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# Perspectives

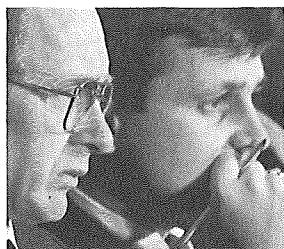
A Publication about the Minnesota State Senate



Minnesota's Horizons: the Senate looks to tomorrow



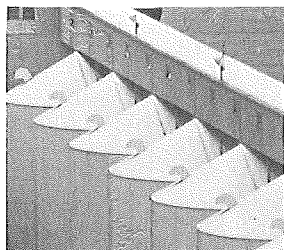
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## **Perspectives**

The Minnesota state legislature faces major challenges this biennium. It is during this first session that members of the state Senate have the time to contemplate the myriad opportunities — and problems — which will confront Minnesota for the remainder of the decade. To illustrate some of the challenges before the state, this issue of *Perspectives* explores three broad subject areas: agriculture, the business climate, and the impact of property tax relief programs. These areas are not only vital to the state's well being, but also provide

an important forum for legislative action. In addition, the Minnesota Horizons presentation provided to the legislators is explained, detailing the implications for future policy considerations.

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### **On the cover:**

At the base of the Capitol dome, the gold statue quadriga carries the figure "Prosperity" which is shown on the cover. The quadriga is escorted by two feminine figures. Prosperity holds the horn of plenty and grasps a standard bearing the word "Minnesota."

Professor Walter Heller highlights the state's and nation's economic status.



Photo by Mark M. Nelson

# Lawmakers pause to look ahead

by Steve Senyk

During the legislative session, lawmakers become occupied with resolving the state's pressing economical and social problems. Seldom do they have the chance to look ahead at the potential problems and issues that will challenge the state in the future. But for the second time in the last eight years, legislative leaders set aside three days to provide themselves with that opportunity.

The program was titled Minnesota Horizons, and its purpose was to provide the lawmakers with background information on Minnesota, the potential effect of policy initiatives and the opportunities of the future. To that end, the program was unique. Alan Rosenthal, a professor from Rutgers University and a student of state legislatures, commented during his presentation, "I know of no other state

that does what Minnesota does with its Horizons program — not at all, or not as intensively, or not as well."

Speakers, ranging from economics Professor Walter Heller to former state demographer Hazel Rheinhardt, presented facts and figures on topics ranging from population changes to expected changes in the state's natural resources. To repeat only a small portion of what was said:

- The average annual increases in the labor force will fall from 47,000 in the '70's to about 20,000 by the end of the 80's, potentially causing a scarcity of entry-level workers for available positions.
- The secondary school enrollments will decline in the '80's, but primary enrollments are expected to increase.
- By 1990, 6,500 miles of state highway will require resurfacing.

- Currently, 4,500 of the state's bridges are classified as deficient.
- Thirty-three percent of the states solid waste disposal sites have less than five years capacity.
- The cost of the homestead credit in 1982 was about \$116 dollars for every Minnesotan.
- Minnesota ranks 11th overall for state and local tax collections.
- Minnesota spends more on highways than the national average because of the state's large land area, the population distribution, the high demand for the roads, and the agricultural economy.
- Current funding available for roads allows the state's 12,000 miles of highways to be reconstructed only once every 372 years.
- Minnesota spends more than the national average on health care because the state has a higher proportion of elderly than other states; Minnesotans live longer than

Sen. Don Moe, legislative co-chairman of Horizons, details the program's intentions.



Acting on long term initiatives to avoid potential problems could have been utilized in the past, according to Roger Moe. He said had they listened to Philip Raup in '73, they might have avoided the plight of present day farmers. "He warned us at that time that farmers ought not to expand on the path that they were heading on, and I think that is one of the problems that they have today — many have overextended themselves in credit."

Moe also said that had they paid closer attention to the state demographer in that time, the state might not be having the present problems in post-secondary education.

The Horizons program also presented the legislators with key concerns for the future. According to Sen. Nancy Brataas (IR-Rochester), "The demographic data clearly indicated the key issue is the long term economic base of our state. We are at the dawn

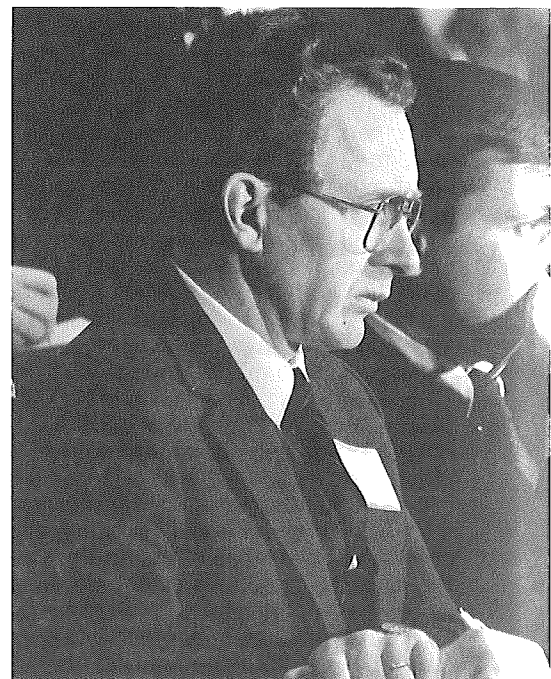
just about anywhere else in the world, and the citizens rely more on nursing home care.

- Minnesota spends more than the national average on education because the state has had a higher-than-average population of school age children; students stay in school longer than in other states, and students have more post-secondary options than in other states.

It is this type of information, said Sen. Don Moe (DFL-St. Paul), legislative co-chair for the program, that assists legislators in forming long term policy initiatives. "By our ability to predict what is going to happen in the future, the legislature and the public will be better served. We will make better laws and we will start thinking about the future. We will examine these trends as we are going, and we will look for evidence that is reliable," said Moe.

Minority Leader Sen. James Ulland supported that assessment. "The biggest problem the legislature has is taking a short term response to long term problems, as typified in recent special sessions. Horizons, at least, is a brief moment for consideration of long term problems and the implication is that the legislature should develop long term solutions."

