration Department estimated that the free balance in the General Revenue Fund by June 30th, 1951, would be approximately $8,000,000.00 In January of 1950 the same Department informed this committee that the General Revenue Fund balance on June 30th, 1951, would very likely be approximately $11,000,000.00. On August 31st, 1950, the Administration Department made another estimate, and then said the free balance on June 30, 1951, would be $13,600,000.00.

In the 1949 session, the state budget was increased by $34,000,000.00 over and above the budget for the preceding biennium. This huge increase was financed by the following process:

General Revenue Surplus	$21,000,000
Supplement from Income Tax School Fund	6,000,000
Increased Cigarette Tax	2,000,000
Transferred miscellaneous balances and state property levy	5,000,000
	$34,000,000

From the latest estimates of the Department of Administration given to this committee it appears, at the time of writing this report, that the 1951 Legislature, if it appropriates the same amount of money for a state budget as was appropriated in 1949, and retains the same taxes and same state levy as did the 1949 Legislature, will find that it lacks $14,000,000 of being able to finance its spending program. By referring to the foregoing figures, it will be seen that without the $6,000,000 of income tax money, and with a General Revenue surplus of about $13,600,000 instead of $21,000,000 as there was two years ago, the difference is the $14,000,000.00[1] above mentioned.

On December 20th this committee asked for more recent information; but the Department of Administration stated it could release no figures until after the Governor delivers his budget message to the incoming legislature. Therefore, the estimates here may differ from those given in the Governor's message.

During the present biennium which ends June 1, 1951, the state will have received into the General Fund exclusive of transfers approximately $110,000,000. During the same period it appropriated out of that fund $131,527,383, but will have spent approximately $123,000,000. So on a current basis, if there had been no revenue surplus nor any fund transfer upon which to rely, the state actually spent approximately $13,000,000 more from the General Revenue Fund than it received into that fund during the biennium.

For the immediate revenue needs, a modification of statutory dedications of revenue, plus the probable increases in yields of iron ore taxes and railroad gross earning taxes during the coming two years, will make possible the balancing of the budget at the same level as the present biennium, or higher, without any increased rates or new kinds of taxation. This could be accomplished even though increased costs due to necessary wage and salary increases must be made, since all of the money appropriated in 1949 was not used.

If the 1951 Legislature shows an irresistibe urge to spend $25,000,000 to $30,000,000 more than was appropriated in 1949, then no patchwork of selective taxes such as beer, natural gas, etc., can possibly meet the problem. If such spending is demanded without changing dedication policies, the ultimate solution is a new tax, whether adopetd now or by some legislature two or four years hence. Any attempt to single out certain commodities for new or added taxes is simply a device to avoid calling them sales taxes.

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Minnesota's Tax Policy in General

The tax system of Minnesota has grown over many years and has been revised from time to time in the light of the experience gained in the administration and operation of the various tax laws. Much can be said both for and against our tax policies as a State. It is fundamental, however, that the poitical thinking of the people will bear heavily upon the nature of the tax policies adopted by any particular Legislature.

In this respect it is notable that Minnesota, like Wisconsin, has developed in its tax system, strong characteristics and tendencies to place the tax burden upon those who appear most able to pay. In some respects this tendency has been pursued to an extreme point, but in the last ten years, like the Federal government, Minnesota has adopted taxes which spread out, covering a broader base, and reach many more people.

Everywhere there has been displayed more willingness to adopt taxes as a means of accomplishing social and economic changes through the redistribution of accumuated wealth or the redirection of current wealth, or a combination of both. While the social effects of this tendency up to date can be pointed to with a certain feeling of accomplishment and satisfaction, it has now been demonstrated in England that the use of punitive or confiscatory taxation is short-lived and cannot be depended upon as a long-time tax policy.

No one likes to pay taxes, so those taxes which appear to fall heavily upon the greatest number of people are always the most unpopular politically. Certainly so long as Minnesota does not face drastic needs such as were developed by the depression of the 1930's, the politically unpopular general sales tax will not be adopted.

A study made by the Minnesota Institute of Governmental Research in 1947 indicated that although Minnesota has a lesser ability to pay for governmental services, as measured by per capita income, our state ranks nearly the highest in the middle west in amount per capita spent by government. While it may be debatable whether or not the conclusions arrived at in that study are justified, it would be quite difficult to show that Minnesota is spending any less than other midwest states on a per capita basis. Regardless of the expenditures, the comparative table on taxes on page 11 of this report shows that as a state we obtain the money for financing our expenditures less from excise or sales taxes than does the average state. We obtain about 44% of our revenue from sales taxes such as gasoline, auto license, alcohol, and tobacco while the average for the other states is over 60% from sales and excise taxes.

It remains to be seen whether the cumulative weight of special group-sponsored spending at the state level can produce the same startling result as would some great over-all debacle like another depression and force the adoption of a sales tax; or if the people of the state will, before that point, demand of their legislators a definite turn to government economy and reduced spending.

Summary:

The Committee makes the following recommendations—

1. Establish in the State Department of Taxation a well-staffed property valuation division and direct the department to establish valuations for all the districts in the state, based upon samplings, such valuations hereafter to be used as the basis for distributing state aids which are now measured by local assessed valuations.
2. State to get out of the field of property taxation.
3. Abolish the household property tax.
4. Establish a new classification for inventories as personal property to be assessed at 30% of full and true and reduce this classification by 5% each two years until the tax inventories is wiped out.
    a) Replace loss of revenue to school districts by re-imbursing them out of income tax surplus.
    b) Broaden local taxing powers for municipalities so as to re-imburse them for loss of tax on inventories.
    c) Consider a new form of taxation to replace personal property tax on inventories.
5. Do away with income tax surplus by either—
    a) Doing away with dedication, or
    b) Reducing rates of tax on income.
6. Reduce flight property and aviation gasoline taxes after 1957 when present obligations are retired.
7. Establish a study group to reconsider and restudy the whole state system of aeronautic taxes.
8. Reduce rates of tax on liquor and wines when possible, so as to get in line with other states.

9. Take steps immediately to change provisions of trust funds relating to receipts from sales of timber.
10. Establish a study committee to thoroughly review Minnesota's Trust Fund policies.
11. Establish a definite rate of taxation upon the occupation of iron mining and cease raising or threatening to raise the rate each two years.
    a) Study possibility and advisability of re-writing labor credit statute so as to measure tax credit by some formula which would take more than labor costs into consideration, e. g. percentage recovery of ore.
    b) Stabilize policy of taxation of taconite concentrate.
    c) Abolish Iron Range Resources and Rehabilitation Commission.
12. Establish definite rate of iron ore royalty tax, keeping it in line with occupation tax.
13. Make best full use of existing taxes before enacting any new ones.
14. Continue study of State Tax System next intermin and thereafter so as to provide Legislature continuously with best possible information on all tax subjects.

This Report is Respectfully Submitted To

THE FIFTY-SEVENTH MINNESOTA LEGISLATURE.
LEGISLATIVE TAX RESEARCH COMMITTEE

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Appendix

"ABILITY TO PAY" STUDY

This committee was concerned as to whether these aids were serving the purposes for which they were intended and especially if ability to pay was actually followed in the distribution. Some of the state aids are determined on formulas based upon assessed valuation or tax levies. The latter in turn reflects the policy as to assessed valuations.

Comparison of Aids and Assessed Valuation Formula

We have, therefore, prepared Table I showing the percentage each county has of total state assessed valuation (Column A).

Table I

The Ability to Pay of the Various Counties Measured by an Average of 6 Factors (based on a Percentage of the Total) Compared with 1950 State School, Welfare, and Highway Aids for each County (based on a Percentage of the Total).

	A Percentage of 1949 Assessed Valuation To State Total	B Percentage of 1950 School and Welfare Aids To State Total	C Proportionate Ability To Pay % of Total Proposed Formula
Hennepin	26.776	17.93	27.695
Ramsey	16.262	7.42	15.013
St. Louis	6.523	7.74	6.666
Stearns	1.590	2.01	1.747
Olmstead	1.455	1.22	1.702
Blue Earth	1.620	1.10	1.453
Mower	1.681	1.29	1.437
Otter Tail	1.276	1.94	1.294
Winona	1.357	1.01	1.251
Dakota	1.029	1.48	1.228
Freeborn	1.171	1.04	1.096
Polk	.964	1.33	1.096
Goodhue	1.071	1.00	1.009
Martin	1.123	.78	.958
Clay	.723	1.09	.914
Rice	.836	.87	.897
Brown	.824	.60	.891
Lyon	.873	.74	.880
Nobles	1.013	.65	.876
Kandiyohi	.872	.99	.854
Washington	.694	1.13	.830
Fairbault	.871	.90	.812
Itasca	.657	1.92	.812
Renville	.938	.85	.799
Crow Wing	.507	1.44	.795
Redwood	.802	.79	.782
Wright	.786	.98	.731
McLeod	.789	.59	.711
Steele	.756	.59	.692
Fillmore	.826	1.08	.691
Anoka	.432	1.30	.613
Carlton	.625	1.13	.611

TABLE I (cont'd.)

	A Percentage of 1949 Assessed Valuation To State Total	B Percentage of 1950 School and Welfare Aids To State Total	Proportionate Ability To Pay % of Total Proposed Formula
Jackson	.716	.52	.611
Douglas	.631	.87	.596
Chippewa	.610	.65	.584
Beltrami	.358	.51	.581
Morrison	.534	1.22	.581
Cottonwood	.659	.60	.574
Yellow Medicine	.722	.63	.567
Pipestone	.603	.48	.558
LeSueur	.624	.56	.551
Meeker	.610	.70	.547
Becker	.346	1.25	.546
Todd	.478	1.26	.528
Carver	.622	.44	.521
Swift	.508	.70	.514
Murray	.739	.42	.509
Rock	.626	.32	.486
Sibley	.660	.44	.477
Nicollet	.505	.41	.475
Wabasha	.528	.55	.474
Waseca	.571	.39	.473
Watonwan	.457	.44	.466
Lac Qui Parle	.569	.51	.456
Koochiching	.355	1.32	.455
Marshall	.382	.75	.448
Scott	.428	.43	.419
Stevens	.485	.38	.398
Pine	.295	1.18	.394
Benton	.379	.55	.393
Pennington	.329	.60	.385
Houston	.409	.43	.379
Pope	.478	.55	.366
Norman	.318	.52	.364
Mille Lacs	.283	1.07	.359
Wilkin	.407	.37	.357
Kittson	.335	.47	.354
Cass	.195	1.57	.352
Dodge	.478	.52	.345
Wadena	.288	.70	.340
Big Stone	.363	.36	.336
Lincoln	.428	.38	.335
Chisago	.311	.57	.328
Roseau	.254	.91	.324
Grant	.309	.41	.314
Aitkin	.130	1.10	.289
Isanti	.243	.56	.274
Traverse	.309	.27	.261
Hubbard	.199	.69	.237
Kanabec	.214	.54	.213
Sherburne	.151	.44	.212
Clearwater	.102	.73	.203
Lake	.069	.49	.178
Red Lake	.191	.32	.163
Mahnomen	.104	.46	.141
Lake of the Woods	.067	.38	.101
Cook	.104	.18	.086

Assessed valuations is main basis for determining "equalization" aids for school and special grants to distressed counties for welfare grants. However, most of the state aids are on a matching basis such as social security aids or direct grants based on the number of pupils going to school.

In Column B we show the percentage each county actually received of the total aids for welfare and education. Detail is shown in Table II for school, welfare and highways aids. Highway aid was not shown in Table I as these aids are not distributed on the basis of assessed valuation and are thrown out of balance by the limitation of not more than 3% to any single county and with ¾ of 1% minimum for any county. Column C presents the percentages under the proposed formula for aid which is discussed later. The counties are ranked from the largest to lowest percentage as determined by the proposed formula.

