

Citizens Jury[®] on Minnesota Property Tax Reform

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sponsored by
Minnesota Department of Revenue

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JEFFERSON CENTER
3100 West Lake Street, Suite 405
Minneapolis, Minnesota 55416
Tel: 612.926.3292
Fax: 612.926.3199
mail@jefferson-center.org
www.jefferson-center.org

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- Governor Jesse Ventura and Revenue Commissioner Matt Smith for their support of this project;
- The Advisory Committee members for their time and contributions to the project's development and planning;
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Project Overview

Minnesota's property tax system has long been the subject of study, scrutiny, criticism, and consternation from citizens, experts, and policy-makers alike. As part of an overall reform effort on behalf of Governor Ventura, the Minnesota Department of Revenue sponsored a Citizens Jury on Property Tax Reform as one alternative approach to the blue ribbon commissions usually appointed by governors in the past. The Department of Revenue wanted to hear from citizens about how they, the citizens of Minnesota, evaluated and recommended to change (or not change) Minnesota's property tax system.

Eighteen citizens from across Minnesota were chosen from a randomly identified Jury pool to serve as a representative microcosm of the state. During five consecutive days in August 1999, the Jury heard expert witness presentations on a range of issues and perspectives related to the property tax system. The Jury then deliberated together to develop recommendations about property tax reform.

In addition to providing the Governor, the Minnesota Department of Revenue, legislators, and the public with thoughtful recommendations about property tax issues, the work of the Citizens Jury will serve as a catalyst for tax reform discussions conducted by the Minnesota Department of Revenue with citizens in communities across the state.

The Citizens Jury is a unique process that allows decision-makers and the public to hear from citizens who are both informed and representative of the public. The process allows for considerable discussion and deliberation by the jurors to develop thoughtful and useful recommendations.

The Jefferson Center

The Jefferson Center is a non-profit, non-partisan organization located in Minneapolis, Minnesota. Established in 1974, the Center is committed to generating thoughtful citizen input on issues of public significance. The central focus of the Center is the Citizens Jury process, through which randomly selected and demographically representative panels of citizens meet for several days to examine public policy issues and present their findings to decision-makers and the public. To date, the Jefferson Center has conducted 27 Citizens Jury on a wide range of issues. The Jefferson Center offers a range of citizen input services, in addition to the Citizens Jury. *Further information on the Jefferson Center can be found in Appendix D.*

The Citizens Jury® Process

Citizens Jury is a registered trademark of the Jefferson Center.

The Advisory Committee

The Advisory Committee consisted of 10 individuals knowledgeable about the issues surrounding property tax reform and represented a variety of perspectives. They helped the Jefferson Center identify some of the key topics relating to property tax reform. They

advised the project in such areas as the Charge, agenda development, and witness selection. The Advisory Committee was interested in the integrity and fairness of the process, not in specific outcomes. They were also on alert for any bias in the project. *A list of Advisory Committee members can be found on page 21.*

Juror Selection

The process for selecting the Jury began with a telephone survey of adults living in Minnesota. The survey was conducted of 737 individuals using randomly generated telephone numbers, during the period of June 16-24, 1999. The respondents were asked, among other things, if they might be interested in participating as a juror. Interested individuals (385) were sent information about the Jefferson Center, the Citizens Jury process, and this project. They were asked to return a Juror Information Form if they were willing to participate in this project. All individuals who were sent information were entered into the pool of potential jurors. Eighteen jurors were then selected out of this pool to participate in the Citizens Jury project. The jurors collectively represented the state of Minnesota in terms of age, education, gender, race, geographic location, and taxpaying status. *A list of jurors and the demographic composition of the Jury can be found on pages 18-19.*

Witness Selection

Individuals knowledgeable about the issues relevant to property tax reform were selected to serve as witness presenters for the Citizens Jury hearings. They provided valuable background and advocate information pertaining to the issue. The expert witnesses represented a variety of perspectives and opinions concerning property tax reform. Together, they presented a balanced picture of the issue. *A complete list of the witnesses can be found on pages 22-23.*

The Charge

The Charge to the Jury outlined the Jury's focus and provided direction for the hearings. It informed the Jury of their overall goals and objectives for the hearings. In this project, the jurors were asked to respond to two questions. Their answers were based on the background and advocate testimony they received throughout the hearings. The Charge to the Jury was as follows:

1. What role should the property tax play in financing local governments?
2. What should be done to improve the property tax system? (i.e. how can the property tax be a "better tax?")

The Hearings

The agenda was carefully developed to provide the jurors with the necessary information to address the Charge questions. The basic form for each Charge question was to present the Jury with background information, and then to have several advocates present arguments for and against specific proposals. The agenda was constructed to address some of the main proposals that have been debated for years. Due to time constraints as well as other limitations, it was impossible to address and debate all possible ideas for change.

The hearings were divided into four parts: Overview & Tax Principles, Charge Question #1, Charge Question #2, and Deliberations. On Day One, jurors heard a general overview of the revenue system as well as participated in an exercise to identify “tax principles.” On Day Two, witnesses presented background information on local governments and the revenue sources available to local governments. Also on Day Two, advocate witnesses presented their thoughts on local government financing. On Day Three, the jurors received more detailed background information about Minnesota’s current property tax system and heard from witnesses advocating a range of reforms to the property tax system. On Days Four and Five, the jurors continued their deliberations and formalized their recommendations. All five days of the hearings were professionally moderated by Jefferson Center-trained moderators. *The agenda can be found starting on page 24.*

Recommendations

The Jury’s recommendations included their answers to the Charge questions. The recommendations were issued in an initial report on the final day of the hearings, Friday August 6 at 2:00 PM. The jurors presented their recommendations to Governor Ventura, Revenue Commissioner Smith, the public, and the press, and were given an opportunity to dialogue with those present about the process, the hearings, and their recommendations. The recommendations in both the initial report and this final report appear using language that the jurors themselves developed and approved. *The Jury’s recommendations can be found starting on page 4.*

Evaluation by Jurors

At the conclusion of this process, the jurors completed an evaluation of the project. A key question on the evaluation form asked the jurors to consider the overall integrity of the project. An overwhelming majority felt that the project was conducted in an unbiased manner, with thirteen indicating that they were either “very satisfied” or “satisfied” in this regard. *The results of the final evaluation by the jurors can be found on page 20 of this report.* The jurors were also given an opportunity to write a personal statement about the project for inclusion in this report. *These comments can be found on pages 16-17.*

Jury Recommendations

In responding to the two Charge questions posed to them, the Jury generated a set of findings and recommendations. These findings and recommendations appear in this final report as outlined below.