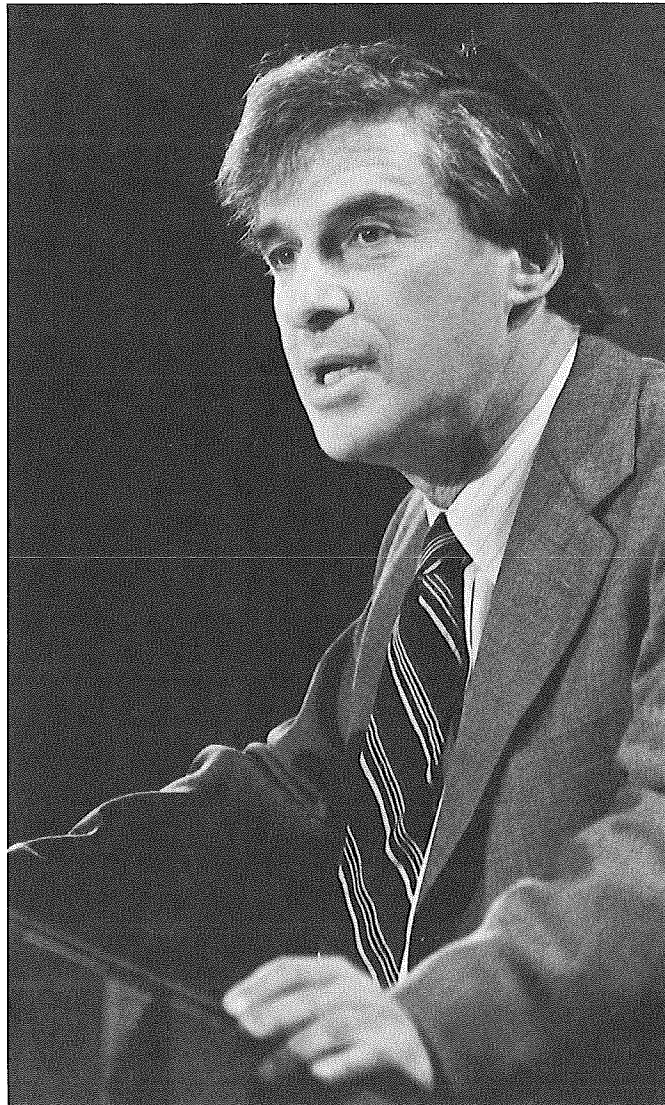
Majority Leader Sen. Roger Moe said of the program, "As of late, we have been running from one issue to the other, from one budget package to the other, from one crisis to another crisis. To be perfectly honest, it was the first chance that I had to sit down and just listen to people who are knowledgeable in their fields talk about how they see Minnesota today and what they expect will be the situation in the future." He added that with the information provided in the program, "we can plan now for some of the future problems we will face."



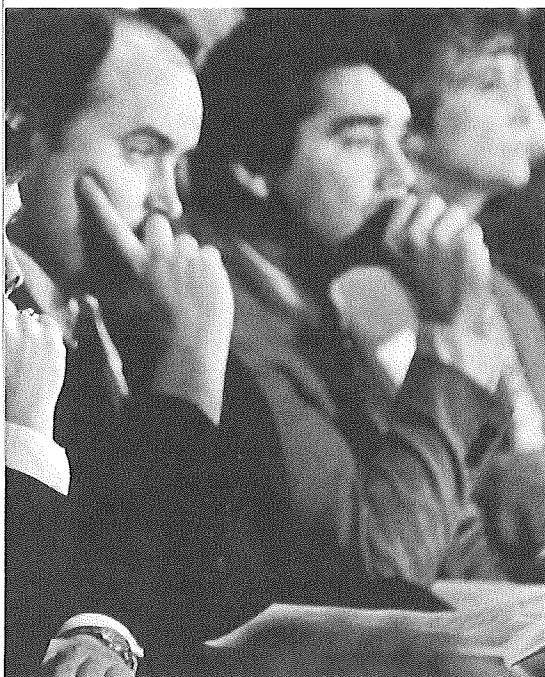


of the computer age. The day of an economy based on traditional heavy industry is gone. Dramatic changes are taking place in agricultural production, the state's largest industry. Given the severe financial problems the state faces, the 1983 legislature had better be aware of those changes and trends. Those changes and trends could drastically affect the impact five or ten years from now, and the laws we pass today."

Ulland was pleased that the program described the difficulties being experienced in northeastern Minnesota and in the agricultural industry. "Clearly the state has a responsibility to address the high unemployment (in northeastern Minnesota) and to have them understand causes and the long term effects. It is important for the legislature to understand the trends in agricultural land, start treating that as a resource and start doing some greater protection for that resource."



Professor Alan Rosenthal wraps up the three day program.



Photos by Mark M. Nelson

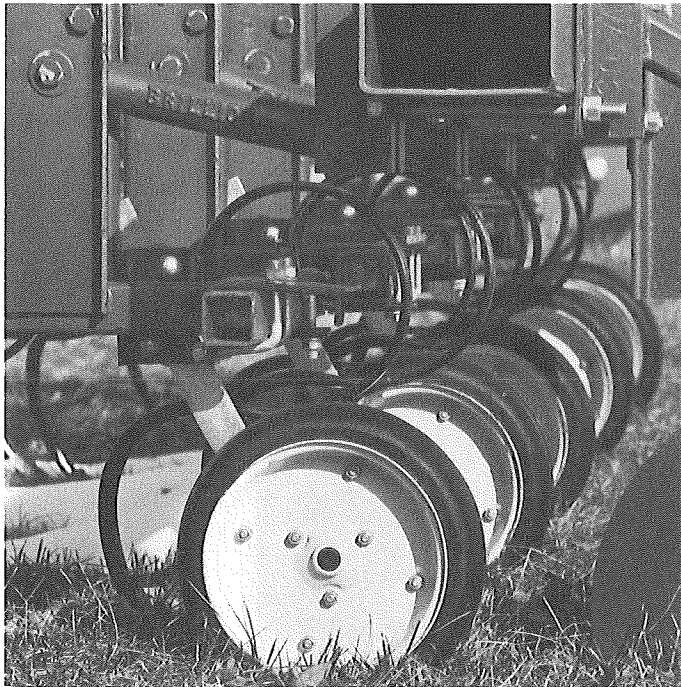
Gerald Christenson, legislative auditor, presented another key issue during the Horizons program. He explained that the legislature must examine the cost of the homestead credit to determine if it should be revised to provide additional funds for the state. Governor Perpich has submitted a proposal to reduce the homestead credit to the '83 legislature.

Programs such as Horizons enable the legislature to adopt a posture of looking ahead at potential problems and enacting legislation to fend them off. To that end, Roger Moe said, "I think Minnesota has done as good a job as any. We were the first to have a state demographer in the nation; we have a state planning agency. But that does not eliminate the legislature from being a reactive body."

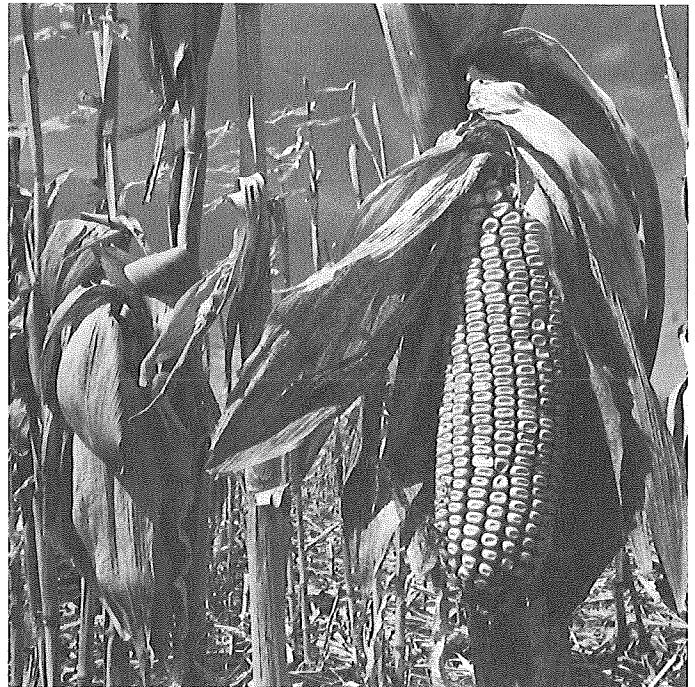
Ulland said that the legislature must conduct a policy of "retrenchment and reallocation — retrenchment on

existing programs and a reallocation for future problems." He indicated, "the pressure on legislators to deal with yesterday's problems is greater than the pressure to solve tomorrow's problems."

