CITIZENS LEAGUE
545 Syndicate Building
Minneapolis, Minnesota 55402

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M E M O R A N D U M

TO: Members, Fiscal Disparities Committee

SUBJ: Proposals for Reducing Property Tax Differences within the Metropolitan Area

A number of proposals have been advanced in recent weeks for reducing property tax differences within the metropolitan area. This memorandum outlines the principal features of these proposals. In most cases the proposals still are in a general concept stage with many details not set forth.

Although not expressly stated in every proposal, several common threads are evident:

-- The property tax burden for similar levels of services varies too much within different parts of the metropolitan area.

-- We no longer can tolerate these differences and the circumstances which encourage local governments to perpetuate and where possible, accentuate these differences. This has damanging impact for metropolitan growth.

-- The overall property tax level must not continue to increase as it has in recent years. A new revenue source must be provided.

I. The Preeshl Proposal

Advanced by F. Warren Preeshl, member, Fiscal Disparities Committee and member, Burnsville School Board.

"The first requirement is that the commercial and industrial assessed valuation for the seven county metropolitan area be determined. Once determined, and it would increase year by year, this commercial and industrial tax base would be removed from the taxing authority of the component municipalities and school districts. (As to bonds outstanding, they must still be secured in the ultimate by the original tax bases of the geographical area upon which the taxes were levied at the time of bond issuance but in practice they would be serviced in part by the original levies and in part by a flow of moneys from the new tax base which it is recommended be established.)

"Each municipality and the school district would determine its budgetary requirements as at present. Each municipality and school district would know its assessed valuation as derived from homesteaded property within its district. Each municipality and school district would also be told its share on a formula basis of metropolitan area. On the basis of the total of these two figures, each municipality and school district would establish its mill levy.

"Note that an important part of this suggestion is that the homesteaded property bears the same mill rate within a municipality or school district as that municipality or school district levies upon its share of commercial and industrial property. If, in fact, home owners will accept a higher mill rate for exceptional services, it seems logical that this same mill rate be extended upon commercial and industrial property. This same protection presently exists in that the most vocal opponents of tax increases are homeowners and the least vocal but the ones who generally pay the most are the owners of commercial and industrial property.

"The composite of the total certifications by the component municipalities and school districts would be levied as a mill rate upon the commercial and industrial assessed valuation of the metropolitan area. This plan does not envision a standard mill rate throughout the metropolitan area but allows for variations as determined by the tax-paying willingness of the residents of the component municipalities and school districts, but once that level of willingness has been established the resulting composite tax levy is uniformly spread on all commercial and industrial property in the seven county metropolitan area.

"There should be no restrictions upon the individual municipalities or school districts as to their bonding plans, their operating expenses, etc."

II. <u>The Clay Proposal</u>

Advanced by Charles H. Clay, Member, Edina School Board

Applies only to school districts. Each school district sets its own budget and establishes its own tax levy as it now does. Each school district also retains its own assessed valuation as it now does.

After the mill rates for all school districts have been determined, the appropriate administrative officials will determine the average school mill rate imposed that year on commercial-industrial property in the metropolitan area. (According to this proposal, commercial-industrial property would not include any dwelling units.)

For the commercial-industrial property below the average school mill rate, an additional mill rate will be imposed to bring it up to the average for that year. Revenue collected from this additional mill rate will be placed in reserve and distributed the following year to <u>all</u> school districts in the metropolitan area, according to a formula, preferably per weighted child. School districts with above average mill rates would, at the very least, be able to hold off further increases, and perhaps even reduce their overall mill rates. In the long run, the proposal is intended to gradually narrow the big differences in the levies on commercial-industrial property for school purposes among school districts.

III. <u>The Graven-Boddy-Thayer-Preeshl Proposal</u>

The product of an informal meeting of four members of the Fiscal Disparities Committee, David Graven, Francis M. Boddy, Matthew Thayer and F. Warren Preeshl.

Impose a uniform mill rate for school purposes on all assessed valuation in the metropolitan area. Distribute from the metropolitan level to each school district according to a formula. Also provide that foundation aids which normally would go to each school district be given at the metropolitan level and distrivuted to each school district accroding to the same formula as the revenue from the uniform mill rate.