Charge Question #1: “What role should the property tax play in financing local governments?”

Recommendation Contents:

1. Local Government Revenue Sources
2. Recommendation Statements
3. Prioritized Principles for Financing Local Governments

Charge Question #2: “What should be done to improve the property tax system? (i.e. how can the property tax be a better tax?)”

Recommendation Contents:

1. Evaluation of the Current System on Principles
2. Prioritized Principles for Property Tax System
3. Evaluation of Reform Ideas
4. Strengths and Weaknesses of Reform Proposals
5. Recommended Improvements to the Current Property Tax System

Local Government Revenue Sources

In response to Charge Question #1, the Jury examined the average revenue "mix" for each level of local government. The chart below shows the current and recommended "mix" of revenue sources for each level. The numbers below are the *average percent of that local government unit's total budget that comes from each potential source of revenue*. The numbers below do not address the total budget amount or other spending concerns. Rather, they simply address *where* and *how* each level of government gets their funding, not *how much* revenue is spent or how revenue from a particular source is distributed *among* levels of government.

The Jury was presented with information about the general services each level of government provides, as well as the current "mix" of revenue sources. After significant group discussion and deliberation, each juror individually completed the chart below with the revenue mix that they, as individuals, recommend for each level of government. The average, high, and low values were then calculated. The arrows indicate whether the Jury's average value is an increase (↑), decrease (↓), or no change (—) from the current situation. In some cases, the sum of the averages for each level of government does not equal exactly 100%, due to averaging and rounding.

	City/Town			County			Schools			Metro/Regional		
	Current	Recom- mended		Current	Recom- mended		Current	Recom- mended		Current	Recom- mended	
Property Tax	33.2%		40 (high) 30 (avg) 22 (low)	41.9%		45 (high) 39 (avg) 30 (low)	29.2%		32 (high) 23 (avg) 10 (low)	25.9%		32 (high) 23 (avg) 12 (low)
Local Sales Tax	2.9%	—	11 3 0	0.0%	↑	10 1 0	0.0%	↑	10 1 0	0.0%	↑	10 2 0
Local Income Tax	0.0%		0 0 0	0.0%		0 0 0	0.0%		0 0 0	0.0%		0 0 0
Fees & Charges	40.0%	↑	49 41 25	26.7%	↑	30 28 20	2.7%	↑	15 5 0	53.5%	↑	61 55 50
State Aid¹	23.9%		39 26 15	31.4%		40 33 25	68.1%		80 72 60	20.6%		27 21 10
TOTAL	100%	100%		100%	100%		100%	100%		100%	100%	

¹ State Aid refers to monies collected by the state and distributed or transferred to local units of government. This includes state income taxes and state sales taxes.

Recommendation Statements

In response to Charge Question #1, **we recommend:**

- less reliance on property tax across the board.
- minimal changes in the use of local sales taxes.
- NOT to create a new tax in the form of a local income tax.
- state aid should play a greater role in funding schools.
- more reliance on fees & charges across the board.
- an increase in state aid due to increasing state mandates.
- a direct connection between fees & charges and the services.

Through this process, there has been a realization that by reducing property tax, there is a shift to other taxes (local sales, fees & charges, and state aid) but we are hesitant to add any new taxes.

After the education that we have received, we understand the importance of educating the public about property taxes and the related issues.

Prioritized Principles for Financing Local Governments

The jurors were given an opportunity to prioritize the principles for each level of local government. They were asked which principles are most important when determining the distribution of revenue sources for financing local government. Each juror was permitted to list as many principles as he/she felt were most important for each level of government. Their prioritized principles for financing local governments are shown below. The numbers in parentheses indicate the number of jurors who listed that particular principle as important for that particular level of local government. *The definitions of the tax principles used by the Jury can be found in Appendix A.*

City/Town:

1. Fair (12)
2. Accountable (9)
3. Reliable (5)
4. Administrative Efficiency (4)
- T¹-5. Simple & Understandable (3)
- T-5. Visible (3)
7. Competitive (1)

County:

1. Accountable (12)
2. Fair (11)
3. Reliable (6)
4. Visible (4)
5. Simple & Understandable (2)

Schools:

1. Fair (11)
2. Accountable (10)
3. Reliable (8)
4. Visible (4)
5. Simple & Understandable (3)
- T-6. Administrative Efficiency (1)
- T-6. Competitive (1)

Metro/Regional:

1. Fair (14)
2. Accountable (7)
3. Administrative Efficiency (4)
4. Visible (3)
- T-5. Reliable (2)
- T-5. Simple & Understandable (2)
- T-5. Competitive (2)

¹ The "T" indicates that there was a "tie" for those particular principles. They received the same number of votes.

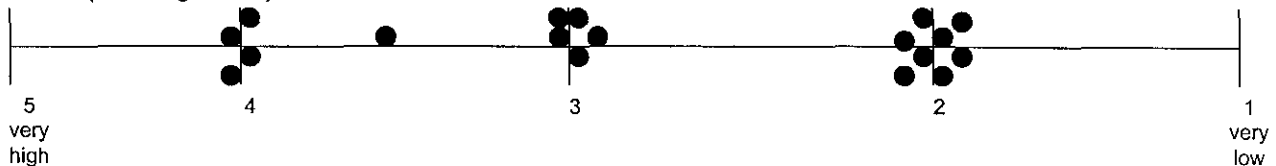
Evaluation of the Current System on Principles

In responding to Charge Question #2, the jurors were asked to evaluate the current Minnesota property tax system, rating it given the seven tax principles they had discussed earlier. This evaluation was done after the jurors had learned about the current Minnesota property tax system and had discussed its strength and weaknesses.