Brataas also feels the legislature "tends too much to be a reactive body. We wait and react to the governor, to public groups, to special interest groups and even to the other body of the legislature. We develop legislation in individual committees and seldom look at how a given piece of legislation might affect everything else we do. That should change. We should develop a method within the process of relating an individual bill to the overall situation. Nothing exists in a vacuum, least of all the effects of laws passed by the Minnesota legislature."



Farm implement dealers and other farm suppliers suffer along with farmers during economic hard times.



Corn, along with wheat, is one of Minnesota's leading exports.

# Senate tackles family farm woes

by Catherine Cecil

Although legislators will act on a wide variety of issues by the end of the session, agriculture remains at the heart of the state's well-being and . . . its problems. According to the state Dept. of Agriculture, 40 percent of Minnesota's economy and one-third of the labor force is dependent upon the food and fiber industry. This includes the processing, marketing and distribution of Minnesota's agricultural output.

But the combination of low commodity prices, huge surpluses and the high cost of farming have forced many of Minnesota's farmers into the red — and some out of business. The national farming picture looks grim: only 16 percent of all U.S. farmers had any net income at all in 1981.

Farmers and state lawmakers agree low commodity prices are one of the major problems for the state's

agricultural economy. Sen. Charles Davis (DFL-Princeton), vice-chairman of the Agriculture and Natural Resources Committee and a farmer himself, said, "the main problem for farmers is inadequate prices for commodities." Prices are so low now that "anything you can do to increase demand would help," Davis said. Sen. Charles Berg (IR-Chokio), also a farmer, noted that in terms of parity, "we are at a historic low."

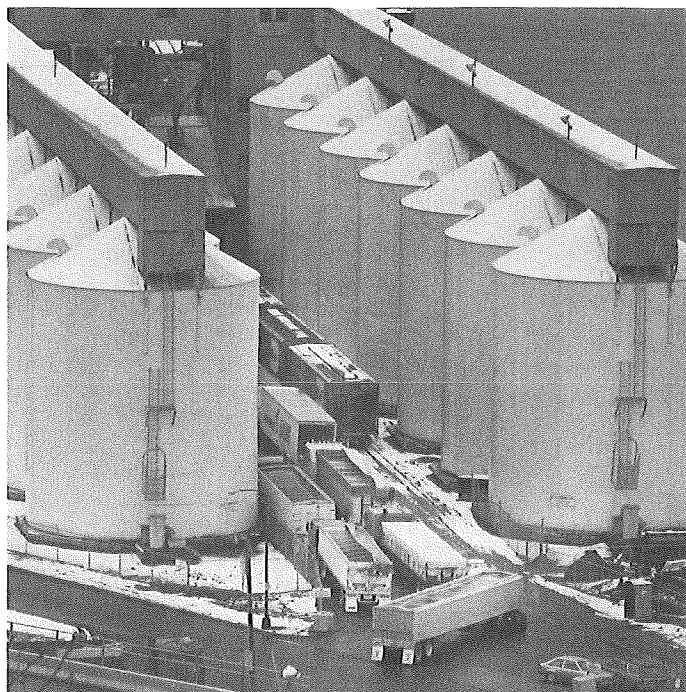
Price supports, more effective marketing and the alternative use of crops, such as for fuel, have all been suggested as methods to reduce surpluses and bolster prices.

Sen. LeRoy Stumpf (DFL-Plummer), also a farmer, said a minimum pricing law is crucial for farmers, but the mechanics of the law would be difficult to determine. "Our strongest position would be to try to organize states together and move as a unified midwest region, with governors

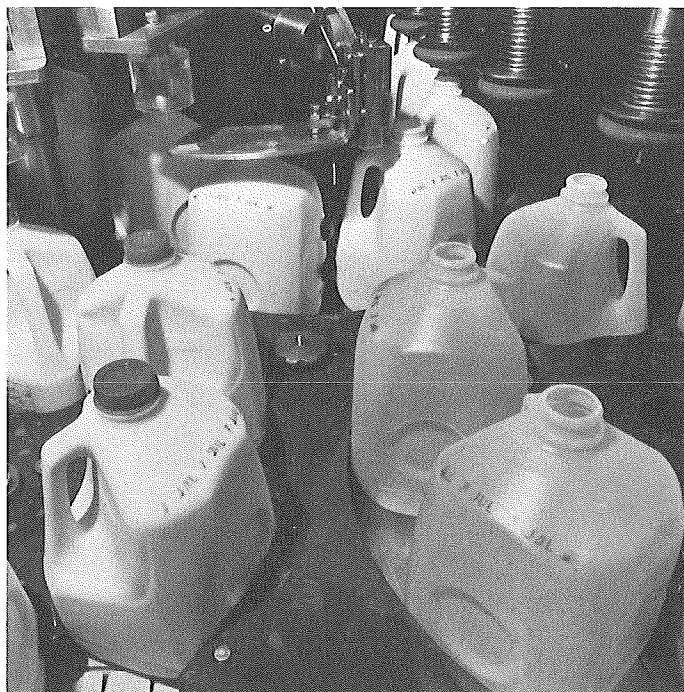
working hand in hand and state legislatures working hand in hand," Stumpf said. "We could have a unified voice expressing our concern to Washington."

Davis agreed that any efforts toward commodity pricing should include cooperation among farm states. "I think a good part of such action would necessarily include some mechanism for supply controls," Davis said. "In other words, taking some steps to cooperatively solve the problem by cooperating to restrain production," he explained.

Agreements with officials in other states would be essential to any minimum pricing mechanism, said Sen. Duane Benson (IR-Lanesboro), who also farms. Even then, Benson said he would have serious reservations because farmers in those states could be in danger of pricing themselves out of the market. "It might be playing one end of farming against the other," he said.



Low grain prices and huge surpluses have overcrowded storage facilities, such as this GTA terminal.



Farm product processing, distribution and marketing are also important to the farm economy, but many people think the state can do better in these areas.

An effective method of curbing surpluses would be to use farm products for fuel alcohol. This would alleviate surpluses as well as increase available fuel, according to Stumpf, and it would be a better investment than paying for surplus storage or price subsidies. "We could subsidize (products going to foreign) markets, but why do that when you could make a gallon of alcohol and use it for fuel?" he asked.

