FISCAL FOCUS

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Sound tax policy. Efficient spending. Accountable government.

May – June 2023 Volume XLIV No. 3

In This Issue: 2023 Session Recap

- This Ain't Your Father's Miracle
- Unfinished Business?

This Ain't Your Father's Miracle

It may reflect the same policy vibe and offer the same marketing cache as the most iconic moment in state fiscal history, but the fiscal transformation enacted this year is unprecedented in scale, scope, and risk than anything Minnesota has embarked on before.

"A single courageous state may, if its citizens choose, serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."

— U.S. Supreme Court Justice Louis Brandeis

If Justice Brandeis were alive today, he might observe that as a "laboratory of democracy," Minnesota in 2023 had all the Bunsen burners turned to their highest possible setting and the beakers bubbling over. Courageous and monumental to some, impudent and "bonkers" to others, what transpired this year was not just a reactive mixture of targeted tax cuts, tax increases, and spending increases. It was arguably a transformation of state government greater in scale and scope than anything else in Minnesota history. But although the outcomes of this year's experiment may hold the rest of the nation harmless, the same cannot be said about the state and the implicitly greater fiscal risk it has now assumed to realize the outcomes it hopes for.

The Big Picture

According to Senate Fiscal, projected FY 24-25 General Fund spending (excluding impact of revenue changes within budget areas) is $69.5 billion. This "appropriations perspective" on the general fund budget represents biennium-on-biennium spending growth of $17.7 billion or 34.2%. It includes a considerable amount of one-time spending as reflected in a projected out-biennium (FY 26-27) expenditure total of "only" $64.4 billion excluding inflation. Relative to the February forecast, which reflects current law spending growth had we done nothing this session, FY 24-25 spending is up 28.6%.

Revenue increases have an "eye of the beholder" aspect to them. Tax increases in all state funds total $2.85 billion in FY 24-25. Various fee increases add about another $100 million to that total. The $10.2 billion that has been cited is comprised of all taxes and fee revenue increases over the next two biennia and includes the start-up payroll tax for the new state paid family and medical leave program. (Reporting just the next biennium total has been the normal practice with the implicit recognition that any tax increase, like any spending, is going to have tails in the years ahead. But because of the delayed implementation of the payroll tax, lawmaker interest in reporting projected fiscal 26-27 tax revenues as part of the session results is understandable.)

The accompanying table presents how budget areas fared in the appropriations process. As the last column indicates, lawmakers embarked on a policy that might be described as "no agency left behind." Lawmakers' special

Table 1: FY2024-25 General Fund Spending, February Forecast and Appropriations As Enacted **

Budget Area	FY 24-25 Feb Forecast (current law)	FY 24-25 As Enacted	Enacted vs Feb Forecast	
			Amount	Percent
E-12 Education	21,301,549	23,867,149	2,565,600	12.0%
Higher Education	3,505,828	4,155,828	650,000	18.5%
Health and Human Services	17,814,454	20,309,473	2,495,019	14.0%
Jobs, Commerce & Labor	301,547	1,299,504	997,957	330.9%
Commerce and Consumer Protection	282,375	293,705	11,330	4.0%
Agriculture, Broadband & Rural Devt.	171,392	312,278	140,886	82.2%
Housing	115,596	1,065,596	950,000	821.8%
Environment & Energy	360,466	1,172,032	811,566	225.1%
State Government & Elections	1,122,889	1,587,983	465,094	41.4%
Veterans and Military Affairs	250,286	382,430	132,144	52.8%
Transportation & Public Safety	271,460	1,318,798	1,047,338	385.8%
Judiciary & Public Safety	2,676,504	3,530,030	853,526	31.9%
Property Tax Aids and Credits	4,434,615	5,407,485	972,870	21.9%
Debt Service & Capital Projects	1,461,248	2,536,007	1,074,759	73.6%
Miscellaneous		1,537,330		
Cannabis	0	144,415		
Paid Family Leave	0	668,321		
Sick and Safe Time	0	4,254		
Stadium	0	-60,303		
Total Spending	**54,070,209**	**69,532,315**	**15,462,106**	**28.6%**

** Excludes offsetting tax and non-tax revenue
Sources: Overview of General Fund Budget, End of 2023 Session Minnesota Senate CRFA; Calculations by MCFE.