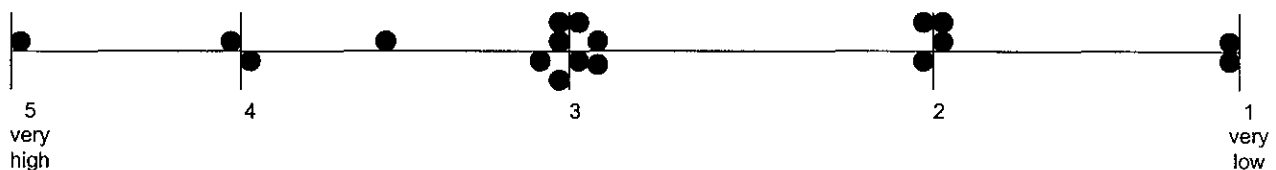
Each juror evaluated the current system on a continuous scale of 1 to 5 for each principle. A rank of "5" meant that the current system rates very high for that particular principle, while a rank of "1" meant that the current system rates very low on that particular principle. (i.e., A rank of "5" on the Fairness Principle means that that juror feels the current Minnesota property tax system is very fair. Conversely, a rank of "1" on the Fairness Principle means that that juror feels the current Minnesota property tax system is very unfair.)

The results of the jurors' evaluation of the current system are shown below. Each dot represents one juror's ranking for that principle. The principles are listed in the order of priority as determined by another exercise (see page 10). For each principle, the number in parentheses indicates the Jury's average ranking for that principle.

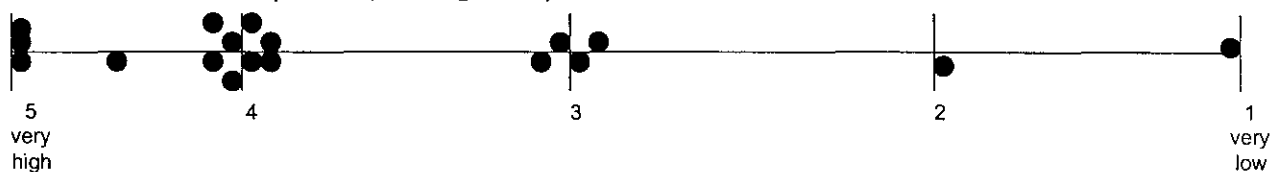
Fair (average 2.8)



Accountable (average 2.8)

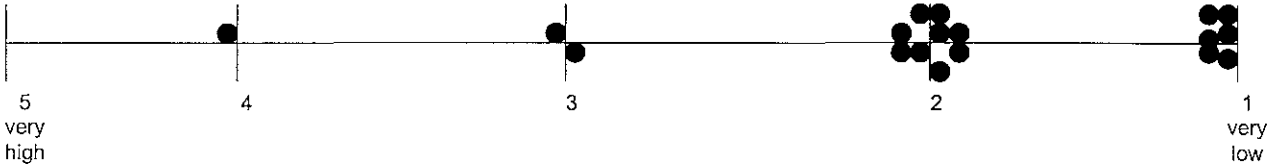


Reliable & Adequate (average 3.7)

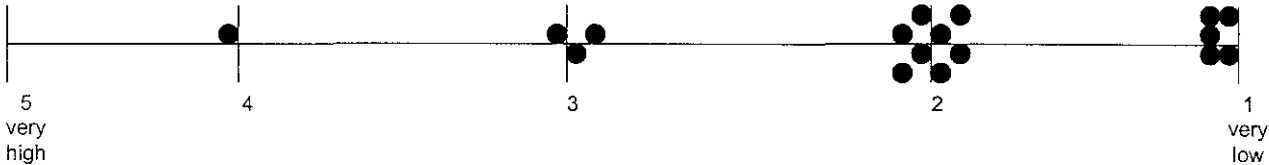


Charge Question #2: "What should be done to make the property tax a better tax?"

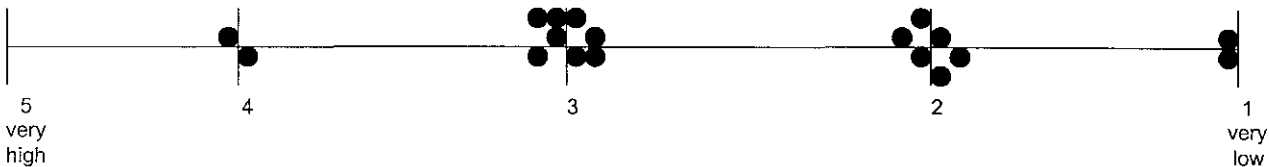
Simple & Understandable (average 1.8)



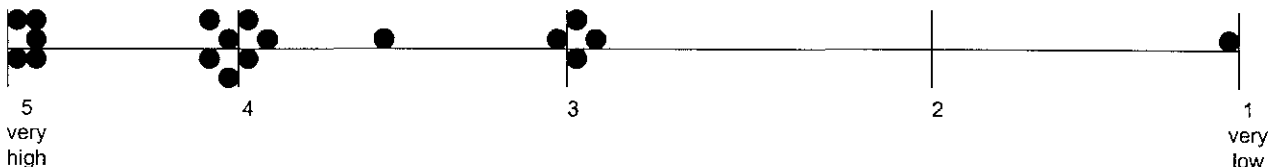
Administrative Efficiency (average 2.0)



Competitive (average 2.6)



Visible (average 3.8)



Prioritized Principles for Property Tax System

In responding to Charge Question #2, the jurors were given an opportunity to prioritize the tax principles, with respect to the property tax system. Each juror voted for the three principles that they, as individuals, felt were most important in terms of Minnesota's property tax system. The votes were weighted as indicated in the table (e.g., a first place votes counted three points, a second place vote counted two points, and so on). The totals for each principle were calculated and are shown below, in order of priority. *The definitions of the tax principles used by the Jury can be found in Appendix A.*

	1 st place votes (3x)	2 nd place votes (2x)	3 rd place votes (1x)	TOTAL POINTS
Fair	12	1	2	40
Accountable	2	4	1	15
Reliable & Adequate	1	5	2	15
Simple & Understandable	0	3	4	10
Administrative Efficiency	1	1	2	7
Competitive	0	2	3	7
Visible	0	0	2	2

Evaluation of Reform Ideas

The jurors evaluated each of the major reform ideas that were presented to them. *Please refer to Appendix B for descriptions of each of the reform proposals.* The Jury evaluated each proposal on their top four principles, as prioritized in an earlier exercise (see page 8).

