Minnesota's Metropolitan Tax Pool

The Twin Cities and their suburbs will all share part of future growth in tax valuations wherever it occurs in their area. By Paul Gilje.

The offer: Your city will receive in future years a guaranteed share of a part of the growth in tax valuation which will be occurring throughout your metropolitan area as a whole.

The price: Your city must contribute, for sharing by all cities in your area, 40 percent of whatever growth in commercial and industrial valuation may occur in future years within your own borders.

This is Minnesota's new "insurance policy" for communities in the Minneapolis-St. Paul metropolitan area. (Chapter 24, Minnesota Legislature, Extra Session, Laws of 1971.)

This new law guarantees every unit of government in the Twin Cities area — whether a city, village, township, school district, county, or special district — a share of 40 percent of the region's future growth in commercial-industrial-tax valuation, regardless of where in the 3,000-square-mile area the new commercial-industrial buildings will be located.

For example, some of the valuation of a new shopping center in Minnetonka Village or a new industrial park in Eagan Township or a new skyscraper in Minneapolis will be made part of the tax base of all communities in the metropolitan area.

There will still be winners and losers, but the differences won't be as great because no longer for the Twin Cities area is the rule of the urban development game "winner-take-all."

Each community's share of the 40 percent will be determined mainly by its population, but if its total local property valuation per capita is below the metropolitan average per capita, it will receive a larger share, and if above average, a smaller share.

In the Twin Cities metropolitan area the extremes of valuation are between suburbs, not between the central cities and the suburbs. Minneapolis and St. Paul both are very close to the metropolitan average valuation per capita and, therefore, will receive essentially a per-capita share. The adjustment in shares because of low or high valuation per capita will be, in effect, mainly an adjustment among suburbs.

An end result of tax-base sharing is, of course, a redistribution of tax revenues, but the new law's primary benefit, at least in the early years, will be its impact on urban development decisions. Partly for this reason some officials in Minneapolis and St. Paul, urgently needing additional dollars now to finance municipal services, were not overly enthusiastic about the law, although most of them clearly see the long-term benefit.

Some examples of the law's impact on urban development:

• Fiscal zoning, the deliberate use of municipal police power to restrict certain kinds of development and encourage others in order to fatten the local tax base, is no longer so important, because a community will benefit from new shopping centers and industrial plants outside its borders.

• It helps tear down a barrier to more even distribution of low- and medium-income housing throughout the region. Some communities have been reluctant to permit such housing because, they say, it doesn't "pay its own way" in property taxes. What this means is that such housing brings in more children to educate, but doesn't bring along enough tax base to finance their education, thereby increasing the tax burden on other people in the community. The new law changes all this because now more people moving into the community will mean a larger share for that community from the 40 percent of the region's growth in commercial-industrial tax base being pooled and redistributed.

• It aids environmental protection. No longer will it be necessary to allow development on marginal land, such as floodplains, simply to create an adequate tax base within a community. Communities can adopt rational open-space protection plans without fear of "eroding" the tax base.

• It most assuredly will be an asset in the planning and decision-making on major metropolitan facilities, such as a second new airport, metropolitan transit lines, new free-

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ways, major sewer lines, metropolitan parks, and so forth, because of the reduced need to be concerned about the impact on the tax base of one community over another. Moreover, it should serve to help the four-year-old Twin Cities Metropolitan Council (increasingly recognized as a national model) in coordinating growth of the entire area.

Credit for passage of the law can be shared by many individuals and groups. Democratic Governor Wendell R. Anderson had endorsed it, as had his Republican predecessor in 1969, Harold LeVander. The head of the state AFL-CIO and an executive of one of the region's largest corporations testified in its behalf. The metropolitan association of municipalities was on record in support of the concept. Other support came from several private citizen organizations.

But the bill passed mainly because it stimulated a unique coalition of central-city and suburban legislators, a kind of coalition that is likely to become increasingly important in the future.

First, the coalition included those legislators — both central-city and suburban — who believe it unlikely that the communities they represent will be able to capture physically within their borders an adequate share of the region's future growth in commercial-industrial tax base. Second, the coalition included those legislators — again both central-city and suburban — who simply believe it is inequitable to concentrate the benefit of such tax base in only a few communities.

This coalition was able to overcome strong opposition from legislators in the so-called "prosperous" suburbs.

A contributing factor to the bill's passage was its avoidance of what might be considered "radical" approaches, such as merging all communities into one metropolitan city or imposing a new metropolitan tax on commercial-industrial property.

The law works entirely within the present framework of local government. No additional tax is imposed. No metropolitan taxing agency is created. All localities continue to make their own policy decisions on levying property taxes. The law also maintains fiscal responsibility because no jurisdiction is permitted to tax its share of the region's growth without imposing the same rate against its own resident voters.

The concept of tax-base sharing, as embodied in the new law, was first advanced by a suburban resident, F. Warren Preeshl, a member of the Burnsville School Board, three years ago. At the time, Preeshl was serving as a member of a fiscal disparities committee of the Citizens League, a Twin Cities-based, independent, nonpartisan public affairs organization with some 3,600 members. A strong supporter of local government, Preeshl came up with the unique idea of tax-base sharing as a way to keep decisions local but still overcome the problems of concentration of the tax base in certain communities as against others.

The Citizens League adopted Preeshl's proposal in a report presented to the legislature in early 1969. Rep. Charles Weaver of suburban Anoka, chairman of a legislative subcommittee on fiscal disparities, grabbed onto the idea, drafted a bill, and within a month after introduction obtained House passage by a vote of 115-14. But time ran out in the 1969 legislature before the Senate could consider it.

Not unexpectedly, new obstacles arose in 1971. There continued to be, as expected, opposition from those communities who anticipate they will be better off in the future with a go-it-alone approach. In addition, rural legislators were forced to choose sides, even though the bill did not apply outside the seven-county Twin Cities area. Some outstate legislators feared a vote for the Weaver bill could be construed as a vote for regionalism, a concept which has become controversial in outstate Minnesota. The rural opposition became particularly apparent on the floor of the Senate where, on final passage, opponents almost got enough negative votes from outstate Senators to kill the bill. The bill passed the Senate with a one-vote majority.

The final vote in the House, 83-39, was better than expected by the bill's most avid supporters. The vast majority of outstate House members voted for the bill, perhaps an indication of the respect that Weaver, who never has been identified as a pro-metro legislator, commands among his outstate colleagues.

Rumblings that House Democrats would stand united against the bill as retribution for Republican resistance to Governor Anderson's school-aid formula proved unfounded. Earlier, some Democrats had feared Republicans would use passage of the Weaver bill as an excuse for not passing Anderson's school-aid plan, which would equalize school property taxes throughout the state.

In fact this law, dealing only with the sharing of a portion of future tax base in only one part of the state, must not be construed as a substitute for a truly equalizing school-aid formula in Minnesota. Nevertheless, the law speaks to the same kind of problem that more recently prompted the California Supreme Court to declare that state's school-aid plan unconstitutional: the inequitable distribution of the property tax base and the resulting impact on resources available to school districts. It is possible that an expanded version of base-sharing—for example, sharing all commercial-industrial valuation, not simply a portion of future growth—could be part of a constitutionally acceptable school-aid formula.

In some respects the fact that a state legislature has the courage to pass such legislation is even more significant than the substance of the law itself, particularly at a time when cynicism about the desirability of looking to the state legislature for help is widespread.