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Fiscal Focus (USPS 519130) (ISSN 1042847X) published Bi-monthly in February, April, June, August, October & December by the Minnesota Center for Fiscal Excellence, 85 East Seventh Place, Suite 250, St Paul, MN 55101.

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emphasis on transportation, housing, and public safety this session are clearly evident, while the two general fund budget behemoths – education and health human services —feature comparatively modest percentage changes that belie the scale of new spending and investment. Perhaps the most curious feature is the $1.5 billion of spending categorized as "miscellaneous" somehow falling outside the purview of committee finance areas.

"Historic" was one of the words used to describe this session's results. Throughout the session, the Minnesota Miracle of 1971, a venerated moment in state history that had a transformative impact on state government finance, was routinely invoked to capture the ambition and spirit of the DFL's 2023 policy agenda. To offer some additional perspective on what transpired this session, we take a look at how the scale, scope and risks of these efforts compare.

Scale: Over 100% More Miraculous

A biennial session launched by a Governor's budget proposing biennium-on-biennium state spending growth of over 35%. Public concerns about the state of education funding and equity in the distribution of state support for both schools and local governments. Taxpayer frustration over rapidly rising property tax burdens. A large portfolio of proposed tax increases described by lawmakers as "reckless" reflecting "exploding progressivity" that would "devastate the economy." Single party control of both legislative bodies with a 70-64 margin in the House and a precarious 34-33 margin in the Senate.[1]

This describes the situation in early May, 1971. About 170 days and two special sessions later the reform which came to be known as the "Minnesota Miracle" was signed into law. The circumstantial parallels surrounding both efforts are striking, but Table 2 shows the scale of the respective efforts is quite different.

Today's enacted biennium on biennium state spending growth is over 3 times as large as the Minnesota Miracle. Adjusting for state population growth, it is still over twice that of its predecessor. Remove the one-time spending, and spending growth per capita is still roughly 40% greater.

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The Minnesota Miracle did raise a lot more state taxes – about 50% more on an adjusted dollar basis. That's because the Miracle had nothing close resembling the same fiscal tailwind in 1971. The Miracle's $30 million ($225 million in today's dollars) of available resources entering the 1971 session represented about 1.4% of the previous biennial budget whereas available resources entering this session represented about 36% of FY 22-23 spending. Importantly, it included about $6.6 billion in positive FY 24-25 structural balance (i.e., not "one time money").[2]

Scope: Turbocharging "Wagner's Law" at the Subnational Level

The larger scale of effort indicates a larger scope of effort. The purposes of the Miracle legislation was essentially threefold: 1) improve equity in school finance, 2) ensure equitable access to essential local government services across the state, and 3) address the statewide anger against rapidly rising and unaffordable property tax burdens. All three objectives were addressed by substituting new state revenues for property tax revenues and thereby having the state assume a greater role in financing schools and local governments. The Miracle was primarily about the redistribution and funding of existing government service responsibilities, not more spending per se. As Governor Anderson stated in his budget address to the Legislature in early 1971, "First, the plan does not increase total spending on elementary and secondary education beyond present estimates of those costs for the next two years. Instead, it develops a system to finance those costs that does not rely so heavily on property taxes."