The jurors were asked, for each principle, whether implementing the reform proposal would improve, worsen, or have no effect regarding that particular principle. (An up arrow on the Fairness Principle means that implementing that particular reform idea would make the property tax system more fair than the current system. A down arrow on the Fairness Principle means that implementing that particular reform idea would make the property tax system less fair than the current system.) The Jury's evaluation of the major reform proposals is indicated below.

	Fair	Accountable	Reliable & Adequate	Simple & Understandable
Unified System	1 ↑ 2 – 14 ↓	12 ↑ 4 – 1 ↓	4 ↑ 10 – 3 ↓	13 ↑ 4 – 0 ↓
Limited Market Value	7 ↑ 7 – 3 ↓	10 ↑ 6 – 1 ↓	12 ↑ 0 – 5 ↓	10 ↑ 5 – 2 ↓
Acquisition Value	2 ↑ 8 – 7 ↓	12 ↑ 3 – 2 ↓	5 ↑ 6 – 6 ↓	16 ↑ 0 – 1 ↓

Strengths and Weaknesses of Reform Proposals

The jurors identified strengths and weaknesses of each of the five reform proposals that were presented to them. *Please refer to Appendix B for descriptions of each of the reform proposals.*

Unified System:

Strengths

- Simple & understandable
- Prevents classification tinkering
- Administratively efficient
- More visible
- Eliminates huge discrepancies
- Could have positive impact on business

Weaknesses

- May be harmful to low-income people
- Less fair to some groups
- May shift property tax to homeowners, farmers
- Does not discriminate between types of income-earning properties
- Viewed as regressive – not tied to ability to pay
- Might influence cities near MN state borders
- Would take time to change over to it

Limited Market Value:

Strengths

- Dependable – you know your rate
- Long-term planning for homeowners
- Will protect elderly or others who may be affected by increased property value
- Relief on the appeal process – not as dependent on the assessment process
- Eliminates volatility
- Holds local officials accountable for raising local tax rates
- May encourage homeowner improvements

Weaknesses

- Money would need to come from somewhere
- May be legitimate reasons to raise the market value more than the limit
- Could shift property tax burden from one part of the state to another
- Could shift burden of taxes from fast-growing properties to slower-growing properties
- Regressive

Acquisition Value:

Strengths

- You know the value of your house
- Does not tax appreciation
- Simple
- Eliminates administrative costs
- Easier to administer (fewer assessors)
- Accountable to building permits vs. assessors
- New owners know value at purchase

Weaknesses

- Does not allow for depreciation
- Two equal value homes can be subject to different tax burdens
- Burden shifted to new buyers
- Unbalanced tax
- Does not tie to benefits

Site Value Taxation:

We feel that we do not have enough information to make educated recommendations regarding site-value taxation.

Land/Space Consumption Based Taxation:

We feel that we do not have enough information to make educated recommendations regarding land/space consumption-based taxation.

Recommended Improvements to the Current Property Tax System

In response to Charge Question #2, the Jury recommends the following changes to improve Minnesota's current property tax system. In some instances, the Jury advised more study or evaluation of a particular proposal because they felt that they did have not enough knowledge or understanding of the proposal or its implications. The numbers in parentheses indicate the number of jurors who voted *in favor* of the statement.

- Decrease and simplify the number of classes and subclasses, without the intent of going to a unified system. (17)
Reasoning: simplification, understandability, keeping some classes helps keep it more fair, fits the criteria for a "good tax"
- Re-evaluate current credits. Eliminate credits that are no longer valid. Establish a regular & planned review. Require any new credits to have an automatic sunset provision (17)
Reasoning: economies are subject to change, considers ability-to-pay
- The state should provide funding (through state sales and income taxes) for state mandates to local governments. (i.e. No unfunded mandates) (17)
- Public Education:
 - Local governments should send out educational fliers with property tax statements. (17)
 - Educate public of all classifications, credits and circuit breakers. (17)
 - After assessment, mail out a copy of the assessor's evaluation to the property owner. (17)
 - Require disclosure to tenants of amount of rent going to property taxes. (17)
Reasoning: accountability, understandability, visibility.
- Re-evaluate the current exemptions. Establish sunset provisions for new exemptions. Establish a planned and regular review of current exemptions. (17)
Reasoning: the ability-to-pay and property usage may change.
- Examine the possibility of counties setting their own classifications and rates for all properties within their counties (17). [For example, counties may examine the potential for a bottom tier that is exempted from property tax (i.e. the first X dollars of a property's value aren't exposed at all). Also, counties may consider changing the tier "break-point" of homestead classification from \$76,000 to something else.]
Reasoning: accountability, more administrative efficiency, more reliable & accurate, county would look at property and know value
- Proceed with the study to determine the cost to collect one dollar of property tax. (cost-benefit & administrative efficiency study) (17)

Charge Question #2: "What should be done to make the property tax a better tax?"

- Pursue further examination of:
site-value taxation (16)
land consumption-based taxation (16)
- Address the problem with tenants' disproportionate property tax burden. (16)
Reasoning: fairer, ability-to-pay, visibility, educate public about tax that tenants pay
- Make the appeals process simpler and more understandable. (16)
- Establish a process to hold assessors accountable. [For example, the use of private assessors and an appeals process to an arbitration board.] (16)
Reasoning: This will help keep assessments closer to market value.
- Eliminate penalties for home improvements (15)
Reasoning: fairer, sustain property value, competitive.
- Impose a reasonable cap on property valuation. Use the Consumer Price Index or a max of 5% for this cap. (9)
Reasoning: Eliminates volatility, simplifies the appeals process.
- Create property tax incentives to promote the construction of new apartments at the county or regional level. (7)
Reasoning: responds to needs for more apartments in some areas & regions of the state.

Juror Comments

The jurors were given an opportunity to make a statement about the project, the process, or the issue. The comments of all the jurors who chose to express their opinions are included below, in their own words.

"This was a great opportunity for me to participate in government. I enjoyed the friendly staff who tried to make my week so enjoyable. I now know that property taxes are here to stay. I understand how it works and understand that it's very complicated. I want to thank the Jefferson Center staff for allowing me to have this opportunity to learn."

- Marilyn Akre

"The effort to provide representation on this Jury from predetermined demographic groups failed to provide individuals (in sufficient quantity) that represent ethnic minorities (low-income households) and small and large business interests. On the flip side, I met 17 wonderful people on this Jury and have nothing but admiration for the staff of the Jefferson Center."

