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| **Name** | **Contact** | **Title** | **Status** |
| Nina Manzi | Nina.Manzi@house.mn 651-296-5204 | Legislative Analyst - Research Department |  |
| Dave Senf | david.senf@state.mn.us | Labor market analyst |  |
| King Banaian | kbanaian@stcloudstate.edu | Professor of Economics, Dean of School of Public Affairs, St. Cloud State University |  |
| Dr. Emilia Istrate | research@naco.org | Managing Director, Counties Futures Lab |  |
| Neal Young | neal.young@state.mn.us 651-259-7196 | Economic Development & Programming |  |

Hi Nina,

Thanks again for sharing this data with me. I have some questions about it, if you don’t mind.

-Jeff

Hi Nina,

I have a couple more questions, if you don't mind. This time it's about the distribution of major aid types:

1.) So as people's incomes recover with the economy and therefore pay more taxes, how does that impact or not impact the amount of aid paid out to counties?

2.) What are the primary drivers behind non-metro counties receiving more aid per capita (for certain types) than metro counties?

Any insights are greatly appreciated. Thanks!

-Jeff

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| Nina Manzi |  | Email |  |  |

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| **Question** | **Answer** |
| 1.) Is it fair to say that there's still a disparity between metro and outstate counties when it comes to taxes paid per capita? Has this balance changed in any significant way since the release of the 2010 data? | Per capita taxes with the 2012 data were $3,280 in the metro, and $2,218 in the non-metro. The differences are driven largely by the individual income tax, and to a lesser extent by the sales tax , corporate franchise tax, and state general property tax. Motor fuels tax goes the other way, and is higher in the nonmetro.  With the 2013 data, taxes per capita were $3,540 in the metro and $2,368 in the nonmetro, which is a slightly bigger gap, with the same drivers as far as the taxes go.  Minnesota has a progressive individual income tax, with four graduated rates. Higher income filers pay a larger share of their income in tax than do lower income filers. Appendix C of the actual report, available at [http://www.house.leg.state.mn.us/hrd/pubs/msa2017.pdf](https://owa.startribune.com/owa/redir.aspx?C=EEzwDc0-hMwfJ77gdrXlYdFacWQsIiz40j8jHWXAZcmemtlHXofUCA..&URL=http%3a%2f%2fwww.house.leg.state.mn.us%2fhrd%2fpubs%2fmsa2017.pdf" \t "_blank)  shows that in 2013 per capita personal income was $51,126 in the metro, and $38,593 in the nonmetro. So what is going on with the individual income tax is that overall people in the metro have higher incomes than do people in the nonmetro, and the higher per capita individual income tax amounts reflect that. The higher sales tax reflects that people with more income consume more taxable goods, the corporate franchise tax that economic activity measured by sales by businesses (used to apportion the corporate tax), and the state general levy that business property is more valuable in the metro than in greater MN.  So, focusing on the individual income tax, the "disparity" between per capita income taxes paid by metro residents relative to those who live in the non-metro is an artifact of the policy decision to have a progressive income tax that applies higher rates to individuals who policymakers have decided have a greater ability to pay the tax. |
| 2.) Is it accurate to say that taxes have risen significantly since the 2010 iteration of this data? | With regard to #2, the individual income tax is once again driving things. In this case, the nation and Minnesota have emerged from a recession. The recession depressed income and income tax revenues, and now that it's over income tax revenues have increased. In this case it's not so much that the government has raised taxes, as that overall incomes have risen and income taxes have followed along.  With regard to both #1 and #2, note that the individual income tax makes up nearly half of all the tax revenues in the report, so changes from one year to the next follow what's going on with the economy, while differences between regions reflect differences in income between regions. |
| 1.) So as people's incomes recover with the economy and therefore pay more taxes, how does that impact or not impact the amount of aid paid out to counties? |  |