Recommitting to the Miracle's purpose and responsibilities was a major objective this session as reflected by the significant bumps in both Local Government Aid, County Program Aid, other local aids, and school funding. But the majority of this year's spending reflects a "law" of public finance attributed to a mid-19th German economist named Adolph Wagner who observed how the economies of in-

Table 2: Fiscal Comparison (In 2023 dollars)

	Minnesota Miracle	2023 Session
"Surplus" Entering Biennium	$225 million	$19.0 billion *
Spending Growth (biennium on biennium)	$5.71 billion	$17.7 billion
Spending Growth per Capita (biennium on biennium)	$1,475	$3,036
Revenue Increases (next biennium only)	$4.2 billion	$2.8 billion - $2.9 billion **

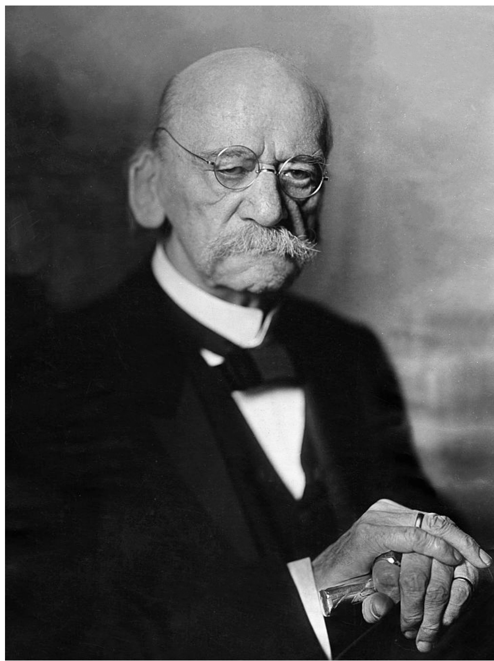
* New government accounting representations notwithstanding, the indisputable fact is the state had $19 billion of available resources in the form of cash in hand plus projected biennial revenues in excess of projected biennial expenditures to address expenditure inflation in any way lawmakers felt necessary to do.

** The lower end includes only tax increases; the upper end includes all new revenue sources including fee increases supporting services outside of the state General Fund

Sources: MMB 2023 February Budget Forecast; Senate and House Fiscal tracking sheets; "Miracle: A Roundtable Discussion," Minnesota Historical Society, Winter 2007-2008; "Anderson Hopeful on Tax Crisis: Governor-Elect to Explain Needs." Minneapolis Tribune, January 1, 1971. MMB Historical Expenditures: General Fund and All Funds. Calculations by MCFE.

1 As reported in "Miracle: A Roundtable Discussion," Minnesota Historical Society, Winter 2007-2008. The difference is, unlike today, the state had divided government with the modern day DFL controlling the executive branch. Technically, there were no parties, just conservative and liberal caucuses. The 70-64 House margin existed for a period during the session upon the passing of a legislator; a subsequent special election in mid-May made it 70-65. And the 34-33 majority was really 33-33-1 with an independent caucusing with the conservatives. But the historical parallels were too interesting not to note.

2 See footnote to Table 2.



"I'm looking at you, Minnesota"
Adolph Wagner (1835-1917)

dustrialized countries transformed over time. "Wagner's Law," otherwise known as "the law of expanding state activity," states that as a state's economy and personal income grows, so too will the size of the state relative to the size of the economy because of increasing political pressure to advance what Wagner described as "social progress" such as welfare functions and regulatory actions.

This session might best be described as "Miracle Plus" – in which the state embarked on an expansive set of spending, tax, and regulatory initiatives to address societal concerns and welfare functions on top of recommitting to existing Miracle obligations. The number of new programs and initiatives enacted this session across all areas of government likely would have caused the notoriously curmudgeonly Wagner to break into a "I told you so" smile. Some examples include:

- New state insurance program for paid family and medical leave
- Free school lunches
- Free college tuition for families with incomes under $80,000.
- A state-sponsored retirement program for private-sector employers without retirement plans
- Expanding the publicly subsidized health insurance program to undocumented immigrants
- New state housing voucher program
- Extension of unemployment benefits to hourly school workers during summer break

The pursuit of welfare outcomes was also the driving force behind tax policy decision-making. Reducing child poverty and addressing income inequality were the primary objectives behind this year's tax changes. Minnesota's refundable working family credit, already one of the most generous and accessible in the nation, has eliminated income tax liability for many state households. The credit now features a major additional boost with the inclusion of a coordinated supplemental child tax credit targeting lower-income households. The transformation of the renter's property tax refund — also among, if not the most, generous in the nation — into another refundable income tax credit also supports these objectives.