- Mary Margaret Bartik

"Citizens Juries involvement in the decision making process of government – what a novel idea. As we enter the 21st century this could take us back to the process developed by our founding fathers! The Citizens Jury concept of having 18 people meet for one week to focus on important issues is a refresher course in government and civics."

- Newell Chester

"Keep the press and TV out of our faces."

- Allan Isaacs

"I feel if we could have had two days for property taxes, and two days against property taxes we would have had a better understanding."

- David Malmin

"I enjoyed this process, it should be followed very carefully. This will work."

- Daniel Molitor

"This was a great opportunity for citizens of the state to get involved on a certain issue that may be important to that individual. We as citizens, need to have a voice and/or opportunities to be heard on our views. This was an educational experience that I can take back to my community to inform others of what we all need to get involved in. I enjoyed meeting all the different people. The Jefferson Center was great and helpful! Thank you."

- Jeanette A. Overbaugh

"After study, I feel that there are good reasons why income earning properties and homesteads are taxed at different rates. Although the committee voted to increase the

use of fees and services, I am concerned that fees could prevent the free use of public facilities, such as parks. As a teacher, I would hope that any tax changes not be seen as an endorsement of reducing public spending on education and services directly used to benefit children.”

- Carol J. Peterson

“I feel that I have learned a great deal about our state’s property taxes. The property tax payers should have some opportunity to do the same. The property tax system as a whole needs more public involvement at the local level. The current system may need some adjustments, but local governments have a major effect on local taxes.

Taxpayers are investors; they need to know what they are getting for their money.”

- Mike Schnobrich

“I believe this process should be conducted on all levels of government, Federal, State, County, and Local sectors. I also believe that this process shows the people that government does care about our opinions.”

- Vicky Schwab

“The Citizens Jury is a valuable tool that can be used to harness the knowledge of the people of Minnesota. As it continues to be used, I feel it would increase on its value as it improves. I would like to see this process continued on other issues that are important to the Citizens of Minnesota.”

- Nancee L. Sova

“I have learned an enormous amount of information in the past days and intend to take this lore back to my community. I feel another option to look at is eliminating property tax and replacing it with local income tax. I enjoyed my time with the jurors and Jefferson Center staff. I feel fortunate to be a part of the Jury and now understand the difficult job our legislators and local officials have.”

- Kellie Rae Threinen

“This is a good program – meets a need for every tax payer.”

- Eugene C. Tucker

Juror List

<u>Juror Name</u>	<u>Age</u>	<u>Occupation</u>	<u>Residence</u>
Marilyn Akre	65	Retired Rural Mailcarrier	Grand Rapids
Mary Margaret Bartik	37	Medical Research Scientist	Minnetonka
Newell Chester	61	Insurance Agent	Coon Rapids
Name Withheld at Juror's Request	48	Internet HTML Editor	South Saint Paul
Allan Isaacs	57	Calibration Technician	Mendota Heights
David Malmin	63	Retired Locksmith	Brooklyn Park
Daniel Molitor	49	Machine Operator	Two Harbors
Jeanette Overbaugh	33	Purchasing Assistant	Coon Rapids
Carol Peterson	51	Teacher	Roseville
Laurie Reddie	32	Billing Clerk	Buffalo
Vicky Schwab	31	Homemaker	Faribault
Michael Schnobrich	37	Machinist	Saint Joseph
Nancee Sova	35	Marketing Support	Minneapolis
Brad Swedzinski	40	Unemployed	Saint Paul
Kellie Threinen	20	Student Worker	Morris
Jerald Toussaint	61	Farmer	Worthington
Eugene Tucker	61	Communications, Data Security	Osseo
Doreen Young	40	Cashier	Laporte

*Note: One juror withdrew on Thursday morning due to personal reasons.

Jury Composition

One of the key goals of any Citizens Jury is demographic balance. Potential jurors were first identified through a random telephone survey designed by the Jefferson Center. The final eighteen jurors were carefully selected to be representative of the state of Minnesota as a whole. Data from a variety of sources¹ were used to establish the demographic targets for the Jury. The targets included age, education level, gender, geographic residence, race, and taxpaying status. Below is a chart of the demographic targets for this Jury. In some cases, assigned targets were not entirely achieved due to last minute cancellations and substitutions.

Demographic Category	Actual % in Population	Jury Target	Final Jury
Gender – Male	48%	9	8
Gender – Female	52%	9	10
Age – 18-34	27%	5	4
Age – 35-54	43%	8	8
Age – 55+	30%	5	6
Education – H.S. or less	50%	9	8
Education – Some college	30%	5	5
Education – College graduate	20 %	4	5
Race – White	92%	16	17
Race – Non-white	8%	2	1
Residence – TC Metro ² City ³	13%	2	2
Residence – TC Metro Inner Ring ⁴	8%	2	3
Residence – TC Metro Outer Ring ⁵	29%	5	5
Residence – Greater MN: Regional Ctr ⁶	12%	2	2
Residence – Greater MN: Other	38 %	7	6
Tax Status – Homeowner Only	53%	10	11
Tax Status – Home + Business Owner	7%	1	1
Tax Status – Home + Cabin Owner	4%	1	1
Tax Status – Renter	30%	5	4
Tax Status – Farm	6%	1	1

¹ The sources for the data used to determine the Jury targets can be found in Appendix C.

² Twin City Metro Area includes the seven counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

³ Twin City Metro City includes the cities of Minneapolis and St. Paul.

⁴ Inner Ring Cities include: Brooklyn Center, Columbia Heights, Edina, Falcon Heights, Fridley, Hilltop, Golden Valley, Landfall, Lauderdale, Lilydale, Little Canada, Maplewood, Mendota, Mendota Heights, Newport, North St. Paul, Oakdale, Richfield, Robbinsdale, Roseville, South St. Paul, St. Anthony, St. Louis Park, and West St. Paul.

⁵ Twin Cities Metro Outer Ring includes the populations of the Twin Cities Metro Area (7-county), excluding Minneapolis, St. Paul, and the above identified "inner ring cities"

⁶ Major Cities and Regional Centers with populations greater than 12,000. Includes Duluth, Mankato, Moorhead, Rochester, Saint Cloud, Albert Lea, Austin, Brainerd, Fairbault, Fergus Falls, Hutchinson, Marshall, New Ulm, Northfield, Owatonna, Red Wing, Willmar, and Winona.