School and welfare aids are based to a minor extent on assessed valuation but on the whole one would assume that the percentage of aids for these two purposes would appromixate the percentage each county has of the assessed valuation. This is far from the case, as a study of Columns A and B shows that 51 counties received a greater percentage of aid than their assessed valuation percentage would indicate that they deserve. It is usual that counties like St. Louis, Stearns, Ottertail, Dakota, Polk, Fillmore, Clay and Washington should receive greater aids. Ten counties—Itasca, Morrison, Crow Wing, Todd, Anoka, Marshall, Wadena, Isanti, Kanabec, and Sherburne received over twice as much as they were entitled to under the assessed valuation formula. Twelve counties receive three times as much. These are Becker, Koochiching, Pine, Mille Lacs, Roseau, Hubbard, Cass, Aitkin, Mahnomen, Clearwater, Lake and Lake of the Woods.

Such a condition can only be explained by poorly designed state aid laws and by a definite policy of under assessment by many of these counties so as to obtain a greater share of state aids. Such a statement probably does not apply to the fifteen poorer counties listed at the bottom of the table, as they are given special consideraion by the Governor's Legislative Advisory Committee.

This Table I certainly indicates that the legislature should give consideration to some other type of formula that would measure more accurately the relative ability to pay of the various counties.

TABLE 11

Total School, Welfare, and Highway State Aids Received by Each County for Fiscal Year 1950 (School and Welfare) and Calendar Year 1950 (Highways) and the Percentage of These Aids Received by Each County to Total School, Welfare, and Highway Aids.

	Total State School Aids 1950[1]	Percentage of Total School Aids	Total State Welfare Aids 1950[1]	Percentage of Total Welfare Aids	Total State Highway Aids 1950[2]	Percentage of Total Highway Aids	Total State School Welfare & Highway Aids	Percentage of Total School, Welfare Highway Aids
Aitkin	$ 473,393	1.04	$ 187,482	1.32	$ 92,314	1.01	$ 753,189	1.09
Anoka	684,288	1.50	96,768	.68	69,655	.76	850,711	1.23
Becker	494,666	1.08	255,430	1.80	102,415	1.12	852,511	1.23
Beltrami	666,506	1.46	240,647	1.70	178,328	1.95	1,085,479	1.57
Benton	275,717	.60	54,996	.39	77,401	.85	408,115	.59
Big Stone	175,555	.38	41,968	.30	76,734	.84	294,257	.43
Blue Earth	518,833	1.13	137,039	.97	150,811	1.65	806,684	1.17
Brown	280,085	.61	79,370	.56	90,356	.99	449,811	.65
Carlton	568,483	1.24	108,106	.76	88,400	.97	764,988	1.11
Carver	191,857	.42	71,945	.51	70,990	.78	334,792	.48
Cass	639,278	1.40	303,812	2.14	155,266	1.70	1,098,356	1.59
Chisago	272,381	.60	66,771	.60	73,315	.80	463,877	.67
Chisago	227,381	.60	66,771	.47	78,400	.86	417,552	.60
Clay	554,705	1.21	98,356	.69	99,655	1.09	752,715	1.09
Clearwater	316,583	.69	120,163	.85	81,002	.88	517,747	.75
Cook	83,858	.18	22,963	.16	66,292	.72	173,113	.25
Cottonwood	307,959	.67	51,337	.36	87,615	.96	446,911	.65
Crow Wing	723,392	1.58	136,940	.96	100,767	1.10	961,099	1.39
Dakota	737,585	1.61	150,350	1.06	112,616	1.23	1,000,551	1.45
Dodge	255,925	.56	54,440	.38	74,401	.81	384,765	.56
Douglas	414,586	.91	107,675	.76	89,214	.97	611,474	.89
Faribault	446,847	.98	90,455	.64	101,477	1.11	638,779	.92
Fillmore	502,966	1.10	141,108	.99	138,264	1.51	782,338	1.13
Freeborn	520,676	1.14	101,565	.72	120,974	1.32	743,215	1.08
Goodhue	481,541	1.05	119,639	.84	111,198	1.21	712,378	1.03
Grant	203,104	.44	41,965	.30	73,795	.81	318,863	.46
Hennepin	7,112,218	15.56	3,629,185	25.57	274,429	3.00	11,015,832	15.94
Houston	204,157	.45	52,123	.37	88,717	.97	344,997	.50
Hubbard	334,673	.73	76,137	.54	107,182	1.17	517,991	.75
Isanti	253,007	.55	80,999	.57	70,301	.77	404,807	.59
Itasca	999,217	2.19	151,384	1.07	176,572	1.93	1,327,173	1.92

[1] Fiscal Year ending June 30, 1950.
[2] Calendar Year 1950.

TABLE II (Continued)

Total School, Welfare, and Highway State Aids Received by Each County For Fiscal Year 1950 (School and Welfare) and Calendar Year 1950 (Highways) and the Percentage of These Aids Received by Each County To Total School, Welfare, & Highway Aids.

	Total State School Aids 1950[1]	Percentage of Total School Aids	Total State Welfare Aids 1950[1]	Percentage of Total Welfare Aids	Total State Highway Aids 1950[2]	Percentage of Total Highway Aids	Total State School & Highway Aids	Percentage of Total School, Welfare Highway Aids
Jackson	$ 278,064	.61	$ 36,163	.25	$ 79,715	.87	$ 393,942	.57
Kanabec	240,810	.53	83,057	.59	69,463	.76	393,330	.57
Kandiyohi	467,523	1.02	128,164	.90	105,802	1.16	701,489	1.02
Kittson	222,178	.49	58,348	.41	94,855	1.04	375,381	.54
Koochiching	490,225	1.07	301,589	2.12	138,815	1.52	930,629	1.35
Lac Qui Parle	235,235	.51	67,456	.48	86,652	1.06	399,343	.58
Lake	244,721	.54	46,672	.33	72,226	.79	363,619	.53
Lake of the Woods	173,318	.38	55,618	.39	95,325	1.04	324,261	.47
LeSueur	266,645	.58	69,155	.49	80,830	.88	416,631	.60
Lincoln	191,681	.42	37,345	.26	69,103	.75	298,129	.43
Lyon	366,458	.80	75,191	.53	133,408	.46	575,058	.83
McLeod	285,669	.62	69,168	.49	104,404	1.14	459,241	.66
Mahnomen	220,029	.48	58,291	.41	76,958	.84	352,279	.51
Marshall	367,247	.80	83,922	.59	144,803	1.58	595,972	.86
Martin	418,185	.91	48,442	.34	104,585	1.14	571,213	.83
Meeker	343,948	.75	74,184	.52	90,826	.99	508,958	.74
Mille Lacs	481,497	1.05	159,345	1.12	78,399	.86	719,242	1.04
Morrison	589,002	1.29	144,242	1.02	98,000	1.07	831,244	1.20
Mower	629,341	1.38	140,956	.99	131,248	1.43	901,545	1.31
Murray	208,436	.46	43,839	.31	78,815	.86	331,090	.48
Nicollet	204,385	.45	42,703	.30	67,655	.74	314,743	.46
Nobles	314,481	.69	75,952	.54	91,647	1.00	482,081	.70
Norman	260,460	.57	53,261	.38	120,867	1.32	434,588	.63
Olmstead	579,145	1.27	149,728	1.05	132,965	1.45	861,838	1.25
Otter Tail	984,809	2.15	180,149	1.27	225,898	2.47	1,390,856	2.01
Pennington	282,015	.62	76,551	.54	81,012	.88	439,578	.64
Pine	532,038	1.16	177,253	1.25	130,085	1.42	839,376	1.22
Pipestone	236,238	.52	51,986	.37	63,730	.70	351,954	.51
Polk	634,161	1.39	161,572	1.14	192,935	2.11	988,668	1.43
Pope	263,360	.58	63,565	.45	66,864	.73	393,789	.57
Ramsey	3,205,528	7.01	1,239,226	8.73	264,786	2.89	4,709,540	6.82

[1] Fiscal Year ending June 30, 1950.
[2] Calendar Year 1950.

TABLE II (Continued)

Total School, Welfare, and Highway State Aids Received by Each County For Fiscal Year 1950 (School and Welfare) and Calendar Year 1950 (Highways) and the Percentage of These Aids Received by Each County To Total School, Welfare, & Highway Aids.

	Total State School Aids 1950[1]	Percentage of Total School Aids	Total State Welfare Aids 1950[1]	Percentage of Total Welfare Aids	Total State Highway Aids 1950[2]	Percentage of Total Highway Aids	Total State School Welfare & Highway Aids	Percentage of Total School, Welfare Highway Aids
Red Lake	$ 166,476	.36	$ 23,995	.17	$ 65,886	.72	$ 256,356	.37
Redwood	409,933	.90	63,803	.45	104,997	1.15	578,733	.84
Renville	397,761	.87	108,518	.76	117,970	1.29	624,248	.90
Rice	392,378	.86	128,985	.91	94,715	1.03	616,078	.89
Rock	169,054	.37	23,931	.37	71,240	.78	264,225	.38
Roseau	466,200	1.02	805,535	.57	131,920	1.44	678,655	.98
St. Louis	3,384,554	7.40	1,255,046	8.84	271,095	2.96	4,910,694	7.11
Scott	208,761	.46	50,917	.36	58,875	.64	318,553	.46
Sherburne	213,238	.47	53,012	.37	71,450	.78	337,701	.49
Sibley	209,421	.46	55,645	.39	68,112	.74	333,179	.48
Stearns	927,378	2.03	273,776	1.93	188,704	2.06	1,389,859	2.01
Steele	313,594	.69	41,223	.29	79,399	.87	434,216	.63
Stevens	191,416	.42	34,398	.24	75,268	.82	301,082	.44
Swift	342,039	.75	75,656	.53	81,824	.89	499,518	.72
Todd	588,897	1.29	164,600	1.16	111,126	1.21	864,623	1.25
Traverse	138,846	.30	23,539	.17	78,162	.85	240,547	.35
Wabasha	247,404	.54	80,486	.57	109,955	1.20	437,845	.63
Wadena	361,607	.79	56,349	.40	76,076	.83	494,032	.72
Waseca	196,946	.43	33,574	.24	72,015	.79	302,535	.44
Washington	558,871	1.22	120,487	.85	77,915	.85	757,272	1.10
Watonwan	222,264	.49	39,974	.28	63,730	.70	325,968	.47
Wilkin	194,240	.42	29,315	.21	73,474	.80	297,029	.43
Winona	444,370	.97	160,865	1.13	139,886	1.53	745,121	1.08
Wright	459,422	1.00	125,852	.89	111,685	1.22	696,959	1.01
Yellow Medicine ..	294,827	.64	80,518	.57	97,864	1.07	473,209	.69
Total	$45,716,042	99.98	$14,194,493	99.94	$9,154,875	100.01	$69,065,410	99.99

[1] Fiscal Year ending June 30, 1950.

[2] Calendar Year 1950.

TABLE III

A Measurement of Ability To Pay

Based on an average of the percentages each county bears to the state total of the five factors listed below.

