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- Associated Builders and Contractors — Minnesota
  - Insurance Federation of Minnesota
  - Minnesota Bankers Association
  - Minnesota Beverage Association
  - Minnesota Business Partnership
  - Minnesota Chamber of Commerce
  - Minnesota Retailers Association
  - Minnesota Trucking Association
  - National Association of Industrial and Office Properties (NAIOP)
  - Saint Paul Area Chamber of Commerce
  - TwinWest Chamber of Commerce
- A statewide grassroots communications program involving 11 business organizations. The CMB does not endorse any particular candidate or political party.

To: Candidates for the Minnesota House of Representatives  
Fr: Charlie Weaver, Executive Director, Minnesota Business Partnership  
David Olson, President, Minnesota Chamber of Commerce

Re: The “New Minnesota Miracle”

This fall, the House K-12 Finance Division has been holding hearings in some communities to promote HF 4178, the “New Minnesota Miracle.” The proposal would increase state spending on K-12 education by \$2.5 billion a year – more than 30%. “Miracle” might be an overstatement. But with state lawmakers likely to face a large budget shortfall in the 2010-11 biennium, a big bump in K-12 spending is a long shot.

The Coalition of Minnesota Businesses (CMB) doesn’t oppose more funding for our schools. Closing the achievement gap and raising student achievement to world-class levels is essential to creating good jobs in Minnesota. But given the challenges posed by retiring baby boomers and an increasingly diverse student body, focusing solely on increased funding doesn’t seem to be the answer.

As you consider your position on HF 4178, we encourage you to keep a few basic questions in mind:

**What is the price tag on the New Minnesota Miracle?** Advocates tend to focus on \$1.7 billion. But that’s not the full price.

- District general fund revenue           \$1.7 billion
- Deferred maintenance                   \$200 million
- Special education                       \$100 million
- Transportation                           \$100 million
- Property tax relief                       \$400 million
- Total Annual cost to state               \$2.5 billion

**What would Minnesotans get in return?** There is nothing in the bill that links additional funding to improved outcomes – or even to reforms that would lead to improved outcomes.

- With the additional funding, would the bill’s advocates agree that all students can meet state standards and hold schools accountable for results? Or would they argue for lower expectations?
- According to Education Trust, Minnesota is among the best states in the nation when it comes to providing additional resources to districts that serve a high percentage of at-risk students, yet we have some of the widest achievement gaps in the country. How would HF 4178 effectively close the achievement gap?

**How would we pay for it?** Current planning estimates project that the state's general fund will collect \$33 billion in taxes during the 2010-11 biennium. Where would you as a legislator turn to raise an additional \$5 billion?

- 30% surtax on all personal income taxes?

**OR**

- Nearly double the tax rate on the top bracket to 15%?

**OR**

- Increase the sales tax rate to 10%?

**OR**

- Expand the existing sales tax to clothing, gasoline, prescription drugs and a host of services?

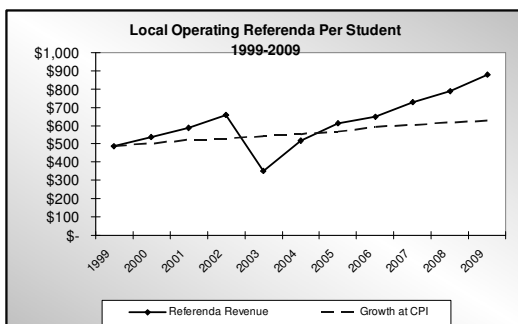
**OR**

- Quadruple the corporate income tax rate?

**How long could we afford it?** Under HF 4178, state funding for education would automatically increase each year, using the implicit price deflator for state and local governments.

- During FY10, the state will spend \$6.9 billion on K-12 education, about 39% of the general fund.
- What would automatic annual increases mean for the rest of the budget? Health care? Higher education? Etc.?

**How long will property tax relief last this time?** HF 4178 includes \$400 million a year to "buy down" property taxes. Sounds good. But remember what happened the last time state lawmakers provided school property tax relief?



*As a result of 2001 K-12 funding reforms, local operating referenda per student dropped from an average of \$658 in FY02 to \$352 in FY03. But local levies almost immediately started to climb, with a record number of districts asking voters to pass new operating referenda before the reforms had even kicked in. By FY04, average operating referenda per student had rebounded to \$517.*

In 2001, lawmakers substituted a portion of local operating levies with increased state aid, and replaced a state-mandated property tax, called the General Education Levy, with state dollars. The result was a \$1 billion decrease in school property taxes in fiscal year 2003 and a \$400 million net increase in school district revenues.

- While it's common to blame the state's \$4.5 billion deficit in 2004-05 for subsequent increases in school property taxes, the fact is a record 207 school districts responded to the 2001 reforms by asking voters – in 2001 – to approve new operating levies. (A record 136 passed.)
- Another 111 asked voters to approve operating levies the following year, with 61 requests passing.
- By the time the Legislature convened in January 2003 to close a \$4.5 billion gap in the 2004-05 state budget, more than half the property tax relief had already disappeared.

**Funding is only part of the equation.** Again, we are not opposed to investing more in education. But HF 4178 increases spending substantially without specific commitments to improving student achievement or enacting concrete reforms that will bring our schools into the 21<sup>st</sup> century. Without those commitments, HF 4178 would just give us more of the same.