In addition, impose a seven-county income tax with all, or a substantial share, of its revenues earmarked for school purposes in the metropolitan area. Because a uniform mill rate for school purposes would require a higher school mill rate in the central cities, some revenue from the seven-county income tax could be used in the first years to avoid any abrupt 50-mill increase in central city tax rates.

IV. The ACIR Proposal

Suggested by the Advisory Commission on Intergovernmental Relations, Washington, D. C.

Impose a uniform mill rate for school purposes on all assessed valuation in the metropolitan area. Distribute from the metropolitan level to each school district according to a formula. Also provide that foundation aids which normally would go to each school district be given at the metropolitan level and distributed to each school district in the same manner as revenue from the uniform mill rate.

Provide in the distribution formula that school districts with a disproportionate share of socially and culturally deprived students be adequately compensated.

Provide that school districts hampered in their efforts to finance an acceptable level of education due to extraordinary tax demands for their municipal-type functions be given extra aid in the distribution formula.

Permit local school districts to tax themselves above the areawide support level.

The proposal suggests one formula which might be considered for distribution of funds from the areawide tax: 50 per cent in the proportion that the school age population in each school district bears to the total school age population in the metropolitan area and 50 per cent in proportion that each district shares in the funds for educationally deprived children under Title I of Public Law 89-10, the Elementary and Secondary Education Act.

V. The Weaver Proposal

Suggested by State Rep. Charles R. Weaver, Anoka, in a letter to Ted Kolderie, executive director, Citizens League.

"...If the Metropolitan Council is given the power to restrict industrial and commercial growth within the seven-county area or at least to direct it, then obviously there must be a compensating factor to those areas that have been eliminated from this industrial and commercial development. I feel strongly that the problems must be solved before the Council is given these powers.

"Although I recognize the Legislature did not specifically direct the Council to proceed in this matter, that does not lessen the necessity for it. It is my thought that a system could be devised to share part of the return from industrial and commercial development to the areas that are in need. It seems to me that the most logical way of obtaining this would be through the distribution of the school aid formula.

"Specifically, Ted, I would suggest that one-half of the revenue collected for school purposes from industry with a full and true assessed valuation in excess of $250,000 would be paid into the school aid fund and distributed either through the current formula or through a formula designed for distribution for building aids. I would propose that the revenues to the municipal and county governments would still be retained locally.

"The purpose of such a proposal would be to reduce the competition for industry at least to the point where it would be done with more objectivity but would still retain some incentive for local units of government to encourage a healthy balance of commercial and industrial growth. It would eliminate the bonanza to a particular area by reason of location of a major industrial complex and result in a more equitable distribution of the revenues derived from such an industry..."

VI. The Metropolitan Section Proposal

Proposal is now before the Metropolitan Section of the League of Minnesota Municipalities for possible action on January 23.

"To reduce existing fiscal disparities between local taxing units in the metropolitan area and thereby reduce the economic incentives which foster fiscal zoning practices...After exploring a number of proposals, we believe the most feasible means of achieving this end is to impose a tax on a metropolitan-wide basis which will raise a significant amount of revenue (e.g. $50 million a year or more) and to distribute this revenue in a way which would redress the existing fiscal disparities (ie., on the basis of relative need and ability to pay)."

The proposal suggests a 1¼ tax on gross income of residents of the seven-county area, yielding nearly $53 million in 1970. Second preference would be a 2 per cent piggy-back sales tax and third preference, a 35-mill property tax.

The revenue from the metropolitan tax would be distributed 50 per cent to schools, 33 1/3 per cent to municipalities and 16 2/3 per cent to counties.

School revenue would be distributed to each school district according to need (proportionate share of disadvantaged and handicapped children) and ability to pay (income and assessed valuation, weighted equally).

Municipal and county revenue would be distributed according to need (property tax levy per capita for operating expense and general bonded debt) and ability to pay (assessed valuation and income, weighted equally, or assessed valuation alone).

In addition a wheelage tax at 50 per cent of the state license fees and a 3 per cent hotel-motel tax and a 3 per cent admissions and amusement tax is proposed with revenue distributed two-thirds to municipalities on a per capita basis and one-third to counties on a per-capita basis.