	1 1950 Population	2 1949 Assessed Value	3 1948 Personal Net Income Tax Assessment	4 1949 Estimated Retail Sales	5 1949 Motor Vehicle Registration Revenue	6 Average of 5 Columns
Aitkin	.481	.130	.075	.302	.456	.289
Anoka	1.198	.452	.319	.397	.700	.613
Becker	.825	.346	.219	.501	.838	.546
Betrami	.838	.358	.273	.702	.732	.581
Benton	.535	.379	.091	.351	.607	.393
Big Stone	.323	.363	.308	.345	.341	.336
Blue Earth	1.288	1.620	1.257	1.536	1.562	1.453
Brown	.872	.824	.909	.830	1.018	.891
Carlton	.826	.625	.350	.594	.659	.611
Carver	.613	.622	.310	.632	.536	.521
Cass	.644	.195	.109	.322	.489	.352
Chippewa	.563	.610	.476	.573	.699	.584
Chisago	.425	.311	.137	.279	.490	.328
Clay	1.006	.723	.908	.736	1.199	.914
Clearwater	.342	.102	.050	.183	.336	.203
Cook	.097	.121	.026	.079	.107	.086
Cottonwood	.531	.659	.621	.441	.617	.574
Crow Wing	1.034	.507	.455	.924	1.056	.795
Dakota	1.653	1.029	.992	1.020	1.444	1.228
Dodge	.425	.478	.154	.257	.411	.345
Douglas	.715	.631	.330	.566	.738	.596
Faribault	.804	.871	.720	.732	.931	.812
Fillmore	.824	.826	.414	.573	.820	.691
Freeborn	1.161	1.171	.968	1.005	1.176	1.096
Goodhue	1.081	1.071	.759	.982	1.154	1.009
Grant	.321	.309	.269	.261	.409	.314
Hennepin	22.561	26.776	35.845	29.177	24.118	27.695
Houston	.486	.409	.203	.308	.491	.379
Hubbard	.374	.199	.077	.222	.313	.237
Isanti	.408	.243	.104	.250	.365	.274

TABLE III (Continued)

A Measurement of Ability To Pay

Based on an average of the percentages each county bears to the state total of the five factors listed below.

	1 1950 Population	2 1949 Assessed Value	3 1948 Personal Net Income Tax Assessment	4 1949 Estimated Retail Sales	5 1949 Motor Vehicle Registration Revenue	6 Average of 5 Columns
Itasca	1.113	.657	.463	.790	1.038	.812
Jackson	.550	.716	.724	.386	.679	.611
Kanabec	.310	.214	.068	.187	.286	.213
Kandiyohi	.961	.872	.661	.772	1.002	.854
Kittson	.324	.336	.479	.281	.350	.354
Koochiching	.568	.335	.326	.484	.564	.455
Lac Qui Parle	.489	.569	.347	.337	.540	.456
Lake	.262	.069	.160	.207	.190	.178
Lake of the Woods	.652	.067	.040	.083	.149	.101
Le Sueur	.642	.624	.420	.439	.628	.551
Lincoln	.343	.428	.317	.207	.379	.335
Lyon	.748	.873	1.032	.777	.969	.880
McLeod	.748	.789	.552	.633	.833	.711
Mahnomen	.236	.104	.057	.123	.187	.141
Marshall	.546	.382	.412	.320	.579	.448
Martin	.861	1.123	.971	.810	1.026	.958
Meeker	.638	.610	.365	.465	.656	.547
Mille Lac	.509	.282	.132	.397	.476	.359
Morrison	.866	.534	.251	.529	.723	.581
Mower	1.422	1.681	1.317	1.432	1.332	1.437
Murray	.498	.739	.478	.309	.521	.509
Nicollet	.706	.505	.273	.327	.565	.475
Nobles	.754	1.013	1.075	.730	.809	.876
Norman	.433	.318	.306	.309	.453	.364
Olmsted	1.596	1.455	1.971	1.803	1.684	1.702
Otter Tail	1.722	1.276	.769	1.073	1.629	1.294
Pennington	.436	.329	.232	.439	.491	.385
Pine	.613	.285	.101	.389	.583	.394
Pipestone	.472	.603	.614	.506	.594	.558
Polk	1.206	.964	1.093	.963	1.253	1.096

TABLE III (Continued)

A Measurement of Ability To Pay

Based on an average of the percentages each county bears to the state total of the five factors listed below.

	1 1950 Population	2 1949 Assessed Value	3 1948 Personal Net Income Tax Assessment	4 1949 Estimated Retail Sales	5 1949 Motor Vehicle Registration Revenue	6 Average of 5 Columns
Pope	.432	.478	.226	.267	.427	.366
Ramsey	11.924	16.262	17.715	17.976	11.189	15.013
Red Lake	.229	.191	.057	.146	.191	.1628
Redwood	.745	.802	.881	.617	.864	.782
Renville	.806	.938	.629	.625	.999	.799
Rice	1.221	.836	.654	.863	.911	.897
Rock	.380	.626	.669	.303	.454	.486
Roseau	.438	.253	.192	.282	.407	.324
St. Louis	6.916	6.523	5.978	7.932	5.980	6.666
Scott	.555	.432	.228	.377	.502	.419
Sherburne	.358	.151	.074	.196	.280	.212
Sibley	.533	.660	.279	.345	.567	.477
Stearns	2.373	1.590	1.102	1.759	1.910	1.747
Steele	.712	.756	.644	.651	.697	.692
Stevens	.375	.485	.368	.323	.438	.398
Swift	.533	.508	.497	.414	.619	.514
Todd	.856	.478	.182	.479	.646	.528
Traverse	.272	.309	.211	.209	.306	.261
Wabasha	.569	.528	.335	.427	.510	.474
Wadena	.429	.288	.171	.361	.450	.340
Waseca	.503	.571	.386	.399	.504	.473
Washington	1.158	.694	.712	.692	.896	.830
Watonwan	.468	.457	.468	.422	.513	.466
Wilkin	.354	.407	.372	.236	.417	.357
Winona	1.340	1.357	1.086	1.291	1.180	1.251
Wright	.933	.786	.366	.606	.963	.731
Yellow Medicine	.546	.722	.525	.417	.624	.567

Possible Formula

In Table III is worked out a broader formula to determine the relative ability to pay of the 87 counties. In addition to assessed valuation we have added four other factors to a new formula, namely: population, retail sales, personal income tax payments and motor vehicle registration revenue. The percentage of these five factors are averaged to obtain a percentage figure that each county should receive of all state grants.

Comparison Between Old and New Formula

This figure should indicate the percentage of total state aids that the county should receive if such a distribution were shared or returned on the basis of ability to pay or ability it has to support its own local government. It was found by comparing Columns A and C that the new formula changed the ability to pay pattern of the 87 counties quite drastically from the traditional assessed valuation method. Forty-one counties show higher percentage of ability to pay than is now reflected by assessed valuation alone. Eleven counties would have substantially more ability to pay. They are, Crow Wing, Anoka, Beltrami, Becker, Koochiching, Mille Lacs, Cass, Aitkin, Sherburne, Clearwater, Lake and Lake of the Woods.

Forty-six counties have less ability to pay than that indicated by their assessed valuations alone. Twenty-four of these are materially less able, and they are: Blue Earth, Carver, Cook, Dodge, Fillmore, Jackson, Lac Qui Parle, Le Sueur, Lincoln, Martin, Meeker, Mower, Murray, Nobles, Pope, Red Lake, Renville, Rock, Sibley, Stevens, Wabasha, Waseca, Winona and Yellow Medicine. These counties showing materially less ability to pay are apparently over assessing their property and are thus being penalized under the present state aid system.

Comparison Between New Formula and Aids Received

Some rather strange conditions come to light as one now compares Column C of Table I page 73 with Column B. A study of Columns B and C shows that sixty-one counties actually received a larger percentage of these two state aids than the ability to pay percentage indicates they deserve. Sixteen counties received less than they deserve, while Martin, Brown, Nobles, Pipestone, Carver, Murray and Rock received substantially less.

Of the three first class counties only St. Louis county received more than its proper share while Hennepin and Ramsey received substantially less. This is difficult to explain and one wonders whether the legislature contemplated any such result when it developed its state aid program.

Twenty-one counties received at least 100% more than the formula would indicate that they deserved. Some aids are based on conditions of financial distress in which cases it would be expected that they receive more than the formula shows. It has been the policy of the Legislative Advisory Committee to allow special welfare grants for distressed counties for a number of years. We therefore assume that such counties as Aitkin, Cass, Clearwater, Cook, Hubbard, Isanti, Kanabec, Koochiching, Lake, Lake of the Woods, Mahnomen, Mille Lacs, Pine and Roseau would receive at least 100% more than the ability to pay formula would indicate. The table shows this to be true.

Aside from these distressed counties, however, there are 8 counties receiving more than double the amount to which they are entitled. They are Itasca, Anoka, Becker, Todd, Morrison, Wadena, Sherburne and Red Lake.

Conclusion

Certainly, this evidence shows that the entire policy in respect to granting state aids needs revision if equity is to prevail. This data indicates the need of a drastic revision of the aid law formulas for measuring the need of each county for state financial assistance.

How can anyone justify sixty-one counties obtaining more aid than they are entitled to under the proposed formula? It appears that Ramsey, Hennepin and a few other counties are carrying the burden for the remaining two-thirds. If highway aids were included in these calculations the situation would be worse as the highway grant to each of the larger counties is limited to a maximum of 3%.

It is true much of the inequity in the present aid policy would be corrected if assessed valuations throughout the state were equalized. The county assessor system will assist in correcting this condition but this will take five or six years. In addition, the state tax department needs greater equalization powers as well as a much larger field staff and it is so recommended.

REPORT OF COMMITTEE ON MINING AND TAXATION

SPECIFIC RECOMMENDATIONS

I.

No present increase in advocated in Occupation or Royalty Taxes.

II.

No present change is recommended in the Taconite Tax Law.

III.

A study should be made as to the feasibility of amending the Labor Credits Law to provide greater deductions for labor costs against the Occupation Tax. If such study should reveal that such an amendment would result in additional employment and provide a greater incentive to mine the lower grade ores, then it is recommended that such an amendment be adopted.

IV.

Consideration should be given to modify the present Stock Pile Tax Law, providing a study should disclose that such modification would tend to increase employment in underground mining during the winter months. This would involve an amendment to the present Stock Pile Tax Law, providing for a greater period of time that the ore could be stockpiled and still be classified as unmined ore for taxation purposes.

GENERAL RECOMMENDATIONS

I.

Iron ore should not be singled out for taxation purposes simply to provide greater revenue for the state or its subdivisions. If higher costs in the operation of local governments and school districts require that additional revenues be obtained, then any tax increase to obtain such needed revenues should be across the board and affect all properties.

II.

Conferences between the iron ore industry, labor, and the public should be held to discuss the effect of the depletion of high grade ore and the coming production of taconite upon the economy of the Iron Range area. Such conferences, if all the facts are discussed freely and openly, should result in rcommendations as to changes in local government administration which should ultimately mean a reduction in taxes to the private property owner.

III.

Measures should be adopted to provide for the conservation of the high grade ore deposits, whether by means of modification of the tax system or otherwise, in order that a substantial supply of high grade ore may always be on hand in the event of a national emergency.

IV.

Efforts should be made to obtain an assured market at a price above production cost for the some 350 million tons of underground direct shipping ore in this state. Such an assured market would give the small producers a longer life in the district, greatly increase year-round employment, and should make available substantial tonnages of high grade ore for stock piles in case of a national emergency.

V.

The State Rehabilitation Commission should make a survey of the present and future effect of the depletion of high grade ores upon the economy of the mining communities. Such a survey should show what the taxation burden will be on the private individual within the next decade. The results of such a survey should be available to all governmental units in the Iron Range area. This should result in such communities being stimulated to take necessary steps within their towns to prepare for the inevitable depletion of high grade iron ore deposits.

VI.

Efforts should be renewed to obtain reductions in railroad and water freight rates on concentrate ore shipments.

VII.

Efforts should be renewed to obtain a natural gas line for this area to provide a cheap source of fuel.

VIII.

Peat experimentation should be intensified with the view of obtaining cheap fuel for industry and private consumption, and also as a source of cheap power for this area.

IX.

Research work on taconite should be intensified, and additional appropriations made available to the University of Minnesota for the continuation of this work.

X.

Consideration should be given to the establishment of a trade or vocational area school on the Iron Range, with the view of training skilled workers that will be required in the mining and processing of taconite. Study should also be made along with a current survey as to the need for training in such a school for other occupations.