| 2.) What are the primary drivers behind non-metro counties receiving more aid per capita (for certain types) than metro counties? | I don't know if I previously referred you to this presentation, which I made to a Citizen's League working group last fall:  http://www.house.leg.state.mn.us/hrd/issinfo/MSApresent16.pdf  It discusses some of the metro/non-metro issues with regard to both aids and taxes.  More to your questions, the taxes in the report are all on-going. The taxes persist from one biennium to the next and don't require legislative re-authorization to continue. Whatever revenue they raise goes into the state treasure -- the motor vehicle taxes are generally dedicated either statutorily or in the state Constitution to highway/transportation related funds, and the other taxes (income, sales, corporate franchise, state general levy) go to the general fund.  A few of the aid items are on-going and don't require biennial reauthorization (specifically, local government aid, county program aid, the homestead credit refund and renter property tax refund have ongoing appropriations). Most of the aid items are subject to appropriation in the state's biennial budget cycle.  So, when the economy recovers and tax collections increase, the state's economic forecast will show a positive balance. But whether or not the various aids go up will depend on the budget enacted by the legislature and the Governor.  The non-metro receives larger shares of local government aid, county program aid, community corrections funding, and property tax credits. Local government aid and county program aid reflect the ability of local governments to raise revenue relative to need as determined under statutory formulas. Metro area cities and counties generally have a greater ability to raise revenue than do non-metro cities and counties, largely because of differences in their property tax bases.  These publications describe the formulas for LGA and CPA  http://www.house.leg.state.mn.us/hrd/pubs/ss/sscpa.pdf  http://www.house.leg.state.mn.us/hrd/pubs/ss/ssnewlga.pdf\  My colleagues Pat Dalton (LGA) and Steve Hinze (CPA) would be better at answering specific questions you have about LGA and CPA.  I'm not sure why Community Corrections Funding is skewed toward the non-metro, but my guess would be that it varies based on the distribution of crimes. And it is close to 50/50.  Property tax credits, which at about $48 million are a relatively small portion of the aids/credits in the report, consist of specific credits targeted toward situations that are mostly outside the metro area -- $23 million is for the market value agricultural credit, which is tied to agricultural land, and $17 million of the $25 million in miscellaneous credits is for the taconite homestead credit, which is provided in the taconite relief area on the Iron Range.  My colleagues Steve Hinze (market value ag credit) and Steve Hinze or Chris Kleman (taconite homestead credit) can provide you with more background on those credits.  I hope this information is helpful. Please let me know if you have more questions. |
|  | This web page provides a basic description of the market value ag credit  [http://www.house.leg.state.mn.us/hrd/issinfo/mvcredit.aspx?src=21](https://owa.startribune.com/owa/redir.aspx?C=S9lOPWFlsdJK_nWVRk2P014EoA9HyuxZwNP9jw09ybW9w7-h5JPUCA..&URL=http%3a%2f%2fwww.house.leg.state.mn.us%2fhrd%2fissinfo%2fmvcredit.aspx%3fsrc%3d21" \t "_blank)  Major State Aids includes this description of the taconite homestead credit  The taconite homestead credit is the largest of the miscellaneous credits. Homeowners in the taconite tax relief areas, located in northern Minnesota on the Iron Range, receive a credit of either 57 percent of the net tax, capped at $289.80 per homestead, or 66 percent of the net tax, capped at $315.10 per household. The percentage of relief depends upon certain characteristics of the local jurisdiction, such as the value of the iron ore in the district, proximity to mines, etc. About two-thirds of the credit, $11.4 million, is paid from proceeds of the taconite production tax, while $5.3 million is paid from the state general fund. The portion paid from the general fund is referred to as the supplemental homestead credit.  If you have questions about these two credits, Steve Hinze would better be able to answer them than I. |
| Hi again Nina,  After many weeks I'm coming back to pursuing this, in a more focused fashion than before.  I've made some observations, and I'm wondering if I could get your thoughts on them? Is there anything I'm missing or seeing wrong? Anything that you would add?  a.) Per capita aid between metro and non-metro has nearly become the same ($2637 for non-metro, $2611 for metro).  b.) There's been about a 23 percent increase per capita taxes for non-metro counties between the 2014 and 2017 iterations of this report ($1920 to $2368). The metro increase was about 21 percent ($2914 to $3540).  c.) Something I've noticed both in your data and in BEA data is that many non-metro counties have seen significant percent increases in personal income, oftentimes much larger than in metro counties.  Do you think these datapoints might be pointing to some notable economic recovery in non-metro Minnesota counties? Perhaps matching or slightly outpacing metro area growth?  I've been seeing similar trends in median household income from the Census, and I talked to DEED about this yesterday and they had noticed some of these trends as well, but have yet to draw concrete conclusions as to what might be behind this kind of recovery in non-metro counties since the end of the recession.  Your insights, as always, are greatly appreciated. No immediate rush on anything.  Best,  -Jeff |  |