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Session outcomes also include a significant expansion of the state's administrative and regulatory footprint. They include a new sick and safe time mandate, ban on restrictive franchise agreements, a variety of new permitting and reporting requirements, building code changes, new workplace standards and definitional changes, and limitations on permissible communications in the workplace. As one veteran lobbyist remarked to us, "while this session will be remembered for increasing state spending by more than 30 percent it will also be remembered for a striking expansion of the state's authority to regulate certain segments of the economy. These are well-intentioned laws that will likely have many unintended consequences."

During the legislative session, the DFL appeared indifferent, if not dismissive, of concerns about potential economic consequences arising out of the scope of this year's "Wagner-esque" agenda. However, a recently released study found Minnesota ranks 10th out of 12 Midwest regional states in new and expansion projects per capita. The study also found Minnesota-based companies are expanding in other states at a higher rate than out-of-state companies are expanding in Minnesota resulting in a net investment deficit of $6.6 billion in capital expenditures.[3] While this session's spending and investments may strengthen the state's economy in several ways, these findings suggest that some overconfidence already exists in the irresistibility of the value proposition offered by the state's tax levels, spending activities, and general business climate.

Risks: A High Wire Act of Fiscal Responsibility

How fiscally responsible and economically sustainable are the results of the 2023 session? The long-term budget numbers are already flashing a couple of red indicator lights. According to Senate Fiscal, end of session tracking, expenditures in the out-biennium (FY 26-27) are expected to exceed revenue collections in that biennium by almost $500 million. If inflation is included, that structural deficit swells to $1.34 billion. Making several of the new tax increases effective for payable tax year 2023 rather than tax year 2024 prevented the state from having to report a projected budget deficit for the out-biennium. The margin the state has for dealing with an economic downturn is thin, especially with a reserve currently funded to accommodate a biennial budget about 25% smaller than what now exists.

The Minnesota Miracle itself is a case study of how big ambitions can result in ongoing fiscal challenges. Lawmakers and local government stakeholders have criticized the state for ab-

3 "2023 State of Business Retention and Expansion in Minnesota" Minnesota Chamber of Commerce

dicating its commitment to supporting local governments as evidenced by general purpose aid appropriations that have been largely stagnant over the past 20 years. That is because the state's own service delivery responsibilities and programs have grown and competed intensely for resources. The same dynamic applies to a lesser extent with school finance (although the state still pays more of the share of school district operating costs than after the Miracle was enacted.) As former state Finance Commissioner Jay Kiedrowski remarked several years ago, "The Minnesota Miracle has been diminished, if not eliminated. If I was a betting man, I'd bet that there would be reduced local government aid for cities and counties into the future as human services costs go up."[4]

In 2023, lawmakers have attempted to restore the state's commitment to the ideals and purpose of the Miracle while also committing billions to new program expenditures, making already daunting general fund competition even more formidable. The fiscal exposure is further magnified by $3 billion of refundable and non-refundable income tax credits, exclusions and exemptions over the next four years which have concurrently narrowed the income tax base. Compared to local aids and other appropriation adjustments, these tax features are much more politically difficult, if not impossible, to reverse should budget circumstances require. The question deserves to be asked, if the Minnesota Miracle has proven to be a challenge to adequately finance over the years, how confident can we feel about the prospects for "Miracle Plus?"