CONCLUSION

We are now at a stage in our economy where we can definitely foresee the production of taconite in this area. However, we must give assurance to those companies interested that they can make large capital investments in Minnesota without the fear of encountering an unsound tax policy. The present competitive position of taconite should shake us loose from the age-old conception in this area that the Lake Superior district stands alone as an iron ore producer. We must learn to look at this coming industrial development as one which will mean increased employment for this section of the state, rather than consider the iron ore industry from the viewpoint of how much we can extract from it in the way of tax revenues. Once we adopt this sort of thinking one of the biggest obstacles towards the development and mining of taconite will have been overcome, and the future prosperity of the Iron Range area assured.

Respectfully submitted,

REHABILITATION COMMITTEE
NORTHEASTERN MINNESOTA
JUNIOR CHAMBERS OF
COMMERCE

By:

HOWARD W. SIEGEL, Chairman
Mining and Taxation Committee

Report of Education Department Survey on Location of High Schools

Honorable Fred Memmer
Member of State Legislature
118 Commerce Building
St. Paul 1, Minnesota

Dear Representative Memmer:

This report entitled *A Plan for the Location of Secondary Schools in Minnesota* has been prepared in compliance with your letter of April 12, 1950 in which you requested the State Department of Education to furnish your Tax Committee with information as to where the high schools throughout the state ought to be located based upon where the children are located throughout the state.

The problem posed by your request has been under study by a research group in the Statistical Division of the State Department of Education. The accompanying report is a summary of the findings of this research group. As you will note, the approach to the problem of locating schools has been one on the basis of dividing the state into secondary school attendance areas and locating the secondary schools in such a manner that a maximum number of pupils could be accomodated with a minimum number of schools. A discussion has been included in this report summarizing services which should be provided in present day secondary schools. The great variety of services needed in present day secondary schools follows from an attempt to meet the needs of the varied secondary school population. Increasingy, all types of youth are entering our secondary schools—the bright and the dull; those who intend to go on to college and those who intend to enter a large variety of occupations immediately after gradution. It is these changes in the character of secondary school enrollments that are causing the additions to the courses and services offered by our secondary schools as school administrators attempt to adapt the schools to the changing needs of the pupils. As such services continue to increase, the enrollments of secondary schools have to be increased if excessive per-pupil cost of education is to be avoided.

The method of locating schools suggested in this study has resulted in the reduction of the number of secondary school attendance areas from 465 to 272. The median enrollment of Minnesota secondary schools under this reorganized plan is estimated to be 486. Only 2% of the areas would enroll less than 300 pupils in contrast to 68% of the secondary schools in Minnesota which enrolled less than 300 pupils during the school year 1948-1949.

It should be emphasized that the proposed plan would not deny educational opportunity to pupils in any community.

The objective of the study has been to locate schools in such a manner that equal educational opportunity of good quality would be more available for all the secondary school pupils in the state irrespective of place of residence. More research would be required before any plan as outlined in this report could be placed in operation. Local surveys would have to be made in all of the suggested attendance areas. Studies would have to be made in each area of the educational needs of the boys and girls in the area. A study of roads and weather conditions in each area would have to be made to determine if a workable transportation plan could be worked out. Elementary school attendance areas would have to be planned within each secondary school attendance area and coordinated with the secondary school in the area. Studies should be made to determine how the secondary school areas could be combined to serve the needs for junior colleges and area vocational schools. A study would have to be made of a system of adequate financial support for a plan as proposed in this report. The above are just a few of the problems that need investigation in connection with this report. In these studies, use should be made of the material already collected by the county survey committees.

The study has been prepared from facts reported to this office, from the best judgment that could be obtained by reading the literature in the field, from the people doing the research, and from the professional staff of our office. We have tried to meet your request to the best of our ability within the limitations requested and time and facts available. If we can be of further help, please feel free to call upon us.

Sincerely,

Dean M. Schweickhard
State Commissioner of Education

THE PROBLEM

Article VIII, Section 1 of the Constitution of the State of Minnesota reads as follows: "The stability of a republican form of government depending mainly upon the intelligence of the people, it shall be the duty of the legislature to establish a general and uniform system of public schools." This article presents essentially a mandate to the legislature to establish such a school system as will be equally accessible to all school children in Minnesota regardless of their place of residence. Moreover, the article suggests that it is the responsibility of the legislature to establish a school system of uniform quality so that irrespective of the area of the state in which a school child resides, he shall have opportunity to attend a school of quality or excellence equal to that in any other area of the state. This problem of establishing schools of uniform quality is related to the problem of locating secondary schools in relation to where the population resides in the sense that the quality of a school is by and large related to the size of the school.

The problem posed by the Tax Committee request is essentially

1. finding where the residents, boys and girls of secondary school age, are living in Minnesota, and
2. proposing a location of the secondary schools in the state in such a manner that a comprehensive educational program of equal and uniform excellence can be made accessible to all such people irrespective of place of residence.

In studying this problem, no consideration will be given to the present boundaries of school districts, to county boundaries, or to the varying financial ability to support an educational system. It is recognized that these problems are important and practical and would have to be considered if a school system were to be established in any particular area. However, in proposing a statewide system of attendance areas based on where individuals of secondary school age reside, present school district boundaries and county boundaries must necessarily be left out of consideration.

MINNESOTA POPULATION

According to the 1950 census, for the first census period in the history of the state there were more people living in urban centers than in rural territory. The 1950 census shows approximately 54% of the Minnesota population as urban and 46% as rural.

A study of the trend of population growth in Minnesota indicates that the state is approaching a static population with slight or no further growth expected after about 1970 or 1980 if present trends continue. Growth of the total population in Minnesota in the past thirty years has been due largely to the growth of the cities (that is, incorporated places of over 2,500 Population). The Minnesota rural population (persons living on farms and in centers of less than 2,500 population) has shown little growth since 1920 and since 1940 has shown declines. Preliminary reports of the 1950 U. S. census show that rural popuation declined in 75 of the 87 counties of the state. At the same time, that is from 1940 to 1950, in only two of the counties of the state was there a decline in urban population. The most rapid growth in Minnesota population during the past decade has occurred in the suburban areas adjacent to the large cities of the state.

Population growth in any particular state is affected by birth rates, death rates, and migration in or out of the state. The Minnesota birth and death rates have tended to follow the national trends. Two trends are apparent in birth rates. There has been a long time decline in the birth rates in the U. S. for the past century. A second fluctuating trend can be observed in the birth rate as it tends to increase following a war and then reach a peak after which a decline sets in. The birth rate also seems to be affected by the swings of the business cycle tending to increase during periods of economic prosperity and to decline during depression periods.

The Minnesota birth rate declined from a high of 24.1 births per 1,000 of total population in 1921 to a low of 17.1 births per 1,000 of total population in 1933 after which it gradually climbed to a new high of 26.1 births per 1,000 of total population in 1947.

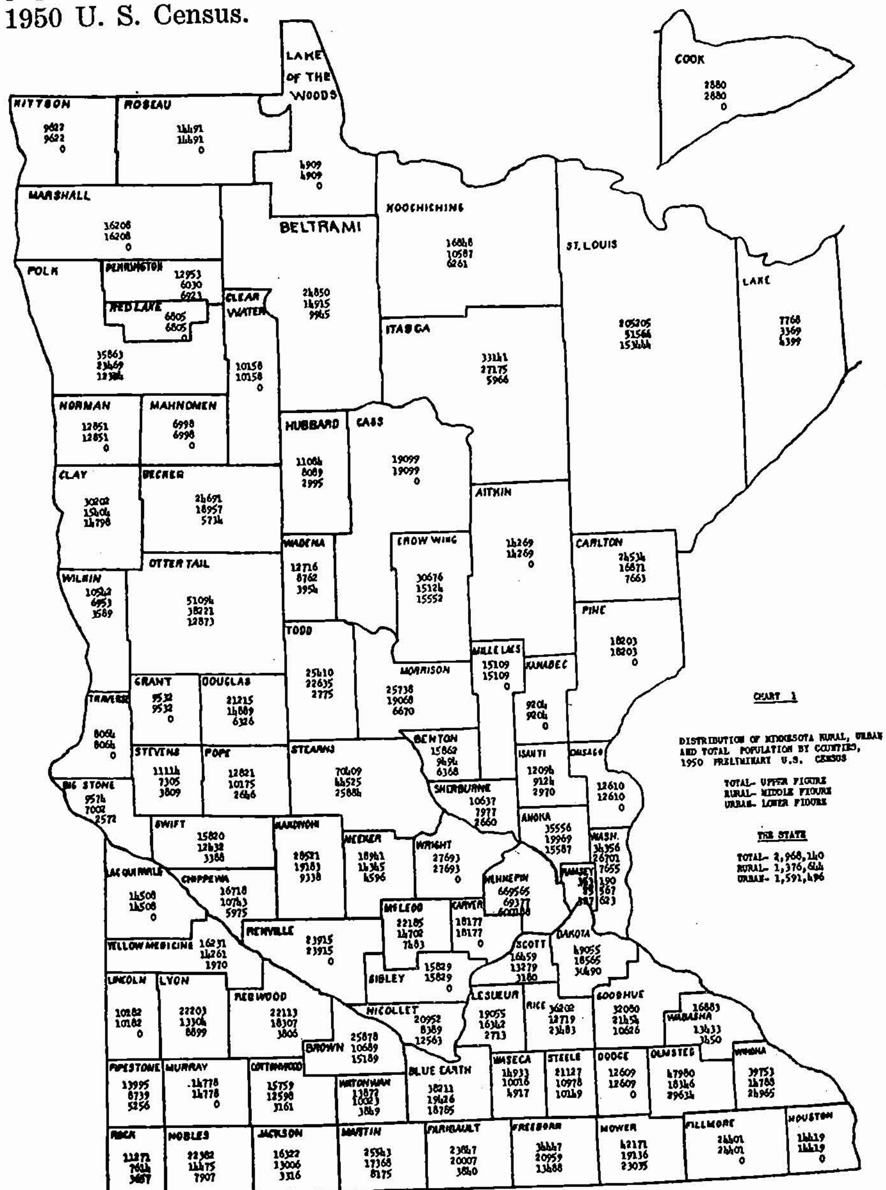
These temporary variations in the birth rate are reflected in changes in school enrollment. The elementary enrollment will be affected from six to twelve years following changes in the birth rate and the secondary enrollment will be affected from twelve to eighteen years following birth rate changes. A substantial increase in high school enrollments is now being experienced in Minnesota due to the increase in births which started in 1934 and continued on through 1947. This increase in secondary school enrollments is expected to reach a peak about the year 1964 or 1965 after which a decline will set in if estimates prove correct.

In establishing attendance areas for secondary schools for the entire state, the areas must be planned with the expectation that in most of them there will be temporary fluctuations in enrollments due to the short time fluctuations in the birth rates. However, with the exception of these temporary increases in enrollments, attendance areas for secondary schools in the rural regions of the state can be planned with the expectation that there will be little permanent increase in the future population of that attendance area. In contrast, secondary attendance areas to be established in cities or in the suburbs of cities should be planned with the expectation that there will be substantial increases in future population, especially in suburban areas.