Steve Hinze, Legislative Analyst  
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Minnesota House of Representatives  
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Jeff,

I'm not sure what further information you might be looking for with regard to the market value agricultural credit and the taconite homestead credit, but here is a little more information about each.

Page 28 of this document: [http://www.house.leg.state.mn.us/hrd/issinfo/2017PropTaxHandout.pdf](https://owa.startribune.com/owa/redir.aspx?C=MEbO0tWbEtlMD6gDC0lBO_3-D-K5ANPLvVgxZCBlD2ZYC5Jq-pbUCA..&URL=http%3a%2f%2fwww.house.leg.state.mn.us%2fhrd%2fissinfo%2f2017PropTaxHandout.pdf" \t "_blank) has a little bit of an explanation of how the market value agricultural credit is calculated.  You could just about say it is a flat credit of $490 to any farm homestead worth at least $260,000 - agricultural homesteads worth less than $260,000 get a proportionately smaller amount.

As for the taconite homestead credit, it is a flat credit of about $300 to almost any homestead located in the "taconite relief area," which is a geographic area in NE Minnesota that encompasses all of Itasca, Cook and Lake Counties, all of St. Louis County except for Duluth and its suburbs, significant portions of Aitkin and Crow Wing Counties, and a sliver of Koochiching County.  Homesteads of less than $50,000 or so get a proportionately smaller amount. About two-thirds of the taconite homestead credit is funded with proceeds of the taconite production tax, which is a tax assessed against taconite producers in lieu of property taxes - the remaining one-third is paid by the state.

Let me know if you have further questions.

Steve

Hi Shane,

I’ve been looking at personal and median household income growth in Minnesota, especially since the end of the recession. Working with BEA and Census data, I’ve found that for both metrics since 2009, non-metro Minnesota counties have seen substantial income increases, often above the state average, while the metro counties have somewhat lagged by comparison. A lot of that larger growth seems to be in the western parts of the state.

I’m wondering if there’s someone at DEED willing to talk about these trends, and whether your department is aware of something similar or whether there are other things I need to consider?

Any insights are greatly appreciated. My deadline is Thursday of next week. Thanks!

Best,

Jeff

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| **Name** | **Title** | **Type** | **Date** | **Notes** |
| Dave Senf |  | Phone |  | 651-259-7410 |

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|  | The problem is how do you define  "I don't see where this economic strife is coming from with Trump"  They have more younger people working, but also older people, so that's balanced,  Transfer payments going up? But they're not, they're lower than urban  Negative value for a company? Negative in other areas. That all comes from taxes.  Could be older people  Farm income peaked in 2012  Working age populations are older. Farm |

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| **Name** | **Title** | **Type** | **Date** | **Notes** |
| King Banaian | Professor of Economics, Dean of School of Public Affairs, St. Cloud State University | Phone |  | 320-308-4797 |

Hi Professor Banaian,

I’m a reporter for the Star Tribune looking to write about economic recovery across Minnesota’s counties.