"We should make capital available for alternative energy, primarily ethanol and methanol stills," Stumpf said. Such a proposal would require that state governments work hand in hand with business, he said. "If local and state governments and businesses all work together we can get these initiatives off the ground."

Stumpf said he is pleased with Gov. Rudy Perpich's interest in stimulating fuel alcohol production in the state, and hopes this will spur efforts to make Minnesota more competitive. "Officials in Iowa are doing a good job with corn alcohol. They're much farther along than we are," he said.

Incentives for soil set aside programs would also cut surpluses and improve soil fertility, Stumpf said. "Usually a farmer can't afford to do that because it's too costly," he explained. "It would benefit the overproduction the government pays for right now, and it would be better to have subsidies going to these programs than to store surpluses."

All the senators were optimistic about the recently enacted federal Payment-In-Kind, or PIK, program, which allows farmers to set aside part of their acreage in exchange for government surplus grain. "Some farmers will benefit, but we can't tell exactly what will happen," Stumpf said.

Another proposal to use up surpluses and boost prices is more aggressive promotion aimed at expanding world markets for Minnesota's agriculture products. Currently, one-third of the nation's gross farm income is from overseas exports, and Minnesota is the fifth leading state in gross farm income garnered from overseas exports, according to the state Dept. of Agriculture.

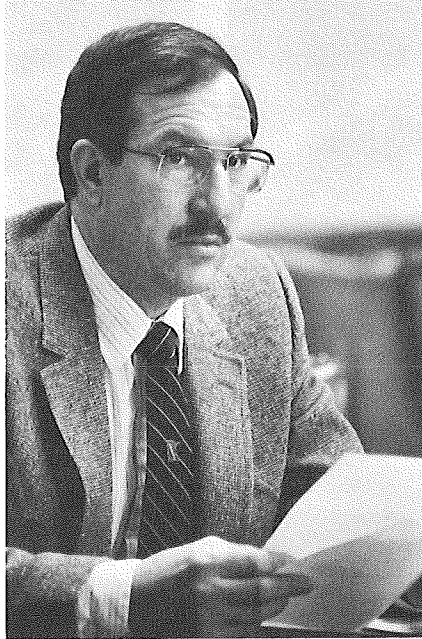
Berg and Benson contend that commodity markets for U.S. products are still affected by the grain embargo imposed against the Soviet Union in 1979. After the embargo took effect, other countries stepped up their exports, Benson said, and the United States is still suffering.

Berg agreed. "The embargo made us seem as though we weren't a dependable trading partner," he said. "The secret of success is in trading — but we have to buy something in return. We can't restrict Japanese autos and steel," Berg continued. "If we get in a trade war, we as farmers have the most to lose."

Davis agreed that good marketing techniques could greatly help Minnesota farmers. The Agriculture and Natural Resources Committee plans to work closely with Agriculture Commissioner Jim Nichols in exploring new markets and strategies, he said. "I'm pleased that the administration is interested in developing better foreign trade," Davis said. "Good marketing has the potential of helping a great deal. For instance, maybe we could trade food for fuel."



Photos by Mark M. Nelson



**Sen. LeRoy Stumpf:**

"We should make capital available for alternative energy, primarily ethanol and methanol stills."

Because farming requires such huge amounts of capital, many farmers have found themselves overextended at a time when farm income is down. Stumpf pointed out that declining land values have left farmers with little to borrow against, which put them in an especially difficult position with the recent high interest rates. Some farmers have lost their farms, and many are afraid the number of foreclosures will continue to climb. Berg said the number of voluntary liquidations increased significantly last summer, and he expects the number of involuntary foreclosures to climb.

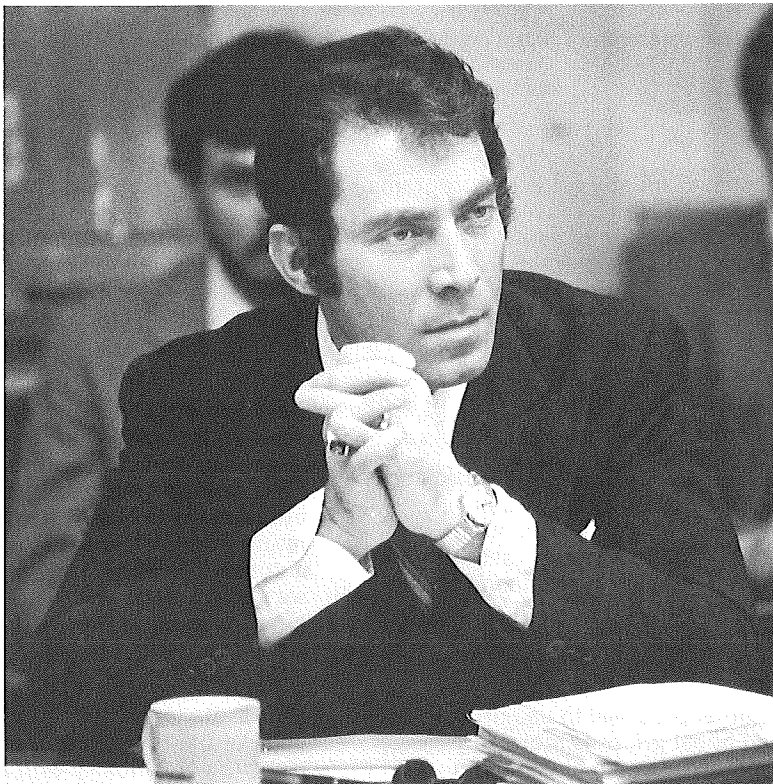
"The attrition has gone beyond the point of poor operators, and a number of ones in danger are farmers we can't afford to lose," he said.

Davis said that farmers who do not have to rely on large amounts of borrowed capital are not as vulnerable — but those farmers are very few in number. "I'm especially concerned about those people in the younger generation who are in situations where lending agencies own just about everything that's on the farm," he said.

All the senators agreed that farm foreclosures are a difficult problem to solve. Davis noted that federal policies on interest rates and Farm Home Administration loans have the most effect on farmers facing foreclosure. The state government is powerless to affect the FmHA loans, he said.

Legislators should examine the possibility of tackling the problem through the courts and the federal and state banking systems, according to Stumpf.

Lawmakers are also concerned because a moratorium on farm foreclosures could cause hesitancy to lend among bankers in the future. "We have to be very careful because we could cause problems with the availability of credit," said Berg. "Any bill would have to have restrictions tight enough in order to help only the legitimate farmer living on the farm that had a past record of success in farming, who has gotten into trouble because returns are so low, particularly because of government actions, such as the grain embargo," he explained.



**Sen. Charles Davis:**

"Good marketing has the potential of helping a great deal. For instance, maybe we could trade food for fuel."