DISTRIBUTION OF TOTAL POPULATION

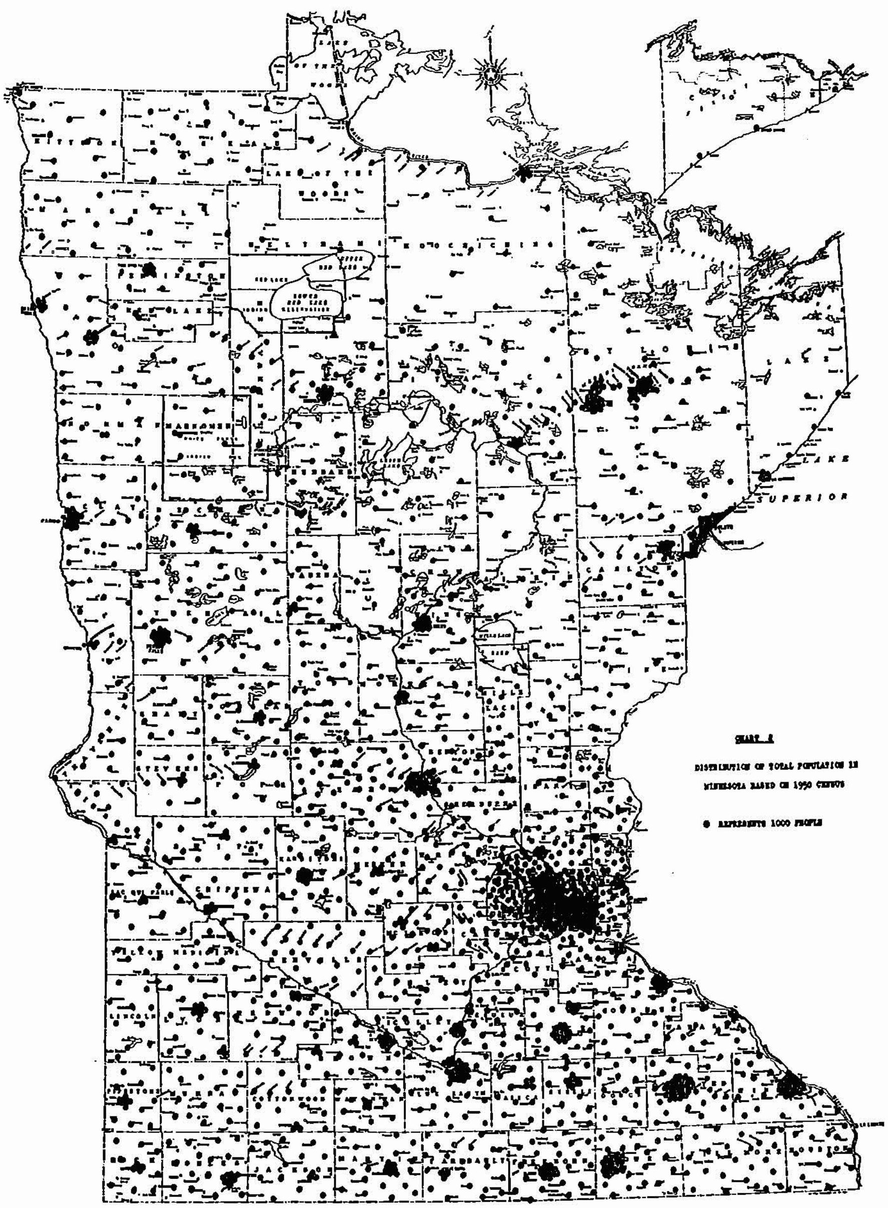
In studying the distribution of the population of secondary school age in Minnesota it was thought desirable to first make a study of the distribution of the total population. This was done and is indicated in Chart 1 and Chart 2.

Chart 1 shows the distribution of the total, rural, and urban population by counties according to the preliminary figures of the 1950 U. S. Census.



Source: Bureau of the Census, 1950 Census of Population, Preliminary Counts, Series PC-2, No. 37, September 11, 1950

Chart 2 is a spot map of the distribution of the total population of the state of Minnesota. On this map, one dot is made to represent 1,000 inhabitants. In the cities of the first class, i.e. Minneapois, St. Paul, and Duluth, the area within the city boundaries is shown in solid black In other cities, the number of dots



represents the population of those cities to the nearest 1,000 inhabitants. Rural population is assumed to be uniformly distributed throughout each county and the dots have been distributed accordingly. An inspection of Chart 2 reveals that the sparsest population in Minnesota is found north and east of a line drawn from Pine City to Roseau. The densest population is found in a belt extending on both sides of line drawn diagonally across the state from Rochester through St. Cloud to Crookston.

SCHOOL CENSUS

Accurate information on the numbers of children of high school age in Minnesota is not available previous to 1939. Chapter 189 of the laws of 1939 provided that all children under age 21 years of age as of September 1, were to be included in the census to be taken between August 15 and September 15. Previous to 1939, the school census included only those children between 6 and 16 years of age.

The initial responsibiity for gathering the census rests with the local school board, which reports all of the children included in the census to the county superintendent of schools. The county superintendent then combines those reports from all districts in the county and makes the census report to the State Department of Education. Because the distribution of income tax revenue to the schools is based on census figures, added significance has been given to this responsibility by the passage of the State income tax law in 1933.

Minnesota Statutes 1941, Section 132.04 contains the provisions of the census law in effect at the present time.

SECONDARY SCHOOL POPULATION

Chart 3 has been compiled from the census reports submitted to the State Department of Education by the county superintendents of schools during the fall of 1949. This chart shows, by counties, the total population of Minnesota ages 12 through 17 as of September 1, 1949. It represents the population of secondary school age and includes the individuals who would normally be attending grades 7 through 12 during the school year 1949-1950. This would be the potential school population of grades 7 through 12 if all students woud proceed through the grades one grade per year without any repitition of grades or any skipping of grades in their progress through school. Since there was no way in this study of determining the amount of acceleration or retardation of pupils, the study has been made on the assumption that there was no such departure from normal progress.

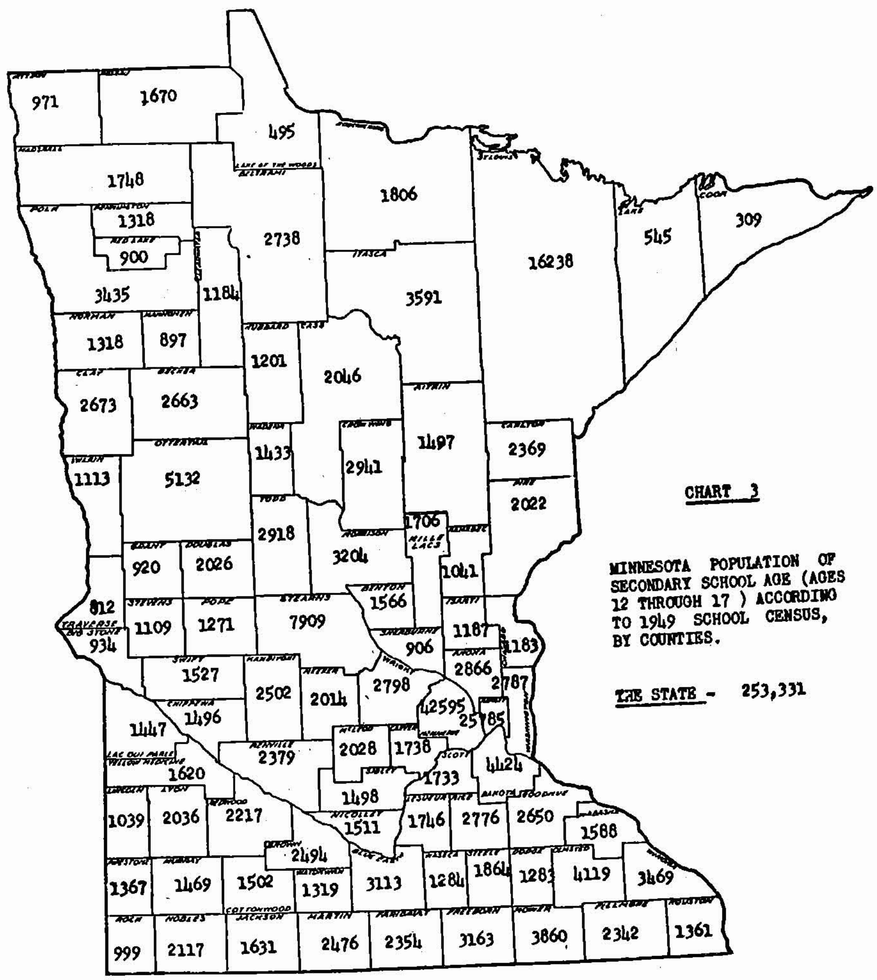


CHART 3

MINNESOTA POPULATION OF SECONDARY SCHOOL AGE (AGES 12 THROUGH 17) ACCORDING TO 1949 SCHOOL CENSUS, BY COUNTIES.

THE STATE - 253,331

There were 253,331 individuals ages 12 through 17 listed on the 1949 school census. Of this number, 199,901 attended public schools and 28,171 attended non-public schools during the school year 1949-1950.

DETERMINING RESIDENCE OF SECONDARY SCHOOL POPULATION WITHIN COUNTIES

One problem was to determine as accurately as possible the residence of the 253,331 individuals ages 12 through 17 listed on the 1949 school census. For the purposes of this study it was necessary to know where within each county of the state each person of secondary school age resided. Information on addresses of individuals is available on the reports sent by school district clerks to the county superintendents of schools, but this information is not available in the county superintendents' reports to the State Department of Education.

The following method was devised which gave the residence of the students with sufficient accuracy for the purposes of this study:

In 1949 there were 7,118 school districts in Minnesota. A county map for each of the 87 counties of the state was prepared showing the boundaries of each school district within the county. From the county superintendents' census report to the State Department of Education the number of individuals ages 12 through 17 were compiled by districts. These figures were then recorded on the county maps within the respective school districts. This procedure, located the secondary school population of a county by districts but there was no way of locating the population within the school district.

The next step was to group the district secondary school population into some unit of size. A unit of fifty was taken as the most satisfactory. The school districts were then grouped into areas which would contain approximately 50 inhabitants of secondary school age. Within each of these groupings a spot was placed at the estimated center of population of that area. This dot was similarly located on the state-wide spot map of secondary school population, i.e. Chart 4.

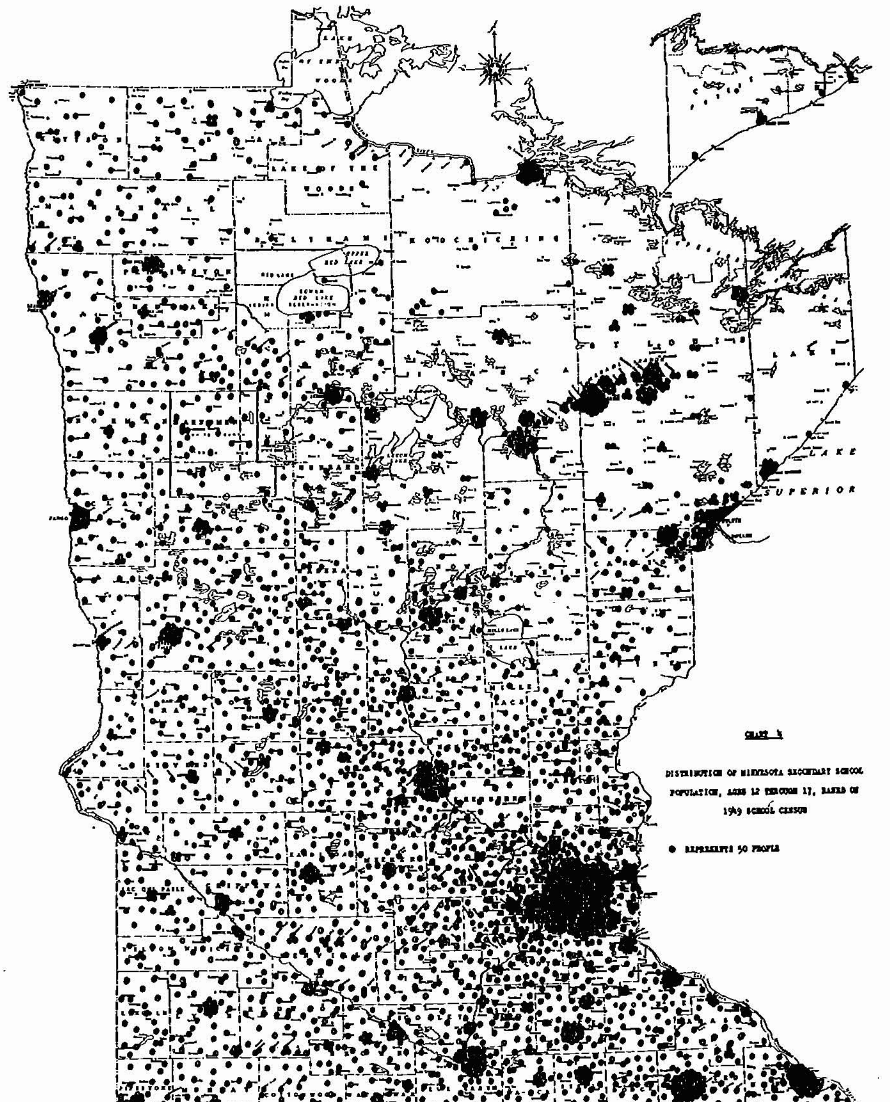
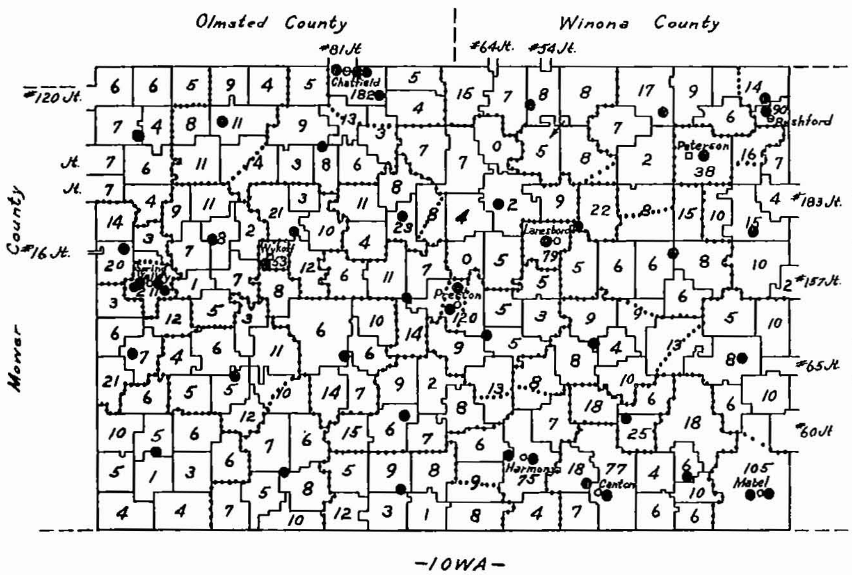