A couple years ago, I recall you spoke to MinnPost for a story about rural counties leading the post-recession recovery in Minnesota. I’m taking a much deeper dive into that based on some newer data, and I’m wondering what insights you might have for me as to how well Minnesota has recovered and what role Greater Minnesota has played in that recovery as compared to the Twin Cities metro area?

Is there a good time in the next couple weeks we could talk about these subjects?

Your time and thoughts are very greatly appreciated.

Best,

-Jeff

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| Introducing my trends, talking about faster rises in personal income, household income, shifts in taxes per capita, aid per capita. Wages have grown a bit faster too.  Ran it by DEED, they had seen some of these trends before, but only had some unofficial explanations so far.  What, in your view, could be driving this? | He confirms what I’m saying, they work with the MN SOS.  Sure enough, with the exception of Northwest Minnesota, it’s been pretty strong the long  At least within the last few years we’ve noticed that manufacturing has done reasonably well. Certainly here in Central Minnesota they had two or three really solid years. And that’s been helped by a steady economy. Low interest rates. It’s slowed down a bit, but it’s helped bolster the recovery.  Wages could be going up to keep the same workers. |
| Are there any pitfalls with suggesting that outstate could be recovering faster than the metro? | Might be picking up people moving to Minnesota. Minnesota has always been a relatively attractive destination for new Americans. I wonder if those numbers are being depressed by new people moving into the metro.  Speculation on Northwest: that area is most impacted by what’s happened in North Dakota.  Talk to Neil Young with DEED. |
| Mentioning DEED explanations | About ag: southwest went down a couple months ago.  Crayton: Ernie Gauss paper about this. Southwest Minnesota is a breadbasket, that’s the place you see corn. |

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| **Name** | **Title** | **Type** | **Date** | **Notes** |
| Dr. Emilia Istrate | Managing Director, Counties Futures Lab | Phone |  | research@naco.org |

Hi,

I’m a reporter at the Star Tribune newspaper in Minneapolis, and I’m looking to write a localized story about economic recovery in Minnesota referencing some of the findings in the fabulous County Economies 2016 report (<http://www.naco.org/resources/county-economies-2016-widespread-recovery-slower-growth>).

I’m wondering if there’s someone willing to lend their insights about economic recovery in Minnesota? I’m specifically wondering about the metro and rural divide, as I’ve been seeing a lot of rural counties recovering at faster rates than those in the cities.

My deadline is in a couple weeks. Anyone willing to lend their thoughts would be super useful to my reporting.

Any information or help is very greatly appreciated. Thanks!

-Jeff

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| **Name** | **Title** | **Type** | **Date** | **Notes** |
| Neal Young | Economic Development & Programming | Phone |  | neal.young@state.mn.us |

Hi Neal,

I’m a reporter at the Star Tribune. King Banaian at St. Cloud State mentioned you might be a good person to talk to about a story I’m working on.

Specifically, I’m trying to quantify the economic recovery of non-metro Minnesota counties since the recession. On many metrics, a large number of non-metro counties seem to have grown at faster rates than the metro and often above the state average. Those metrics seem to include personal income, household income, wages, home prices and a few others.

I’ve struggled to make sense of it. I’ve talked to Dave Senf and King Banaian and others. Each has acknowledged these trends seem to be real, but that solid explanations are harder to come by. They’ve given me some helpful unofficial theories of what might be driving Minnesota’s non-metro recovery.

I’m on the trail trying to figure out the best ways I could explain this to our readers, while also acknowledging that definitive answers aren’t necessarily possible.

So I’m wondering if you might have some additional insights for me? Specifically I’m wondering what role, if any, the North Dakota oil boom has played in Minnesota’s economic recovery, particularly out west, both since 2009 and in the present day?

Your time and any insights you might have for me would be truly invaluable to my reporting.

Might you have some time to talk sometime this week or next?

Hope yours was a great holiday.

Best,

Jeff Hargarten

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