The degree of fiscal risk the state has now assumed will also be influenced by the answers to some questions:

How reliable and dependable are the state's offsetting revenue raisers? – Minnesota's new targeted tax relief/income tax redesign replaces the least volatile sources of state income tax revenue – salaries, wages, and Social Security income – with the most volatile sources. According to an analysis by MMB, corporate profits are a little over 3 times more cyclically volatile than salaries and wages. Net capital gains are over 12 times more cyclically volatile than salaries and wages. That is just from fluctuations in economic cycles and does not include potential timing and realization effects – the ability of taxpayers to defer realizing gains until they die or move to another state. Relying on these income streams to finance permanent tax credits and large spending increases is a precarious strategy.

If a single $1 million married filing jointly household would leave the state, 22 new families with two dependents at the $100,000 income level would be needed to make up for just the lost income tax revenue.

It remains to be seen if the actions taken this session meaningfully accelerate outmigration rates of high-income households. But we can say with certainty that fiscal impact of any high-income earners that do leave will be magnified – especially with state government reliance on individual income taxation at an all-time high. Based on our most recent individual income tax comparison study (TY 2018), if a single $1 million married filing jointly household would leave the state, 22 new families with two dependents at the $100,000 income level would be needed to make up for just the lost income tax revenue. That "replacement ratio" will increase going forward.

How much of the new spending from "one time money" turns out to be really "one time?" In this year's tug of war between one-time tax relief and one-time spending, one-time spending was the clear victor. A lot of it is linked to federal matches, capital projects, needed technology upgrades, and other special projects for which the use of one-time money is ideally suited. At the same time the 2023 session has also established a plethora of new grant programs, pilot projects, and related initiatives across government. Over the next two years program advocates and constituencies will inevitably form resulting in political pressure for their continuation and/or scale-up.

How will government labor contract negotiations shake out? Contract negotiations are underway across the state, and a historic budget combined with historic recent inflation is likely to result in historic asks by government employee unions at the local government, school, and state level. The results of these negotiations will influence how far new aids and resources go and how labor cost trajectories change. Longer term consequences include impacts on government pension systems as changes in payroll growth assumptions result in higher employer contribution requirements.

Is the state's program management and evaluation infrastructure and human capital system up to the tasks at hand? Minnesota's past experience in launching major new state programs has not exactly been stellar, and based on numerous recent OLA reports, state accountability, oversight, and internal control systems have often been found to be lacking. Nor is government immune from state workforce shortages and challenges in accessing needed talent. Embarking on the greatest expansion of government programming in state history raises the stakes in being laser-focused in pursuing productivity, accountability, and efficiency improvements to keep costs from exploding.

In 1971, Minnesota state government permanently became the central player in government service delivery. In 2023 Minnesota state government has taken on the responsibilities of many of the redistributive and regulatory activities traditionally left to national governments that are far less exposed to border effects. The 2023 session checks the boxes of "historic," "consequential" and "transformational," but "fiscally responsible" and "economically sustainable" remain blank at this time.

Will Minnesota's experiment be a model for 21st century governance in other states, a case study in economically damaging political hubris, or something in between? We are on our way to finding out. ■

Unfinished Business?

The 2023 legislative session was productive in any sense of the word, but not every issue acted upon this year resulted in a sense of closure. Three notable fiscal policy issues: senior taxation, local sales tax authority, and teacher pensions promise a return to a legislative theatre near you in the years ahead.

4 "Minnesota Scrutinizes 40-year-old 'Miracle'" Minnesota Public Radio, December 23, 2011

The Rabbit Hole of Senior Tax Relief

"Would you tell me, please, which way I ought to go from here?"

"That depends a good deal on where you want to get to," said the Cat.

"I don't much care where," said Alice.

"Then it doesn't matter which way you go," said the Cat.

"So long as seniors get tax relief," Alice added.