LAKE OF THE WOODS
KOOCHICHING
LAKE SUPERIOR
CHART 4
DISTRIBUTION OF MINNESOTA SECONDARY SCHOOL POPULATION, AGES 12 THROUGH 17, BASED ON 1949 SCHOOL CENSUS
● REPRESENTS 50 PEOPLE

CHART 5

ILLUSTRATION OF PROCEDURE FOR DETERMINING RESIDENCE OF SECONDARY SCHOOL POPULATION, USING FILLMORE COUNTY



FILLMORE COUNTY

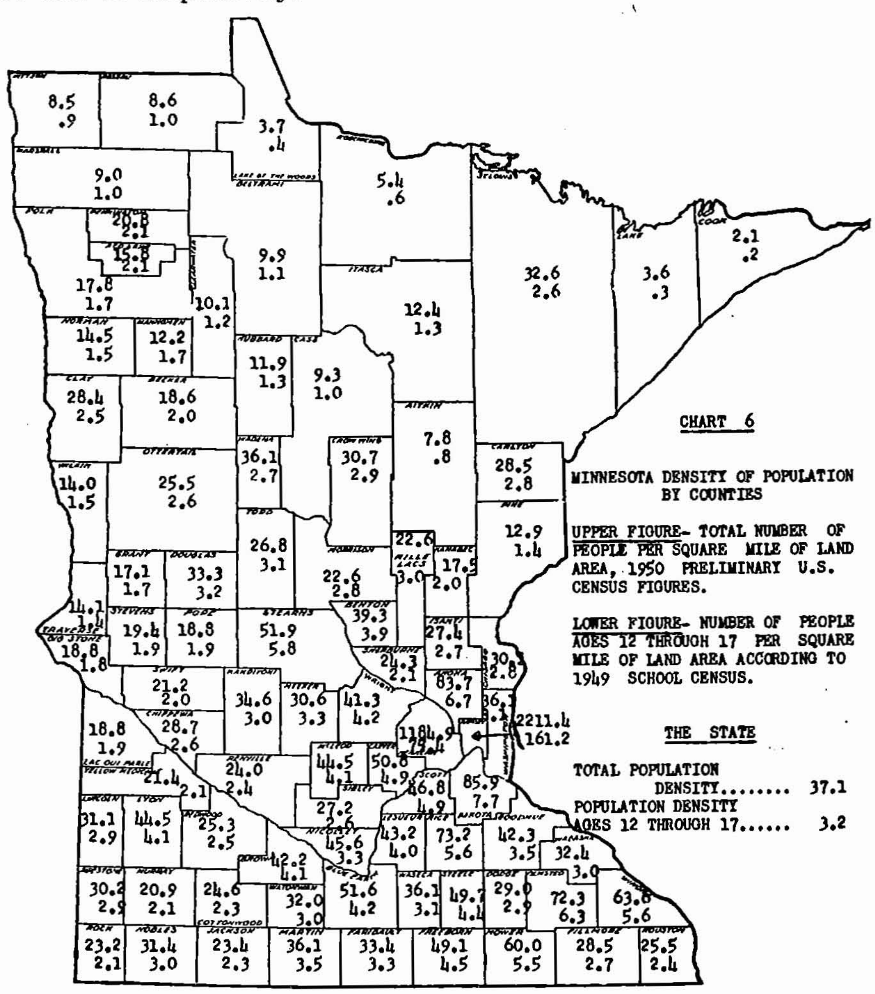
DISTRIBUTION BY SCHOOL DISTRICT OF 2342 INDIVIDUALS, AGES 12 THROUGH 17, LISTED ON 1949 SCHOOL CENSUS

—— SOLID LINES REPRESENT SCHOOL DISTRICT BOUNDARIES
••••• DOTTED LINES CIRCUMSCRIBE AREAS IN WHICH RESIDE APPROXIMATELY 50 (OR MULTIPLES OF 50) INDIVIDUALS, AGES 12 THROUGH 17
FIGURES REPRESENT THE NUMBER OF INDIVIDUALS, AGES 12 THROUGH 17, RESIDENT IN A SCHOOL DISTRICT
● REPRESENTS 50 INDIVIDUALS, AGES 12 THROUGH 17

The above process may be illustrated by using Fillmore county in southeastern Minnesota, illustrated by Chart 5, as an example. The numbers on this map indicate the number of inhabitants of secondary school age as of September 1, 1949 residing within their respective school districts. The school districts have been grouped into areas of approximately 50 or mutiples of 50 secondary school population. The boundaries of these groupings are illustrated on the map by dotted lines. Within the center of population of each area a dot has been placed to represent the population within the area.

The process illustrated for Fillmore county was followed for the other 86 counties of the state. The dots were transferred to a state-wide map as illustrated by Chart 4. This map shows the total population of secondary age—253,331 inhabitants—as of September 1, 1949 distributed as to place of residence with a dot equal to 50 individuals. As was noted in the case of the total population, the population of secondary school age tends to be densely distributed diagonally across the state from the southeast to the northwest. The sparsest population is found in the northeastern section of the state, with the exception of the iron range and the Duluth area.

A comparison of population figures with the national figures and with figures of other states indicates that Minnesota is a relatively sparcely populated state. According to 1940 U. S. Census figures, there were 35 people per square mile in Minnesota. This was well below the national figure of 44 inhabitants per square mile and much below such states as Illinois with 141, Indiana with 95, Pennsylvania with 219, or Ohio with 168 people per square mile. The figures for the neighboring states of Wisconsin and Iowa were 57 and 45 respectively. [1]



[1] U. S. Bureau of the Census, *County Data Book*, Washington, Superintendent of Documents, 1948, p. 2.

Chart 6 shows the density of population of Minnesota by counties using the 1950 U. S. Census figures and the 1949 secondary school age population figures. 41.3% of the total population is concentrated in Hennepin, Ramsey, and St. Louis counties leaving 58.7% scattered unevenly over the other 84 counties.

After studying Chart 6, one can well realize that in the sparcely settled areas of the northern part of Minnesota where in many counties there are one or less people of secondary school age per square mile, secondary school attendance areas have to cover a wide radius if schools of any size are to be established.

The method of locating secondary school population previously described for Fillmore county became unworkable in the case of the unorganized school districts of Cass, Itasca, and Koochiching counties and in the case of the county unit districts of Lake and Cook counties. In these situations the method used was to concentrate the population of secondary school age listed for the district census around the areas where secondary schools are located in the same proportion that each high school enrollment bears to the total unorganized high school enrollment for the county. This change in method gives a somewhat distorted population concentration around certain villages such as Little Fork in Koochiching county, Big Fork in Itasca county, or Orr, Cook, Embarrass, Cotton, and Brookston in St. Louis county, but it will serve as a method for tentative planning in these areas.

CRITERIA FOR A GOOD SECONDARY SCHOOL

Although we have determined the residence of the population of high school age throughout the state, there remains the problem of determining where the secondary schools should be located so as to provide facilities of uniform quality and provide equal educational opportunity for this population. Before attempting to locate these schools, however, it is well to stop and consider the kind of educational opportunities that should be provided. In other words, what is a good secondary school? What are the criteria for a good secondary school?

A good secondary school has a definitely formulated philosophy, the basic principle of which is the development of a personality that should take into consideration health, social growth, character development, academic proficiency, training in motor skills, and appreciation of the fine arts. Such a philosophy should insure maximum opportunity for the development of all desirable abilities and capacities of the individual student. The objectives of the school should emerge from discussions among administrators, teachers, parents, school board members, and pupils. The success of the school will be measured by what it can do for the individual. Its objectives should be to develop each individual's talent to its fullest extent. The individual must acquire proper attitudes, good citizenship, good health, and a democratic outlook. For a detailed statement of a good secondary school, see the appendix of this report.

SIZE OF SCHOOL

The type of educational program described in the appendix could not be provided in a small high school. The broad curriculum, the services outlined, the staff required, and the building and equipment needed would make the per pupil cost of such a program prohibitive in a small school. But such a program can be provided at reasonable cost in a school of sufficiently large enrollment. The question then arises as to what is a minimum sized school in which an adequate educational program could be provided.

Works and Lesser recommend that the high school attendance area should be large enough to provide a junior high school (grades 7-9), a senior high school (grades 10-12), or a six-year high school (grades 7-12), of at least 300 pupils. High school pupils should not have to walk more than 2 or 2½ miles or spend more than 1½ hours on a bus in coming to school if transportation is provided.[1]

The National Commission on School District Reorganization recommends a minimum of 300 students for a secondary school.[2]

For the purposes of this study, an enrollment of 300 secondary school pupils has been taken as the minimum sized school and attendance areas have been planned in all cases possible so that there would be sufficient population to maintain a school enrolling at least 300 pupils. However, in some of the sparsely populated regions of northern Minnesota, the estimated enrollment falls below 300 in seven different areas.

DETERMINING ATTENDANCE AREAS

The objective in determining attendance areas was to group the secondary school population into areas that would produce a secondary school of at least 300 enrollment. This problem was complicated by the fact that there is wide variation among the various counties of the state in the percentage of the secondary school population that actually attends public schools. For example,

[1] Works, George A. Lesser, Simon O., *Rural America Today*, Chicago, University of Chicago Press, 1947, p. 54.

[2] National Commission on School District Reorganization, *Your School District*, Washington, National Educational Association, 1948, p. 131.

in Fillmore county, 95.6% of the population of secondary school age attend public schools; in Brown county, 54.9% of the secondary school age population attend public schools. In Clay county, 83% of the population of secondary school age attend public schools, and in Stearns county, 52.8% of the secondary school age population attend public schools.