Juror Evaluation

On the final day of the hearings, the jurors completed individual evaluation forms on this Citizens Jury project. The following information reflects those evaluations.

1. In general, how do you feel about the Citizens Jury on Minnesota Property Tax System now that you have completed the project?

6	Very satisfied
8	Satisfied
2	Neutral
0	Dissatisfied
1	Very dissatisfied

2. How do you feel about different parts of the project?

	Very Satisfied	Satisfied	Neutral	Dissatisfied	Very Dissatisfied
Introductory Session	5	7	1	1	2
Day 1 presentations	5	8	2	1	1
Day 2 – background	4	8	3	1	1
Day 2 – advocates	2	6	6	2	1
Day 3 – background	4	7	4	1	1
Day 3 – advocates	2	5	6	3	1
Deliberations	4	10	2	0	1

3. One of our aims is to have the staff and volunteers conduct the project in an unbiased way. How satisfied are you with their performance in this regard?

4	Very satisfied
9	Satisfied
2	Neutral
2	Dissatisfied
0	Very dissatisfied

Project Staff and Committees

Project Staff

Moderators

Kim Boyce
Sara Taylor

Jefferson Center

Doug Nethercut	Executive Director
Keiko Veasey	Project Director
Amy Gagstetter	Project Manager
Lynette Uetz	Administrator
Wally Rogers	Senior Associate

Project Committees

Revenue Department Working Group

Matt Smith	Commissioner
Jenny Engh	Assistant Commissioner for Tax Policy
Gordon Folkman	Senior Policy Analyst

Advisory Committee

Gary Carlson	League of Minnesota Cities
Dennis Erno	Minnesota Department of Revenue
Tom Hesse	Minnesota Chamber of Commerce
Jack Horner	Minnesota Multi-Housing Association
Bob Meeks	Minnesota School Boards Association
Jim Mulder	Association of Minnesota Counties
Dan Salomone	Minnesota Taxpayers Association
Jim Solem	Metropolitan Council
Tom Stinson	Minnesota Department of Finance
Lyle Wray	Citizens League

Witness List

The witnesses were carefully selected to present information to the jurors from a wide range of perspectives. There were two basic types of witnesses in this project, background witnesses and advocates. Background witnesses presented only neutral background information and facts to increase the jurors' knowledge and understanding. Advocate witnesses were charged with presenting a compelling argument for a particular perspective or reform idea. *Refer to the complete agenda on page 23 to ascertain the subject or issue area for which each witness was responsible.*

Day One:

Peggy Ingison	Assistant Commissioner, Minnesota Department of Finance
Hal Lofgreen	Professor of Economics, St. Cloud State University; former Minnesota State Economist

Day Two:

BACKGROUND

Jody Hauer	Coordinator, Best Practices Reviews, Office of the Legislative Auditor
Hal Lofgreen	Professor of Economics, St. Cloud State University; former Minnesota State Economist

ADVOCATES

Art Roemer	Former MN Revenue Commissioner; former Tax Court Judge
Duane Benson	Executive Director, MN Business Partnership
Marlowe Hammerston	Chair, Tax/Social Security Committee, MN Senior Federation
Beth Kadoun	Fiscal Policy Director, MN Business Partnership
John Moir	Chief Financial Officer, City of Minneapolis
Rep. Ron Abrams (R)	MN House of Representatives; Chair, House Tax Committee
Malcolm McDonald	Director and Senior Vice President, Space Center, Inc.
Rep. Ann Rest (DFL)	Minnesota House of Representatives
Tim Flaherty	Legislative Counsel, Coalition of Greater Minnesota Cities
Glenn Dorfmann	Chief Operating Officer, Minnesota Association of Realtors

LOCAL GOVERNMENT (panel only)

Gary Carlson	Director of Intergovernmental Relations, League of MN Cities
Bob Meeks	Director of Governmental Relations, MN School Boards Assoc
Jim Mulder	Executive Director, Association of Minnesota Counties

Day Three:

BACKGROUND

Gordon Folkman	Senior Policy Analyst, Minnesota Department of Revenue
Tom May	County Assessor, Hennepin County Assessor Department

ADVOCATES

Dan Salomone	Executive Director, Minnesota Taxpayers Association
Jack Horner	General Counsel, Minnesota Multi-Housing Association
Tom Hesse	Fiscal & Labor-Management Policy Director, MN Chamber of Commerce
Peter McLaughlin	Hennepin County Commissioner
Brian Rusche	Executive Director, Joint Religious Legislative Coalition
Dick Wray	Executive Director, MN Seasonal Property Owners Coalition
Jim Girard	Lobbyist, Cook Hill Girard Assoc; former MN Revenue Commissioner
Dick Wray	Executive Director, MN Seasonal Property Owners Coalition
Dorothy McClung	Director, Department of Property Records and Revenue, Ramsey County; former MN Revenue Commissioner
Mark Haveman	Minnesota Planning
John James	Deloitte & Touche, former MN Revenue Commissioner

Day Four:

RESOURCE PEOPLE

Gordon Folkman	Senior Policy Analyst, MN Dept of Revenue
Dan Salomone	Executive Director, Minnesota Taxpayers Association
Rep. Ann Rest	Minnesota House of Representatives

Agenda

DAY ONE – Monday, August 2nd

8:30 Welcome (Room 15 – State Capitol)

- Welcome to Jurors
- Project Overview: Why and how the Jefferson Center was contacted for this project. What is the overall reform plan? How does this project fit in?
- Brief History of the Jefferson Center and Citizens Jury process
- Role of the Jury
- Rules of Procedure & Discussion Ground Rules
- Introduce Charge and Agenda

Matt Smith

Matt Smith

Doug Nethercut

9:30 Introduction

- Introduction to staff
- Get to Know Each Other exercise

10:30 BREAK (move to Department of Revenue – Skjestad Room)

10:45 Values Exercise

12:00 LUNCH

1:00 Revenue System Overview (state level revenue – big picture)

Peggy Ingison

1:30 Tax Principles Identification and Definition

- Exercise and Discussion about Tax Principles
- “Fill in the Gaps” with tax expert

Hal Lofgreen

4:00 Juror Check-in, Review, Evening plans, etc...