"Going down the rabbit hole" is defined as "entering into a situation that is particularly complex, especially one that becomes increasingly so as it develops or unfolds." This superbly captures the substance and the politics of a centerpiece of this year's tax debate — the proposal to fully exempt Social Security income from state taxation — and the complicated equity problems that result when choosing to provide income tax relief based on how people get their income.

As we have frequently discussed, a full exemption of Social Security income really doesn't have a principled policy leg to stand on. That fact is politically irrelevant. Possession may be nine-tenths of the law, but politics and perception is 99% of Social Security tax policy. Which is why this year's result — a significantly expanded exemption, but now based on household adjusted gross income to make its taxation more understandable and transparent, is the best outcome that could have been put together given the political environment. However, this solution does not address the cascade of "what abouts" and fairness problems arising among seniors whose income composition and profile differ in any number of ways.

This session the legislature addressed one "fair treatment" complaint triggered by excluding Social Security income – government retirees whose pensions are not coordinated Social Security and do not receive Social Security benefits. That still leaves out seniors reliant on smaller taxable private pensions and/or those who must continue to work part time to supplement smaller amounts of Social Security income. The latter appears to be a growing demographic. According to the U.S. Department of Labor, the number of people ages 65 and older working or seeking work has increased by 144 percent in the past 20 years.

The definitive guide to Senior Taxation in Wonderland can be found in a post entitled "Bad Policy Breeds Bad Policy" by former House Research tax guru Joel Michael on his state and local finance and tax blog, SALT Speak. (As an aside, his blog is an absolute must read for anyone interested in gaining a better understanding of the topics, issues and complexities surrounding government taxation and finance. Agree or disagree with his analysis and takes, you are guaranteed to be a lot smarter for the visit.) In his post, he notes that Minnesota now has four different overlapping but uncoordinated special income tax preferences for seniors. He offers an alternative approach to address senior relief in a way true to treating income equals equally.

Minnesota now has four different overlapping but uncoordinated special income tax preferences for seniors.

Disassembling and reassembling senior tax policy is a highly unlikely undertaking in the next legislative session. That's especially true since many legislators have declared the full exclusion unfinished business and a priority agenda item for the future. Lawmakers will likely hear a lot from wealthy senior households about this. Not just because these households are being shut out of Social Security tax relief, but also because it's likely to be seen as the cherry on top of a 2023 tax increase sundae comprised of a bigger phase out of their standard and itemized deductions and a new net investment income tax. Whether this issue continues to have legs with the average (and for that matter, well above average) senior household will be a function of both their awareness of the changes and, more significantly, candidate willingness to educate them on it.

Options for Local Options

This year's tax conference committee discussion and report addressed several controversial elements, one of which was the fate of nearly three dozen municipal local option sales tax proposals. While the Senate included these requests in their omnibus bill, the House saw these provisions as an affront to state equalization objectives and interests and refused to hold a committee hearing on them. The final tax bill authorized all new local sales tax proposals for the required local referenda vote, but also established a two-year moratorium on such provisions.

In the interim a new Local Taxes Advisory Task Force, has been established to take a closer look at the role of local sales taxes as a funding mechanism for city and county governments going forward. Consisting of a representative from the League of Minnesota Cities, the Association of Minnesota Counties, plus four members of the public appointed by Revenue Commissioner Marquart, the task force is charged with identifying objective evaluation criteria and processes for local general sales tax proposals, as well as for other special local sales taxes like food, beverage, and lodging. The explicit exclusion of any legislator participation on the task force is interesting and a departure from similar tax task forces in the past, perhaps in recognition of strong political opinions and predispositions on this issue.

This task force is not limited to an investigation on improving rigor and consistency regarding the "regional significance" hurdle that current law requires. The language requires a reconsideration of the requirement itself, opening up the possibility of policy alternatives to the "project-by-project" approach now in place. The language also requires the task force, in developing its recommendations, to consider interactions with general purpose aids and local property tax capacities. In short, the work product has the potential to be a proposed restructuring of local finance policy – an immense task for a small group whose report is due before the start of the 2024 session.