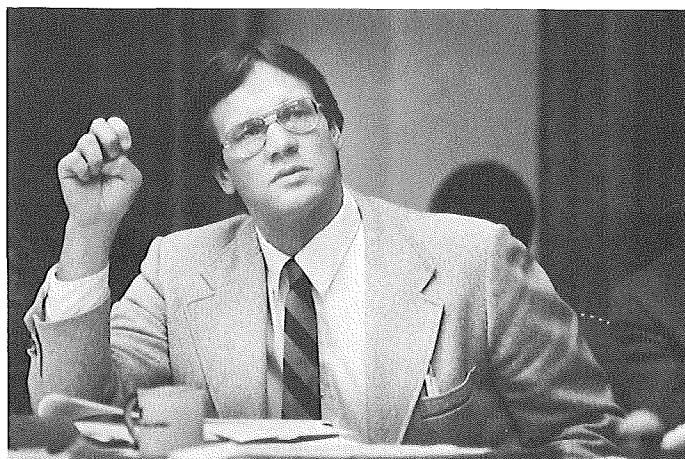
**Sen. Charles Berg:**

"There has to be some changes in the property tax system. We can't continue to hurt farmers by shifting the burden onto them."



**Sen. Duane Benson:**

"Farmers out there need time . . . If they get their crop in this spring and sell it, if we can keep them going this one year, they'll make it."



Benson does not support the idea of a foreclosure freeze. "I think we would dry up the secondary mortgage sources in Minnesota," he said. Farmers who would be helped by a moratorium "probably would not ever get a loan again," he said, and "some young farmer who needs a loan who is questionable would not get one in the future."

A better answer for farmers on the brink of losing their farms would be to have the state guarantee part of their loans for a year, Benson suggested. By then, the farm economy will be in better shape, he said. "Farmers out there need time. We can buy them some time," Benson explained. "If they get their crop in this spring and sell it, if we can keep them going this one year, they'll make it," he predicted.

Berg sees high property taxes as another major farm problem. "There has to be some changes in the property tax system," he said. "We can't continue to hurt farmers by

shifting the burden onto them." One solution would be to lower property values for tax purposes, he said.

Benson said he also favors such an idea because it would tie tax levels more closely to production. "The problem is that commodities are worth less and less while property taxes are going up and up," Benson said.

However, state legislators are limited in how they can improve the state's farm economy, Davis said. Farmers and lawmakers agree that a federal commitment to agriculture is crucial for recovery. "Historically, a farmer in Minnesota and in other states has been dependent on just exactly what the federal program is or is not," Davis said. "The most direct channel toward improvement of the farm economy would be through federal action."

Benson agreed, and said that with the exception of reforming property taxes and guaranteeing certain loans, "in a

large part we don't affect agriculture in the state, because the U.S. government has a larger role."

All citizens and state lawmakers should demand federal action from their Congressional representatives, Davis said, because the most effective tools for improving the farm economy, and the nation's economy as well, are under federal jurisdiction. "It's incumbent on everyone to realize the interconnection between the health of the farm economy and the health of the economy in general," Davis said.

The effects of proposals to ease the farm crunch will extend far into the future. Just as farmers must plan years in advance, recovery, too, will take time. "Even with a natural disaster, you don't bounce back. It takes many, many years," said Stumpf. "If you're behind, it's tough to pick up."

But, as Davis noted, "Farmers are the eternal optimists."

Cultivating new business and revitalizing old industries will warm Minnesota's economic climate.



Photos by Mark M. Nelson

## Minnesota business climate: highs and lows

by Dawna Lichtscheidl

Minnesota senators talk about the business climate the same way Minnesotans talk about winter. It's harsh. It's cold. It's a problem. Or, as Sen. Sam Solon from Duluth said, "It's a challenge." Lawmakers, labor and business agree that the economic climate in Minnesota is severe. According to a 1983 Minnesota Poll, 47 percent of Minnesota households have experienced either a lay off, pay cut, shorter work week, fewer contracts or assignments, or early retirement. The poll indicated that almost one out of ten families needed to look for some type of assistance such as food stamps, welfare or other type of government aid.

Although Minnesotans endure more than their share of severe winters, they are not alone in enduring economic troubles. Unemployment and the recession are national woes. Many problems stem from federal policy or national trends. Solon is the chairman of the new Economic Development and Commerce Committee. He explained, "We are suffering, but it's not just the fault of the state . . . We are victims of a national recession. We don't have much control over the national economy, the grain embargo or the steel industry." Sen. Lawrence Pogemiller (DFL-Mpls.), chairman of the Tax Subcommittee on Economic Development said, "We can't solve all of the problems at the state level." However, Pogemiller pointed out that

the state will take action so "when the national economy comes out of its doldrums we're in a good position and we're on the cutting edge where we can create jobs very quickly and have businesses expand quickly."

Legislators agree that Minnesota is not always on the "cutting edge" in certain economic areas. The high cost of workers' compensation rates is considered one of the cold fronts in Minnesota's business climate. Solon said that readjusting workers' compensation rates is a priority this legislative session. According to Solon, labor, insurance representatives, business, doctors, and lawyers will meet with legislators. They will provide assistance and give their



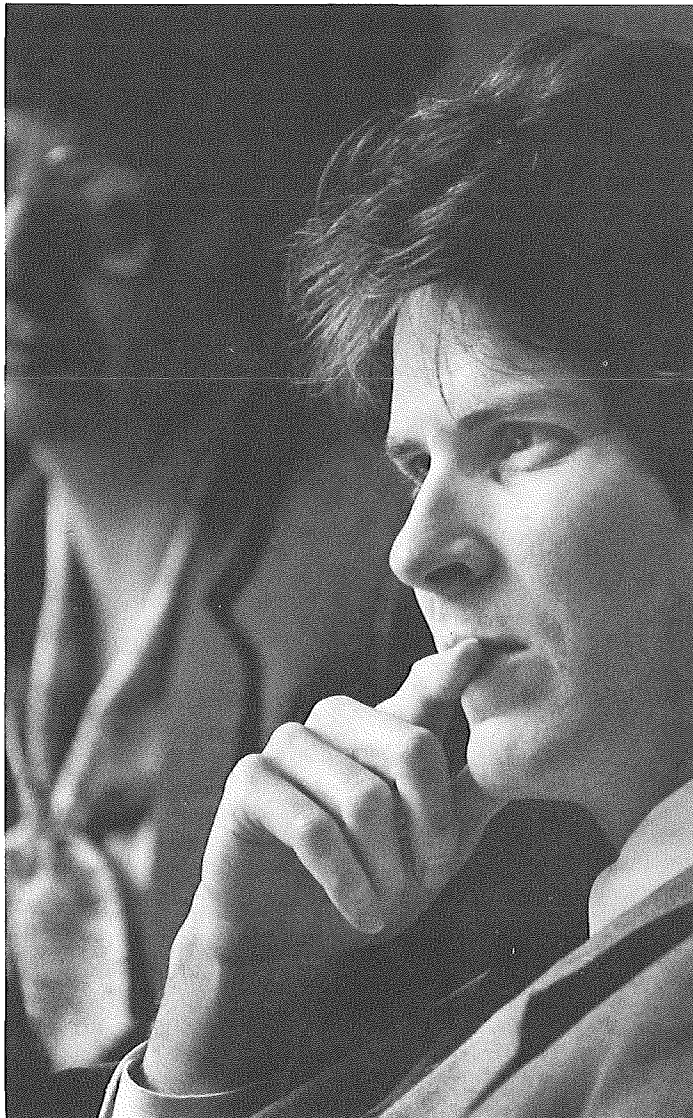
recommendations for readjusting the rates.