4:30 ADJOURN

DAY TWO – Tuesday, August 3rd

Department of Revenue – Skjestad Room

8:30 Review Agenda for the day & Recap the previous day

8:45 Background information on local governments (Who does what? Who pays? Who benefits? Where does the money come from?)

- City/Township
- Counties
- Schools
- Metro/Regional

Jody Hauer

9:30 BREAK

9:45 Background information of the different types of taxes and other funding/revenue sources available (or possibly available) to local governments

- Property Tax
- Local Sales Tax
- Local Individual Income Tax
- Fees and Charges
- Intergovernmental Aid

Hal Lofgreen

10:45 Advocate Witnesses (How *should* local governments be funded? How would these funding options affect each type of local government?)

- | | |
|---------------|--------------------------|
| 10:45 – 11:00 | • Property Tax – Pro |
| 11:00 – 11:15 | • Property Tax - Con |
| 11:15 – 11:30 | • Local Income Tax – Pro |
| 11:30 – 11:45 | • Local Income Tax – Con |

Art Roemer

Duane Benson

Marlowe Hammerston

Beth Kadoun

11:45 LUNCH

12:45 Advocate Witnesses (continued)

- | | |
|--------------|---------------------------------------|
| 12:45 – 1:00 | • Local Sales Tax – Pro |
| 1:00 – 1:15 | • Local Sales Tax – Con |
| 1:15 – 1:30 | • Fees & charges in lieu of ptx – Pro |
| 1:30 – 1:45 | • Fees & charges in lieu of ptx – Con |
| 1:45 – 2:00 | • Increased State Aid – Pro |
| 2:00 – 2:15 | • Increased State Aid – Con |

John Moir

Rep. Ron Abrams (R)

Malcolm McDonald

Rep. Ann Rest (DFL)

Tim Flaherty

Glen Dorfman

2:15 BREAK

2:30 Panel of Advocate Witnesses (local government reps (**Gary Carlson, Jim Mulder, Bob Meeks**) will join the panel and each make a short statement to start the panel)

3:30 Initial Jury Deliberation of question #1

5:00 ADJOURN

DAY THREE – Wednesday, August 4th

Department of Revenue – Skjestad Room

8:30 Review Agenda for the day & Recap the previous day

8:45 Background information on the current Minnesota property tax system

- Classes & Rates
- Levy Determination Process
- Assessment & Valuation
- State Role
- Major Programs – Refund Program, Property-Specific Credits

Gordon Folkman
Tom May

10:15 BREAK

10:30 Jury discussion of the strengths and weaknesses of the current property tax system.

- Identify strengths
- Identify weaknesses
- Rate the current system based on the tax principles

11:30 LUNCH

12:30 Advocate witnesses for changing the current property tax system.

12:30 – 1:00

- Unified System

Dan Salomone
Jack Horner
Tom Hesse

1:00 – 1:30

- Classified System

Peter McLaughlin
Brian Rusche

1:30 – 1:45

- Valuation: Limited Market Value – Pro

Dick Wray

1:45 – 2:00

- Valuation: Limited Market Value – Con

Jim Girard

2:00 – 2:15

- Valuation: Acquisition Value – Pro

Dick Wray

2:15 – 2:30

- Valuation: Acquisition Value – Con

Dorothy McClung

2:30 – 2:50

- Other Reform Ideas – (site-value taxation)
(land/space consumption-based taxation)

Mark Haveman
John James

2:50 BREAK

3:05 Panel of Advocate Witnesses

4:00 Juror Debrief & Discussion of Property Tax System Reform Ideas

5:00 ADJOURN

DAY FOUR – Thursday, August 5th

Department of Revenue – Skjestad Room

8:30 Review Agenda for the day & Recap the previous day

8:45 Panel of Resource People for jurors to ask questions of (available until lunch)

9:30 Initial Jury Deliberations on question #2

- Develop recommended improvements to the property tax system
- Connect recommendations to the Tax Principles.

10:30 BREAK

10:45 Continue Initial Deliberations of question #2

11:30 LUNCH

12:30 Begin Final Deliberations

- Re-visit initial recommendations
- Revise, Amend, or Add to initial recommendations

4:30 ADJOURN

DAY FIVE – Friday, August 6th

Department of Revenue – Skjestad Room

8:30 Continue & Complete Final Deliberations (break as needed)

11:00 Review Initial Report

12:00 Evaluations by Jurors

12:30 LUNCH

1:30 Juror Debrief with Moderators

1:30 Prepare for press conference

2:00 Issue Initial Report at Press Conference **(Room 15 – State Capitol)**

4:30 ADJOURN

Appendix A

Definitions of Tax Principles

The jurors used the following tax principle definitions throughout the Citizens Jury project. The following document and definitions were provided by the Minnesota Department of Revenue. To fully understand the definitions, the Jury discussed the tax principles both amongst themselves as a group and with Professor Hal Lofgreen, former Minnesota State Economist and current Professor of Economics at Saint Cloud State University.

Criteria for a “Good” Tax

(source: Minnesota Department of Revenue)

A good tax is not simply a low tax. Rather, the criteria for a good tax include several dimensions or characteristics. These characteristics include, but are not necessarily limited to the following: fairness; reliable and adequate; accountable; visible; simple and understandable; competitive; and administratively efficient. By the very nature of these tax principles, no single tax can satisfy each criteria. Relative to these characteristics, each tax will have its own strengths and weaknesses. In practice, good tax policy is finding the right balance between these often conflicting tax dimensions.

- A. **Fair**: A good tax should be fair, everyone should pay their fair share. Fair relative to:
 - Benefits received
 - Ability-to-pay

- B. **Reliable and Adequate**: In general, people expect government to provide basic services regardless of the condition of the private economy. That is to say, the economic cycle of growth and recession should not produce dramatic swings in government services or tax rates. A good tax should be:
 - Relatively stable and predictable, and
 - Responsive to change in demand for public services.

- C. **Accountable**: Voters should have a clear understanding of which elected officials are responsible for the taxes they are required to pay. Voters can better hold their elected officials accountable if there is a clear link between the tax and the taxing authority.

- D. **Visible**: For the link between taxing and spending to have any meaning, people must be aware of the taxes they pay. Tax visibility depends on three factors:
 - **Form**: Is it part of or separate from an economic transaction. If it is part of an economic transaction, it is less visible. Sales taxes and income taxes (i.e. withholding) are part of an economic transaction, property taxes (not escrowed) are separate transactions.
 - **Size**: If the tax payment is relatively small it is less visible.
 - **Frequency**: If the tax is paid often, then it tends to be less visible.

