

Citizens League
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Minutes of Meeting
METROPOLITAN FISCAL DISPARITIES COMMITTEE
Thursday, January 2, 1969 - 6:30 p.m.
Minneapolis Public Library, Room 253

PRESENT: Earl F. Colborn, Jr., chairman, Arch Berreman, Dr. Frank Boddy, John Costello, Mrs. Nicholas Duff, George F. Humphrey, Peter Meintsma, Gordon Moe, Thomas R. Nulcahy, Mrs. Stanley Peterson, F. W. Preeshl, Thomas E. Reiersgard, Rep. Martin Sabo, Matthew H. Thayer, Thomas Vasaly, Donald Wahlund, and Arthur Whitney. Staff: Ted Kolderie and Paul Gilje and Irma Sletten.

Guests: Paul Dow, Dean Lund, Charles Clay, and Don Cleveland.

1. The meeting was called to order at 6:55 p.m. by Chairman Colborn. Minutes of the meetings of November 14 and December 12, 1968, were approved as mailed. The chairman said that we will continue to meet weekly. Next week we will continue a discussion of the proposals for broadening the tax base as set forth in the memorandum distributed to the committee. Two weeks from tonight we intend to go into a discussion of the gross earnings tax.
2. The chairman said he believes we made significant progress at our meeting of December 12. He said that it appears we concluded then that it is unlikely that we will get sufficient action on a statewide basis to solve the disparities problem facing the metropolitan area, and that action here is necessary. It also appeared that the committee feels it is impractical to attempt any major redistribution of the existing tax base in the metropolitan area. At the very least we must put a cap on the inequities and see that they do not increase over time. There was strong feeling on the part of many committee members that our major emphasis should be with school district finance because of the relative position of school districts as against the entire tax burden, and also because measures of inequality are much easier in the school district area. A number of committee members, however, feel that we must not restrict our interests to school districts.

The chairman referred to a memorandum distributed to committee members which outlined a number of proposals which have come to the attention of the committee on ways whereby we can solve the disparities problem. He said it was interesting to note that a common thread in most of them is that commercial-industrial property in the metropolitan area is regarded more as part of the entire metropolitan area's tax base than solely that of each individual governmental unit.

3. The staff provided a brief explanation for committee members of the various proposals in the memorandum which was mailed to committee members last week. It was pointed out that we probably should add a seventh proposal to this list and call it, for identification purposes, the Colborn proposal. Its general outlines would be that taxes collected from all new additions to the commercial-industrial tax base, and all increases in value in this base, would be collected

(Dec 26, 1968)

at the areawide level and then distributed back to the local units of government. We would not attempt to do anything with existing valuations. They would remain with the local units of government. In addition, we would suggest a new source of revenue, perhaps an income tax, which would serve as an alternative source of revenue so that the overall burden on the property tax will not increase. In effect, this proposal does not call for redistribution of revenues which local governments already get, but provide a way whereby the growth can be of benefit to the entire metropolitan area.

4. Metropolitan Section Proposal -- The chairman called on Dean Lund, Executive Secretary of the Metropolitan Section of the League of Minnesota Municipalities, to discuss the proposed metropolitan income tax which will come up for discussion by the board of directors of the Metropolitan Section later this month. Committee members were provided copies of the proposal, along with charts showing what the distribution of funds would be like. He described in considerable detail the distribution formula which would take into consideration the ability to pay of each local government unit and its needs. According to the proposal, the ability to pay would include assessed valuation per capita and income per capita weighted equally. On the needs side, for municipal purposes and for county government purposes the needs would be the property taxes levied per capita. On the school district side the needs would be the number of weighted pupil units with extra weight given for such factors as disadvantaged pupils and handicapped pupils.

There was extensive discussion between committee members and Mr. Lund over the impact of the distribution formula. Some persons contended that on a flat per capita basis the city of Minneapolis in aggregate would come out much better than it does taking into consideration these other factors. With the other factors the municipal government in Minneapolis would receive more than it would on a straight per capita basis, but the school district would receive less, with the total impact being that on an overall basis Minneapolis would receive less. Mr. Lund responded that this formula will put the money where the problem is, even if it is within the same jurisdiction. He noted that the critical revenue problem in Minneapolis is at the municipal level.