As this session demonstrated, commitment to state equalization efforts remains strong but so is the hunger for local revenue diversification. The ability to export tax burden is often cited as a primary motivation behind the interest. However, the significantly lower visibility and salience of sales taxation compared to the unpopular property tax, the ability to link the use of sales tax dollars to a specific purpose or tangible outcome thus increasing public acceptance, and the ability to pay for the effort without competition from within the regular

budgeting process are other factors influencing its popularity. The success rates of local option levy referenda are a testament to this. Whether local option taxes to fund general government operations would feature similar public support is an open question.

Uneven revenue raising ability from sales taxation across the state is understandably a chief concern among those opposed to granting greater local authority. But e-commerce and its taxation has now introduced an interesting twist to this issue. A recent national study examining the effect of e-commerce on the geographic distribution of local sales revenues found that as e-commerce increases, a destination basis for remote sales taxes results in higher growth in local sales tax collections in smaller, generally more rural jurisdictions.[5] Hand collecting revenue data from state revenue departments over the 2015-2021 time period, researchers found long term sales tax growth rates were 6.6 percentage points higher in small jurisdictions than the growth rate prior to the pandemic, accounting for influences like tax base growth, tourism effects, federal stimulus, and mobility. In contrast, long term sales tax revenue growth rates in larger jurisdictions were 1.6 percentage points lower than the growth rate prior to the pandemic.

The researchers conclude, "increases in online shopping disproportionately benefit smaller jurisdictions," and that e-commerce "can act as an equalizer of sales tax revenue by eroding the fiscal benefits of large retail agglomerations." Moreover, with regards to equity concerns, the authors observe, "if rural residents are lower income and those jurisdictions have lower taxes, a switch from physical to remote goods may lower the regressivity of the sales tax."

"increases in on-line shopping disproportionately benefit smaller jurisdictions," and that e-commerce "can act as an equalizer of sales tax revenue by eroding the fiscal benefits of large retail agglomerations."

[5] Agrawal, David R. and Shybalkina, Iuliia, Online Shopping Can Redistribute Local Tax Revenue from Urban to Rural America (April 1, 2022). Available at SSRN: *https://ssrn.com/abstract=4110193* or *http://dx.doi.org/10.2139/ssrn.4110193*

A 2021 report from the Center for Rural and Policy Development in Mankato largely echoes these findings here in the state.[6] This investigation found significant declines in the number of retail establishments in all areas of the state since the mid-2000s with the most severe declines occurring in the most rural areas of Minnesota which have lost nearly 25% of such establishments. Yet Minnesota results "align with ongoing research across the nation showing that commercial and retail sectors have felt significant impacts from the growth of online sales but those impacts haven't translated into negative impacts for governments in terms of revenues." Evidence also appears to support the national findings of benefits of e-commerce taxation accruing disproportionately to Greater Minnesota with this authority. In examining communities with the longest histories on having local option sales taxes, researchers found the seven-county metro area trails all other regions of the state in the percentage increase change in local option sales tax revenue since implementation.

Still, an investigation into changes in local sales tax authority will need to take tax exporting realities into consideration. That starts with a better understanding than exists today of how local sales tax bases differ across the state and what can be done to address state equalization concerns. One approach would be to incorporate local sales tax capacity into the LGA formula as part of the "need-capacity" gap calculation. For suburban communities who do not receive general purpose aids but have the potential to export large amounts of tax to non-residents because of their retail base, some kind of power equalization formula element may be necessary whereby the state retains some of the local taxes collected for redistribution to lower tax base cities. All of this would add complication to an aid formula that was just modified this session.