A tax with low visibility is one that is part of an economic transaction, is relatively small in amount, and is paid frequently.

- E. **Simple and Understandable**: The accountability and visibility of a tax is enhanced if it is simple and understandable to the taxpayer.
- F. **Competitiveness**: In general, a tax should not deviate too far from the average burden it imposes in neighboring communities or states. An excessive tax, especially one that has an initial impact on businesses, tends to undermine a community's competitive attraction for jobs and families.
- G. **Administrative Efficiency**: The administrative goal of any tax is that its tax base and rates be calculated easily and administered in a cost-effective manner. A tax which is simple to calculate and easy to administer tends to maximize public acceptance and voluntary compliance.

Appendix B

Descriptions of Major Reform Proposals:

The following were the descriptions/definitions presented by the witnesses and used by the Jury in this project.

Unified System

“Unified System” is a method of property taxation where property is not differentiated into separate types and is instead taxed in a uniform manner. This is distinctively different from the current Minnesota property tax system that taxes different types of property at different tax rates. Examples of current tax classes include business property, farm property, homestead property, and rental property, among others. In a unified system, all property would be taxed in a uniform manner.

Limited Market Value

“Limited Market Value” is a concept of property taxation where a property’s value is generally based upon its true market value, or value if sold, but with restrictions that prevent the full accounting of the growth in that value over time. In this project, limited market value was defined more specifically as imposing a cap in the amount of taxable value increase. Under this proposal, a property’s annual taxable value increases are limited to an amount equal to the lesser of the previous year’s Consumer Price Index or 5%. Improvements/additions are excluded from the cap and are added to taxable value based upon their actual value/cost. No increase in taxable value will be assessed as a result of general maintenance or repair. Properties sold/purchased will have an initial acquisition cost taxable value subject to the annual CPI/5% taxable value increase limitation thereafter.

Acquisition Value

“Acquisition Value” is a concept of property taxation where the value of a property is based upon the actual price paid for real estate at the time of initial purchase. It is, in fact, a specific type of limited market value. Under an acquisition value system, no increase in taxable value will be assessed as a result of general property maintenance or repairs. Additions will be added to taxable value at actual material and labor cost (or in the absence of documentation of such costs, at assessor estimated value). Property taxable value will otherwise remain constant until acquired by new buyer/owner and then re-assessed at actual acquisition cost (arms length sale).

Site Value Taxation

Site Value Taxation is a property tax approach that splits the property tax into two parts, land value and building value. This approach would decrease the tax rate on the building and improvement portion of property and increase the tax rate on the land value portion of property.

Land/Space Consumption Taxation

Land/Space Consumption Taxation is a property tax approach that is based on the consumption of land and space by property owners. Taxes would be determined based on per square foot of land and per square foot or cubic foot of buildings.

Appendix C

Source Information for data used to determine Jury targets:

Gender - Based on Year 2000 projections in *Faces of the Future: Minnesota Population Projection 1995-2025*. Minnesota Planning–State Demographic Center. Published May 1998. (Note: based only on those 20 years old and above. Y2K projections for those aged 18-19 were not available.)

Age - Based on Year 2000 projections in *Faces of the Future: Minnesota Population Projection 1995-2025*. Minnesota Planning–State Demographic Center. Published May 1998.

Education level – Based on 1990 US Census Data.

Race - Based on Year 2000 projections in *Faces of the Future: Minnesota Population Projection 1995-2025*. Minnesota Planning–State Demographic Center. Published May 1998. Non-white includes black/African-American, Asian/Pacific Islander, and Native American

Geographic Residence (Twin City Metro) - Based on 1997 Twin Cities Metro Area population estimates by the Metropolitan Council.

Geographic Residence (Greater Minnesota) - Based on 1997 estimates by Minnesota Planning–State Demographic Center.

Tax Status (Homeowner, Renter, Farm) - 1999 *Minnesota Tax Incidence Study – Who pays Minnesota’s household and business taxes?* Minnesota Department of Revenue–Tax Research Division. Published March 1999.

Tax Status (Business) - Business data from Minnesota Department of Trade and Economic Development. 1997-98. Business owners were assumed to be homeowners.

Tax Status (Cabin) - Cabin data from Minnesota Department of Revenue–Tax Research Division, based on 1990 census data. Cabin/lake property owners were assumed to be homeowners.

Appendix D

The Jefferson Center

Citizen Input — Real Results

The Jefferson Center is a non-profit, non-partisan organization located in Minneapolis, Minnesota. Established in 1974, the Center is committed to generating thoughtful citizen input on issues of public significance. The principal activity of the Center is promoting and managing the **Citizens Jury Process**. The process features a randomly selected and demographically representative panel of citizens who meet for several days to closely examine important public policy issues and develop and present their findings to decision-makers and the public. To date, the Jefferson Center has conducted 27 Citizens Jury projects on a wide range of local, state and national issues.

To complement the **Citizens Jury Process**, the Jefferson Center has developed additional products and services to assist public decision-makers with generating thoughtful citizen input. Two of them are:

- **Feedback Panels:** a group of randomly selected citizens or clients who meet one or two days and examine a public agency or private organization or a service it provides and make recommendations about how it can better serve its client base.
- **Public Participation Workshops:** helping public agencies and other organizations expand and enhance their citizen participation initiatives, sharing ways to make citizen input more worthwhile for everybody involved.

In addition to the Citizens Jury on Minnesota Property Tax Reform, recent projects conducted by the Jefferson Center include juries about the Orono Public Schools and the Dakota County Comprehensive Plan. The Jury in Orono examined the needs facing the school district and recommended ways they thought those needs could be best addressed. The Jury's recommendations were made part of a bond issue referendum that the community passed in September 1998. The Jury in Dakota County examined the county's Comprehensive Plan and developed recommendations that were incorporated into the update of the Plan. The Jefferson Center is currently conducting a Citizens Jury project in the Chatfield School District that examines and addresses school facility needs.

For further information about the Jefferson Center, the Citizens Jury, or other products and services the Center provides, please call the Center at 612-926-3292 or visit the Center's web site at www.jefferson-center.org.