The problem was, then, to group the population into attendance areas of suffcient school population so that if the current ratio of public secondary school enrollment to secondary school population continued as in the past, there would still be sufficient population in any attendance area to maintain a secondary school of at least 300 enrollment. On the basis of the above principle, the secondary school population was grouped into attendance areas of sufficient population to produce at least the minimum sized enrollment. Chart 7 shows the result of such a grouping on a state-wide basis. As indicated earlier in this report, in arranging these secondary school attendance areas, present school district boundaries and county boundaries were disregarded.

Note on Chart 7 that a circle is located within each area. This circle was placed at or near the center of the population of each area. The circle is coded to represent the estimated enrollment of the secondary school in its respective area.

Chart 8 shows the location of the proposed secondary schools within counties but with the attendance area boundaries removed. Of the 272 proposed attendance areas, 7 would have an estimated secondary enrollment of less than 300, 138 would have an estimated enrollment between 300 and 499, 101 would have an estimated enrollment between 500 and 999, and 26 would have an estimated enrollment of more than 1,000 pupils. The medium sized high school would enroll 486 pupils.

Chart 9 shows the actual location of secondary schools in Minnesota during the school year 1949-1950. The coding conforms to the legal classification of the school by the State Department of Education. In 1949-1950, there were 465 communities in Minnesota maintaining secondary schools. There were 520 high schools in these communities with a median enrollment of 196 pupils. 68% of these high schools enrolled less than 300 students, 26% enrolled between 300 and 1,000 pupils, and 6% enrolled more than 1,000 pupils.

In contrast to the above, in the proposed attendance areas only 2% of the schools will have enrollments of less than 300 pupils, 88% will have enrollments of from 300 to 1,000 students, and 10% will have enrollments of more than 1,000.

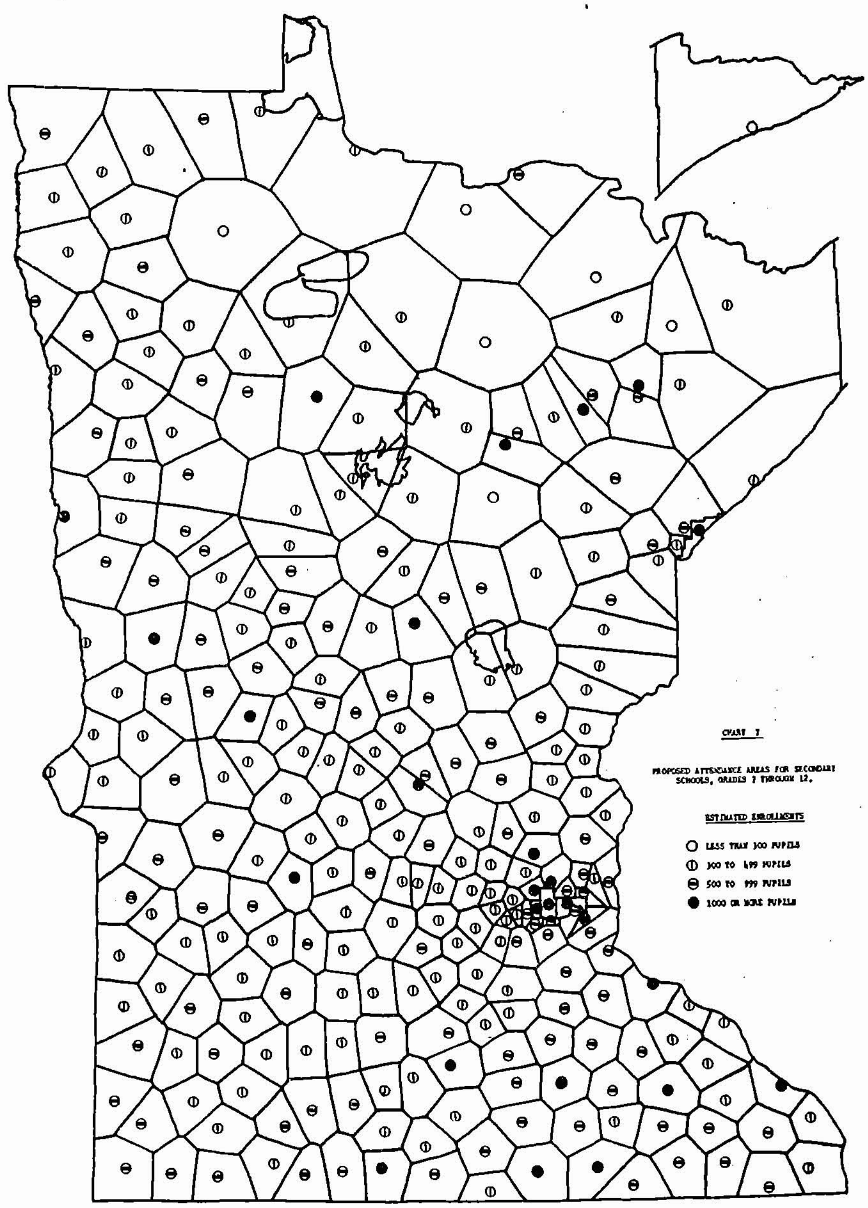


CHART 7
PROPOSED ATTENDANCE AREAS FOR SECONDARY SCHOOLS, GRADES 7 THROUGH 12.
ESTIMATED ENROLLMENTS
LESS THAN 300 PUPILS
300 TO 499 PUPILS
500 TO 999 PUPILS
1000 OR MORE PUPILS

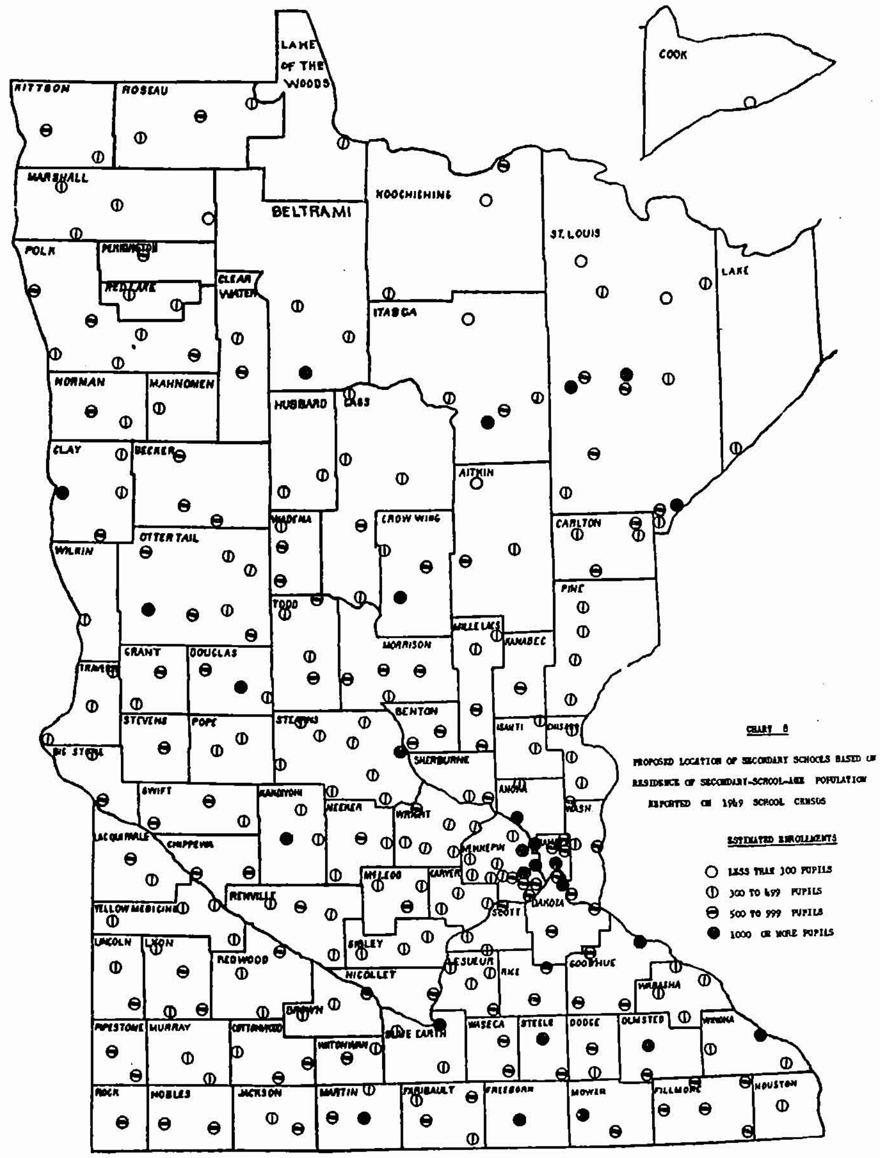
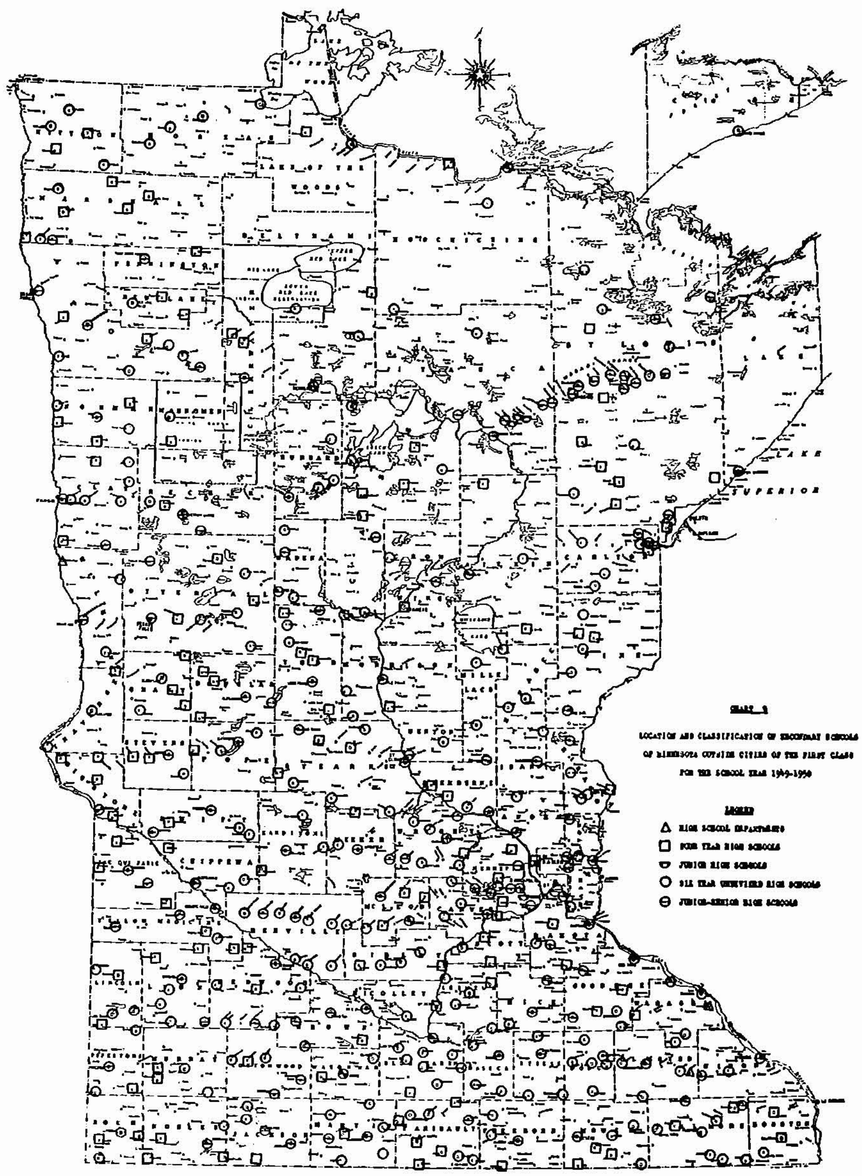


CHART 8

PROPOSED LOCATION OF SECONDARY SCHOOLS BASED ON RESIDENCE OF SECONDARY-SCHOOL-AGE POPULATION REPORTED ON 1949 SCHOOL CENSUS



APPENDIX A

Letter Requesting This Study

STATE OF MINNESOTA
HOUSE OF REPRESENTATIVES
John A. Hartle, Speaker

April 12, 1950

Mr. Dean Sweickhard
Commissioner of Education
State Office Building
St. Paul, Minnesota

Dear Sir:

Our Tax Committee in considering an over-all problem of State aids and income tax would like to have some additional information of a nature slightly different from what you have available now. It is apparent that the payment of aids to high schools will become increasingly important as time goes on.