[6] "Amazon Effect and Rural Tax Revenues," Asche, Linschield and Pesch, Center for Rural Policy and Development, November, 2021

Even with the new 14% increase in LGA and 30% increase in County Program Aid enacted this session, it is doubtful the pressure to expand local option sales tax authority in any form will be ameliorated. General public antipathy toward property taxation is too strong, now exacerbated by leveraged and declining commercial property values sloshing onto homeowners. At the same time there would likely be considerable pushback to additional equalization measures as a condition of expanding local option sales authority. Political accountability and the disadvantages of the current law approach are other important considerations. It's a complicated issue, but task forces and moratoriums notwithstanding, it's an issue that is not going away.

Teacher Pensions: Equity Pursuit Results in New Inequity

Thanks to its $176 million share of one-time money for pension support, additional employer and employee contributions, a last-minute increase in pension adjustment aid in the tax bill, and a fresh 30-year amortization period, the Teachers Retirement Association was successful in making the complicated math work to knock a year off from when its members can retire with full benefits from 66 to 65 (effective July 1, 2025). It doesn't create equity with teachers hired before 1989 who operate under the "Rule of 90" but it's a small step in that direction.

In 1994, when direct aid payments began, SPTRFA's funded ratio was 68.3%. In FY 2022 with employee and employer contribution rates 63% and 107% higher respectively, it was 68.7%.

Meanwhile, lawmakers did pass an early retirement provision for St. Paul Teachers enabling

teachers in that system to retire with full benefits at age 62 with 30 years of service. It's an interesting achievement since the plan is facing the same cost increases from enacted discount rate reductions as state plans, and based on the most recent valuation report the plan has only 69 cents in assets for every dollar of benefits already earned – second worst of any plan in the state.

How does the math work to support a major benefit increase in that condition? Part of the answer is that SPTRFA members and the district will be contributing more in the future to make it happen. The employee contribution of 9% percent of total salary on July 1, 2025 will be 1 percentage point higher than employees contribute to TRA, while the employer contribution rate will be 4.59 percentage points more than what other districts contribute to TRA. Employer and employee contributions alone for pension support will then constitute 22.59% of salary.

But the answer also lies in the amount of state support the district receives. Based on the most recent valuation report, 19.9% of SPTRFA contributions come from state pension aids versus only around 4% for TRA. The district will also receive its proportional share of one-time direct pension aid from the pension budget bill ($15.7 million, doubling the amount of direct state aid it now receives annually) plus its share of the nearly $100 million in new "pension adjustment revenue" included at the last minute in the tax bill. Put it all together and the money coming in now and in the future is deemed sufficient to not only pay for pension benefits employees will earn over the next year and pay off the plan's unfunded liabilities in the established time period (2048), but also make an early retirement benefit mathematically and actuarially feasible, at least on paper.

Why the difference in state support compared to TRA? It's because the state is still paying for the funding sins of decades past. For almost two decades after transitioning to the plan to being coordinated with Social Security, the state essentially stiffed the district on making necessary supplemental contributions that other transitioned state coordinated plans were receiving.[7] Since 1994, four pieces of legislation have increased St. Paul Teachers annual direct aid appropriation to its current level of $15.7 million per year to address the underfunding that resulted. If there is a cautionary tale regarding the sustainability of enacting a major benefit increase in a significantly underfunded condition, it might be seen in the results obtained from almost three decades of this remedial effort. In 1994, when direct aid payments began, SPTRFA's funded ratio was 68.3%. In FY 2022 with employee and employer contribution rates 63% and 107% higher respectively, it was 68.7%.

Be that as it may, TRA members, already less than satisfied with the session's outcomes, can certainly be expected to flag this new inequity and question their legislators about the disparate treatment in state support for their pension plan. Legislators probably should not expect the phone calls and emails to abate anytime soon. ■

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[7] As reported in *Minnesota Teacher Fund Consolidation Study*, December 13, 2013. Prepared as mandated by the legislature by the Duluth Teachers Retirement Fund Association, St. Paul Teachers Retirement Fund Association, and Teachers Retirement Association of Minnesota.