Sen. Gary Laidig (R-Stillwater) pointed out that workers' compensation rates alone may not discourage business. "We have to look at all those things that put us in an uncompetitive position with other states," he said. Laidig explained that high workers' compensation rates along with high unemployment compensation costs, corporate tax structures, commercial property taxes and personal income taxes will turn businesses away. Legislators need to "decide which area is causing the greatest problem," he said.

Along those lines, Pogemiller agreed that certain "businesses are having a hard time because of our various tax laws." He said that "when a company grows from 20 employees to 1200 employees, there's some sense that Minnesota is not conducive to that type of high production company. There is some kind of plateau we're hitting. There is interest in making adjustments to make it possible for them to grow."

However, Pogemiller said, "most national studies show that the level of taxation is not one of the major determinants in business location decisions." Many business location decisions are based on other factors in the environment. Further, he said it is difficult to decide how much of the location decision is attitude and how much is hard dollars. David Birch, a nationally known economic analyst from the Massachusetts Institute of Technology, gave similar arguments to members of the Senate Tax Subcommittee on Economic Development and members of the House Tax Committee. He told the legislators that many new businesses will locate in high tax areas because of the services tax dollars provide. Birch suggested concentrating on high quality education and retraining programs. Rather than give direct tax relief to attract industry, he said Minnesota should cultivate and nurture an environment that encourages new business.

"We are looking to strike a delicate balance," said Pogemiller. "Minnesota is not interested in giving widespread tax relief to business."



**Sen. Lawrence Pogemiller**

He said that Minnesota should "target policy to enhance our state's good points." Minnesota's climate is not totally frigid. "We have the right environment for people with new ideas starting new companies," he said. "Minnesota is a good incubator. Certain types of companies thrive and incubate very well in our state because of our work force and high quality of life." Clearly, there are good aspects about Minnesota's environment. Pogemiller said these things should be pointed out. And Laidig agreed. "We have to build on our strengths," he said. In other words, if subzero temperatures aren't enticing, 10,000 lakes are.

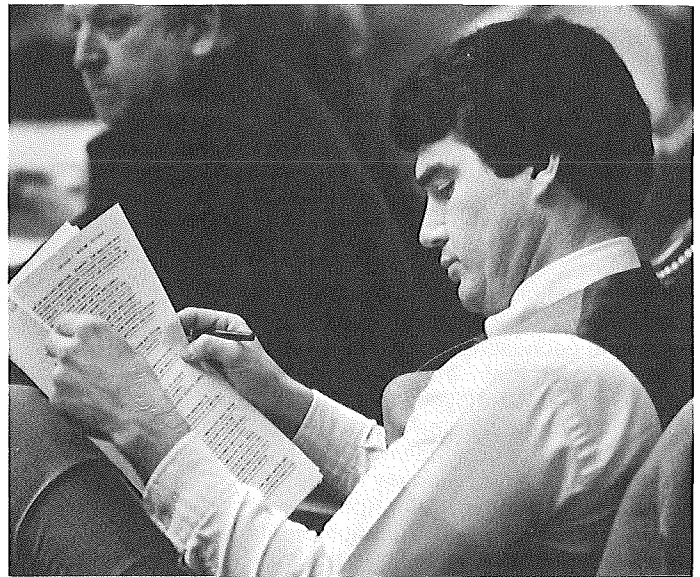
Solon outlined some positive areas in Minnesota's economy. "We need to market and promote ourselves as an education center, as a medical center and as a tourist center," he said. "We need to sell our highly educated, hard working labor force. We need to promote the positive aspects of the state. For example, Solon pointed out that 40 percent of Minnesota's economy is in some way agriculturally based. He explained that Minnesota was once the leading supplier of grain to the U.S.S.R. "We should promote Minnesota products world wide," he said.



Sen. Sam Solon

Solon also spoke about short-term strategies to provide economic relief. "Governor Perpich has requested \$130 million work programs for a short-term fix," he said. "And Sen. Roger Moe (DFL-Ada) has a \$2 million jobs plan." Solon said there is a proposal to release highway construction funds in July rather than September to create more construction jobs. He also pointed out that tourism is a quick painless way to stimulate the economy. Statistics show that "one dollar spent in tourism brings \$20, \$30 or \$40 back," he said.

Another possible area for stimulating economic development is the area of energy. Laidig said, "We are an energy poor state. Perhaps there are things related to energy . . . alternatives we can build on." Solon explained that encouraging applied research with peat, timber, fuels, and alternative energy sources could stimulate economic growth and development. "Historically there is support of research," added Laidig. "For example, the whole taconite industry was the result of research work out of the University."



Sen. Gary Laidig

Photos by Mark M. Nelson

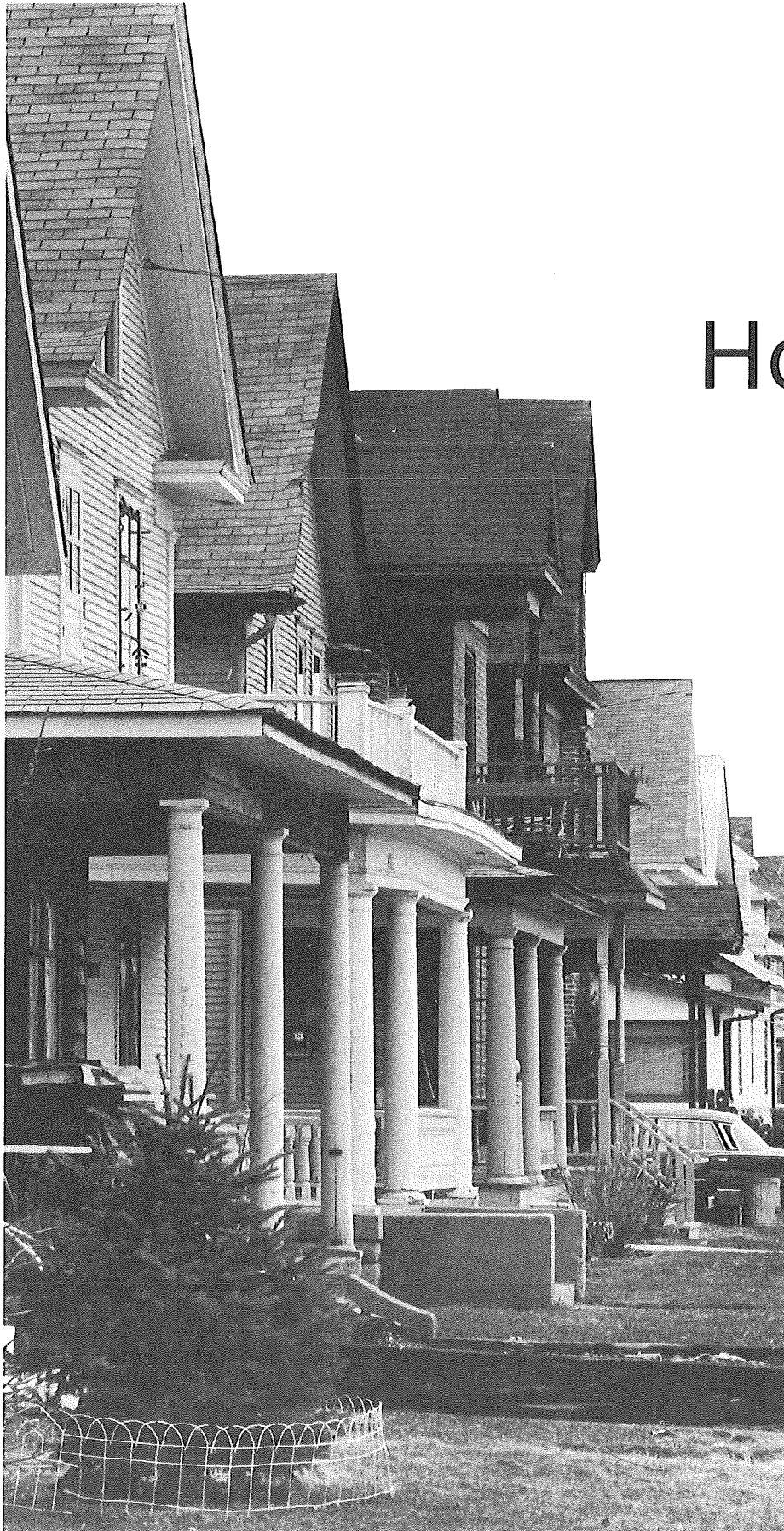
In order to posture the economy so Minnesota can grow and thrive, we have to plan ahead, Pogemiller said. "We need to anticipate what that (industry) is for our future. I think it will be in the energy area, high technology, science area, and service industry," he said. "That's where we want our tax incentives; that's where we want our policy focus."