We would like to have your department develop some information as to where the high schools throughout the State ought to be located based upon where the children are located throughout the State. In other words, you people are perhaps in a position to draw up information which would reflect a far more ideal system of locating high school facilities than we now have. We would, therefore, appreciate it if your department could, among its other duties, give us this kind of survey.

Yours truly,
FRED P. MEMMER

APPENDIX B

A Good Secondary School

A philosophy as described on page 20 of this report should be kept in mind when planning a secondary school curriculum. The curriculum should be based on the needs of the students and must contain more than college preparatory courses since only from 20% to 25% of Minnesota high school graduates go on to college. Curriculums must be planned with the knowledge that a large proportion of the graduates will leave the local community. A study made in 1947 by the Bureau of Institutional Research of the University of Minnesota in cooperation with the State Department of Education showed that nine years following graduation less than 40% of

Minnesota high school graduates were living in the same communities in which they had finished school. Approximately one fourth were living in other states. Of the sample studied, about one fifth moved to other small cities and villages and approximately one seventh moved to the Twin Cities.[1]

A good school provides thorough training in the fundamental skills and, at the same time, provides training in the fine and practical arts.

In a good school, considerable emphasis is placed on vocational education. High school students who will later find employment on the farm or in the production and distribution of goods far outnumber those who will go on to college and later enter the professions. Therefore, all secondary schools must be concerned with preparing students for work and living. This vocational training should be as broad as possible for it must train those who are to migrate as well as those who are to remain in the home community. While it is recognized that some occupations require specialized intensive training in addition to broad preparation, the latter is indespensable in the complex rapidly changing economic life of today. The problem of the secondary school is to offer a general vocational program of training that is broad and well integrated with the rest of the curriculum. It would be well to offer vocational courses that would explore every major occupational field. These fields should include agriculture, home economics, trades and industries, distributive occupations, and the service occupations.

The secondary school curriculum must be adjusted to fit the students who are to leave th home community as well as those who are to remain. Included in the school services must be a well organized guidance and counseling program. Students will need to know the employment opportunities in their home communities and in the communities to which they intend to migrate. Pupils need to be given information about qualifications and training needed for a large variety of occupations. They need help in discovering their own talents in order to find out if they have the qualifications for the occupations in which they are interested. They should know how much training is needed for certain occupations, where they can get it, and how much it will cost. The guidance program should include individual inventory of students, occupational information, counseling, exploration of training opportunities, placement, and follow-up.

It is the obligation of a good school to discover correctable

[1] Minnesota Commission on Higher Education, Higher Education in Minnesota, Minneapolis, University of Minnesota Press, 1950, pp. 105-106.

physical defects in students and to see that steps are taken to remedy them. The school should also teach the fundamentals of healthful living and see that the health of students is safeguarded during the hours that they are in school. A well-rounded health program should include at least the following:[1]

1. A healthful school environment in a safe, sanitary school building with adequate indoor and outdoor play space.

2. Mental hygiene as reflected in properly qualified teachers and cooperative pupil-teacher relationship.

3. Health protection through medical inspection, school nursing service, and remedial work.

Health instruction by means of curriculum material related to the child and his environment.

5. Physical education properly graded to pupil capacities and interests.

6. Recreation on a year-round, community basis.

Besides providing a comprehensive health and guidance program, a good school furnished other services to students such as making provision for mentally and physically handicapped pupils, providing summer recreation programs, and providing transportation facilities for students whose homes are not within reasonable walking distance of the school, providing help in seeking employment for graduates or those who have dropped out of school.

A good school will provide teaching aids and supplies of sufficient quantity and good quality. These will include free textbooks and supplementary texts, up-to-date reference books, and adequate number of well selected library books, reference sets and periodicals, and audio-visual aids.

A good school will develop a long time educational program that is adapted to the needs of the students and community and that is not subject to complete alteration by changes in administration or teaching personnel.

The administration of a good school develops a supervisory plan that provides leadership for all teachers, provides assistance for beginning teachers, and includes a well-planned remedial program.

The good school is well supplied with clerical help thus relieving administrators from clerical work in order that they may devote their time to more important supervisory and administrative duties.

[1] Works, George A. and Lesser, Simon O., Rural America Today, Chicago, University of Chicago Press, 1947, p. 202.

A good school has a complete system of records concerning pupils, teachers, and school property and also the record of a well-planned financial program.

A good school is staffed by well-qualified teachers who are properly trained for the grades or subjects taught, who have interest in and knowledge of child growth in relation to ability, and who continue to improve themselves professionally.

A good school will have a site that is properly located with reference to the population and geographical features of the district. The site should contain sufficient space for the building or buildings necessary to house the educational program. Sufficient space should be included for a complete program of physical education and recreation. The grounds should be well provided with walks, driveways, parking space; they should be well graded, properly drained, landscaped, and well kept.

A good school should have a school building or buildings that are architecturally appropriate and that have classrooms, lavatories, shower rooms, and facilities planned in terms of the use for which they are intended. The buildings should include attractively and efficiently arranged space for the library, offices, laboratories, gymnasium, auditorium, lunchroom, and other special rooms. Ample space for storage of equipment and supplies should be provided. The building should meet standard requirements for heating, ventilation, sanitation, and lighting.

The building should be provided with equipment that makes possible a good instructional program in academic classrooms, in special departments, and in physical and health education. Sufficient equipment should be provided to insure efficient office and business procedure, to provide for the necessary nutritional, recreational, and other special services. The equipment should be designed to contribute to the comfort, health, and convenience of all who use it.

COMPARISON OF PROPOSED SECONDARY SCHOOL ATTENDANCE AREAS AND PRESENT SECONDARY SCHOOL DISTRICTS

As can be observed by studying Chart 7, all parts of the state are included in some secondary school attendance area. There is 100% coverage. For contrast, a comparison of Chart 7 should be made with Chart 10. Chart 10 shows the actual areas of the districts maintaining high schools in Minnesota as they were at the time that this map was made. Chart 10 has been taken from a report prepared by the Minnesota Institute of Governmental Research, Inc.[1] It shows that, at present, most of the area of Minnesota is not included in any secondary school district. Since secondary schools are usually located in cities and villages, it is apparent that the cities and villages of the state are providing the secondary school facilities for large areas that are not included in any secondary

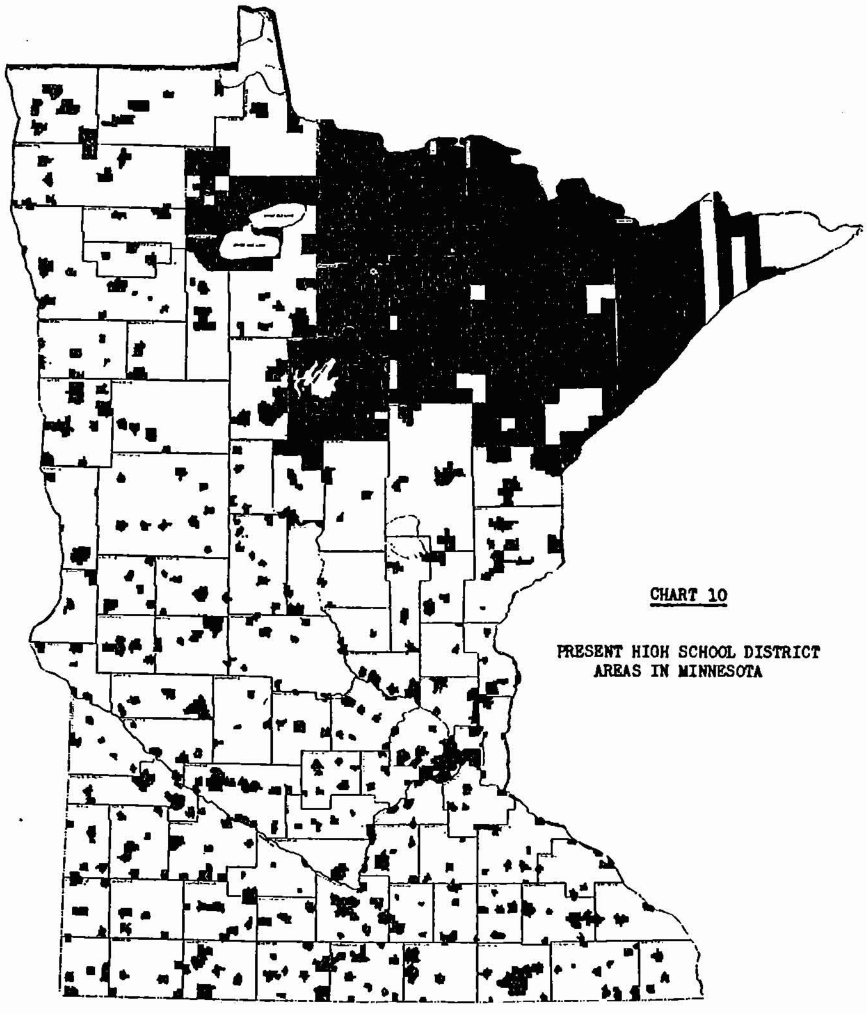


CHART 10

PRESENT HIGH SCHOOL DISTRICT AREAS IN MINNESOTA

Source: The Minnesota Institute of Governmental Research, Inc., Improving Education in Minnesota By Reorganizing Local School System, State Governmental Research Bulletin No. 25, January, 1949, p. 15

[1] Minnesota Institute of Government Research, Inc., Improving Education in Minnesota by Reorganizing Local School System, State Government Research Bulletin No. 25, January, 1949, p. 15.

school district. This fact is also obvious from non-resident enrollment, for, during the school year 1948-1949, 29% of the enrollment in Minnesota secondary schools were non-resident. That is, in terms of Chart 10, 29% of the enrollment came from areas of the state not included in any secondary school district in the state.

ADDITIONAL STUDY NEEDED

The attendance areas, with their respective boundaries, that have been drawn up in this study are not to be considered as final. What has been illustrated is a method by which a more satisfactory placement can be made of secondary schools in relation to the residence of secondary school population. Many other factors would have to be taken into consideration in making a final distribution of secondary schools and in establishing the boundaries of their attendance areas. If a plan such as has been suggested here were to be adopted, further research would have to be made on such questions and problems as the following:

1. A population study should be made in each area to determine population trends and to locate residence of population of secondary school age more accurately than has been possible in this study.

2. In each attendance area, a survey of the educational needs of the secondary school population should be made in order that an adequate educational program could be established to meet these needs.

3. A survey should be made to determine what educational facilities, such as buildings, sites, school equipment, etc., already exist in each attendance area in order that present facilities could be best utilized in the reorganized plan.

4. The problem of how the proposed attendance areas could be combined into larger areas or districts for economical administration of the whole educational system would have to be investigated.

5. What elementary school attendance areas should be established and how could these areas be coordinated with the secondary school areas?

6. How might the areas be combined to support junior colleges and area vocational schools?

7. What system of financial suport should be established? What proportion of the cost should be born by the local community and what proportion by the state? How could equalization of finan-

cial support in the various areas be obtained? What sources of revenue would be available for the support of the program?

8. A survey of roads and weather conditions would have to be made in each prospective attendance area to determine if a workable transportation plan could be devised for the area.

9. Finally, this study has dealt only with secondary schools. But secondary education is tied in so closely with elementary education below and higher education above that it cannot be considered adequately without, at the same time, studying the two latter. For proper understanding of the problems involved, the whole educational system should be studied as a unit.