As a spirit of cooperation helps pave the way through Minnesota winters, Senators Laidig, Pogemiller, and Solon agree that cooperation will pave the way for economic recovery. Said Laidig, "We need to sit down and talk about where we agree rather than where we disagree . . . Rather than bang heads, we need to work together . . . we need to sit down with business, the governor, labor, and legislators and try to decide which area is causing the greatest problem, and how do we change the perception that there is a bad business climate. Perpich is really leading with jobs and that is positive. That's healthy for the state to have a governor that says, 'yes there are problems, but there are ways we can solve those problems'."

Pogemiller agreed with Laidig. "We have to create an atmosphere of cooperation between the government sector, business sector and labor sector. It is in our best interest to have a positive relationship." He said that studies show that businesses are concerned about the stability of the state budget. "They're under pressure to run their businesses in a planned, controlled manner, and they look to the state to do the same. We can convince people this state does work. We do balance our budget. That's a major step we can do this time to improve peoples' attitude about Minnesota's climate."

Speaking as a Minnesotan who has made it through 24 inch snowfalls, Solon added, "I am optimistic. We can be better than we were five to ten years ago. We've learned from this recession. Business, labor and government won't be adversaries. I see good signs of (them) working together."





# Homestead credit analyzed

by Karen L. Clark

The continued financial crisis Minnesota has experienced over the last three years has resulted in providing legislators with a unique vantage point from which to view the entire taxation-spending policy developed during the last decade. The picture that has emerged is of a complex kaleidoscope of aids, payments and taxes; all inter-related and interdependent. Each element of the system interlocks with other elements so that a change in one ricochets throughout the structure.

Currently over 70 percent of the state's budget is returned to local units of government as either direct or indirect aid payments. The lion's share of the payments, nearly 35 percent of the state's budget, is in the form of aids to education with the next largest category, amounting to 26 percent, being paid in the form of property tax relief, shared taxes and other aids to local government.

This year legislators are attempting to develop long range policy objectives and avert the possibility of future budget dilemmas. Of particular concern is the fiscal relationship between the state and the local units of government. Sen. Douglas Johnson, chairman of the Senate Committee on Taxes and Tax Laws, created a special subcommittee to investigate the state's spending and tax relief programs, and to recommend the appropriate changes in the state's revenue policy.

The homestead credit is one element of Minnesota's system of aids and credits being examined for possible savings.

"There is an atmosphere that we've got a mess and that it is going to take something drastic to fix it," said Sen. Collin Peterson, the chairman of the new Subcommittee on Property Taxes and Local Government Aids. "We ought to look at overhauling the whole system," he added.

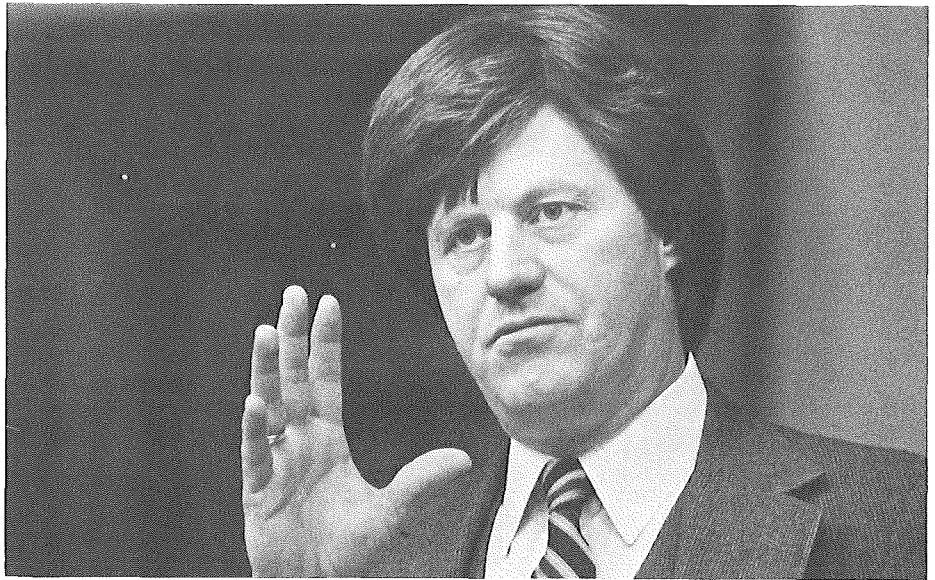
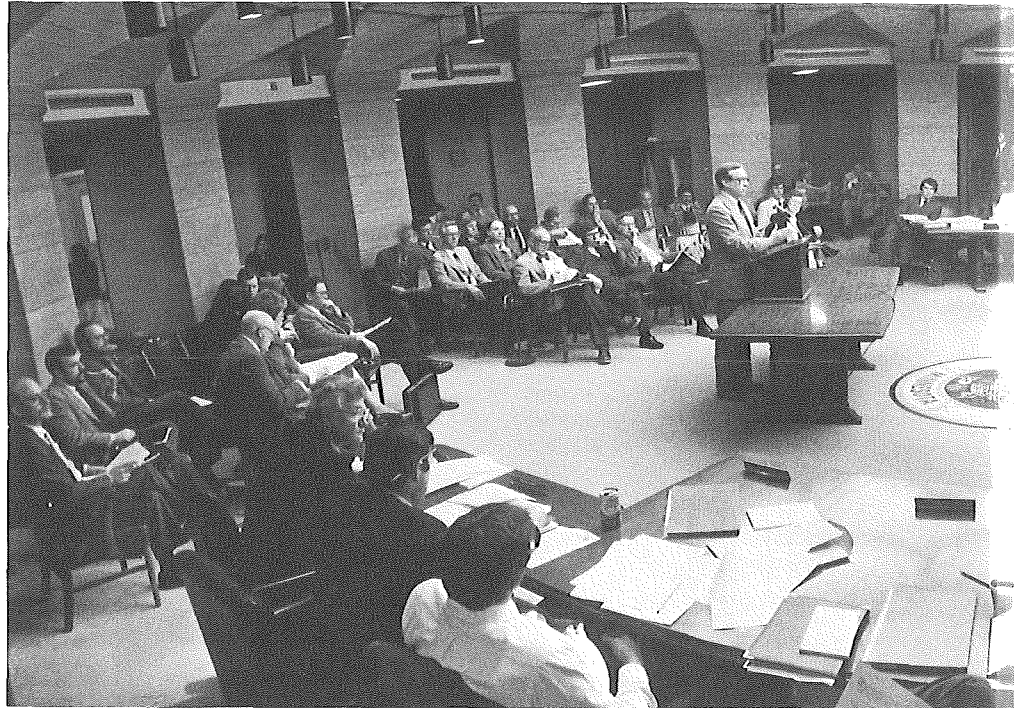
Specifically, attention has focused on the direct property tax relief programs such as the homestead credit and the agricultural credit. Property tax relief programs have been the fastest growing expenditure amounting to nearly 10 percent of the state budget, in 1982. For example, the homestead credit program grew from \$78.8 million in 1968 to \$479 million in 1982. In a time of fiscal uncertainty the burden of these aid payments becomes increasingly difficult for the state to bear.

The question arises of whether the state can afford, in light of declining revenues, to continue providing property tax relief to the extent it has in the past. Peterson contends that "We can't afford to fund the program at the level we have . . . I want to look and see if there is some way we can change that whole system to make it simpler, more understandable and more equitable."

Historically, property tax relief payments were implemented as part of the "Minnesota Miracle," a system of direct state payments to local jurisdictions, especially school districts, to insure tax progressivity and to ease reliance on the property tax as a source of revenue. In addition, the state's distribution of direct payments were to insure equity among the various school districts across the state. However, adjustments to this system, made in response to the state's recent financial situation, have disproportionately increased the financial burden of direct aid payments. "One of the big things we don't have control of is the property tax relief system," Peterson commented.

The state paid over \$768 million in direct property tax relief in 1982, yet there is little public awareness of this relationship between the state, the local units of government and the taxation/spending structure of

**Members of the Senate Tax Committee discuss the state's taxation policy.**



**Sen. Collin Peterson**

government in terms of services provided.

Sen. Phyllis McQuaid, a former mayor of St. Louis Park, agrees, "People do not understand the property tax system. The state of Minnesota does not collect property taxes." Counties, cities and other local jurisdictions are the entities which provide services — police, fire, schools and parks —

through the direct aid payments. The complexity of the system makes it difficult for people to understand that the property tax relief provided by the state helps pay for those services.

Peterson also called for public awareness of the system so "we can get back to having a partnership with the local units of government that everybody can understand." He said,



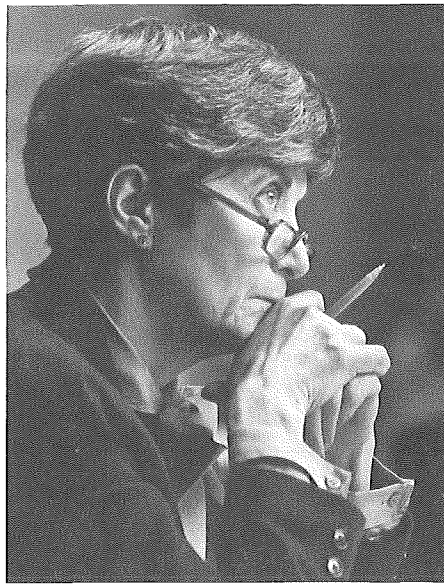
Photos by Mark M. Nelson



"It is important that the public understand the local units of government are the ones that spend the money. It isn't the state."

Members of the Senate are not alone in their concern about the system. A recent report by the Legislative Auditor, Gerald Christenson, provides an in-depth examination of direct property tax relief programs. The report points out that "Minnesota's property tax system and system of aids and credits have grown to be the nation's most complex." For example, there are 67 property tax classifications in the state, and according to local officials, the task of classifying various kinds of property has become a major administrative headache. In addition, the report also noted the disparities within the homestead credit system, in part because of the complicated classification system and in part because of the varied levels of need for government services. The report also noted that the homestead credit provides property tax relief broadly rather than concentrating relief in districts with low property wealth or a high level of service needs.

Currently, the homestead credit program pays 58 percent of the tax bill on homesteaded property to a maximum payment of \$650. For 1982,



Sen. Phyllis McQuaid

the cost to the state for the homestead credit alone amounted to \$479 million. Additional property tax relief measures, including the agricultural mill credit and the circuit breaker, cost the state an additional \$289 million.

The Legislative Auditor's report also states that "Minnesota's property taxes are at an historically low level. . . . taxes on homesteaded property are

especially low when compared to the past or in comparison to other states." In terms of declining revenues from other sources, the income tax and the sales tax are key examples, it becomes apparent that property, as a form of wealth, is taxed at a comparatively low rate in Minnesota.

Governor Perpich, in his budget address, called for adjustments to the homestead credit program. Under his tax proposal, submitted to the legislature for consideration, he calls for changing the homestead credit so that the first \$100 of tax is not eligible for credit. Perpich also proposes that the credit be computed using 50 percent of the tax with a cap of \$650. In addition, a new formula is presented for computing the property tax refund or "circuit breaker", by limiting the benefit to those households with an income under \$40,000.

Commenting on the Perpich proposal, Peterson said, "We can't take the property tax burden completely off the low-income person. I think we have to say first of all that everybody has to pay something." He went on to say, "We may spread out that \$650 relief that goes to everyone and then tie it to income." He emphasized, though, changes in the property tax relief programs must be considered within the context of all other revenue sources, such as the income tax and the sales tax.

Johnson has indicated that legislative discussion of the governor's proposal will change many provisions of the bill. However, he also has expressed concern about the burden on the state created by the property tax relief system as it currently exists.

Peterson concluded that the job before the Senate "boils down to spending the money with more precision to get at the things that are actually problems . . . and to try and make the system more fair."

The actual bill developed by members of the Senate will address the property tax relief system, but it will be part of a total package covering all of the taxation policies of the state for the biennium. Final action on the omnibus bill will be but a precursor of further refinements in Minnesota's taxation and spending policies.

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