During the discussion with Mr. Lund several committee members questioned whether we really benefit from a formula such as this against a simple per capita distribution. Mr. Boddy pointed out that on a straight per capita basis we would undoubtedly find that certain localities would get much more money than they need. This would mean that some funds would be going where they should not be going.

The chairman observed that the Metropolitan Section's proposal does not envision any redistribution of the property tax base. He asked Mr. Lund what he thinks of the idea of distributing the revenue from the commercial-industrial property taxes on a broader-than-local basis. Mr. Lund believes that it may be hazardous to take the incentives for commercial-industrial property down to zero. There is something to be said for keeping a desire for industrial property. However, it is not inconsistent to think of a situation where you could take only a part of the value, not necessarily 100%. He personally would not object to an approach which would involve distributing, say, 75% of the taxes from new commercial-industrial valuation in the metropolitan area on a broad base.

Mr. Sabo said that he had to leave early but wanted to make a few remarks before he went. He believes that on a distribution formula it is probably best to work

on a straight per capita basis. He said he fails to see the benefit from inserting these other social characteristics into a distribution formula. He likes the straight per capita distribution which was worked out in the part of the 1967 Tax Relief and Reform Act.

Mr. Sabo, discussing further the general questions before the committee, said he believes we can separate the proposals into two separate areas. In the first place, how we collect and distribute the property tax in our metropolitan area is a metropolitan problem which we can be concerned about within this area only. The second question, the extent to which local government should rely upon the property tax as compared to other sources of revenue, is a statewide question in his opinion. To the extent that we look to new revenue, that should be a statewide action. He believes there is an urgent need to change our method of collecting and distributing the property tax in the metropolitan area. He further believes that you cannot consider schools separately from municipal governments. Any solution we come up with has to involve municipal expenditures, he believes.

Mr. Lund asked whether we could have a local option on a statewide basis for an income tax with the metropolitan area having its own and other counties being allowed to have their own income taxes they desire. Mr. Sabo said that this would be possible, but he personally would not prefer this approach. He went on to repeat that he believes the essence of the problem in the metropolitan area is the diversity of our property tax, and this is a unique metropolitan problem. The question of the relationship of the property tax to other types of taxes is a statewide question. He was then asked whether we don't have equal disparity in property taxes between places in this metropolitan area and places in the rest of the state. He agreed that this is the case, but whereas you can live with a situation where in a given community the differences do not exist and you can tolerate differences between communities, you cannot tolerate a situation in the Twin Cities community where we have such a host of variables in such a close area.

One committee member wondered whether it is necessary for us to worry about the revenue needs of outstate Minnesota given the fact that the state aid formula for school districts is so favorable right now and that our interest should be for the metropolitan area.

There was some brief additional discussion with Mr. Lund about the advantages of a gross income tax rather than simply a piggy-back income tax on the existing state income tax. A major reason for recommending a gross income tax against a piggy-back income tax is that it is more saleable to talk in terms of a 1½% gross income tax rather than a 39% surtax on the existing income tax which would be required to raise these funds.

5. The balance of the meeting was spent on a discussion of whether we are going to suggest some type of redistribution of the property tax in the metropolitan area. Mr. Boddy contended that the total burden of the property tax in the metropolitan area is not as critical as the differential burden, and that we need to work on correcting this differential burden. We need to tackle the problem in two stages, in his opinion. First is to take a unit of government which drains heavily on the property tax, namely the school districts, and find some way of redistributing the property tax revenue, and then secondly is to build in a new source of revenue so that the overall property tax rate does not increase.

Mr. Whitney contended that a new source of revenue is much more important than redistribution of the property taxes. Mr. Boddy replied that he believes the

present property tax situation contributes to fiscal zoning, which is adverse to the proper development of the metropolitan area, and that is the reason we have to get at the question of the distribution of the property tax. Mr. Whitney then questioned whether this doesn't mean metropolitan government, and Mr. Boddy responded that this is not necessarily the case; that you can have a metropolitan tax with distribution to local governments. Mr. Whitney believes that you destroy the whole concept of local government if you take away its power to raise property taxes. You also destroy their bonding power. At that point it was clarified that no proposal suggests that the total property tax revenue-raising ability be taken from local governments. It is not necessary to destroy a local government's right to guarantee all of its bonds by a property tax levy. It may be that that levy never will have to be exercised. Nevertheless, it still can be there.

Mr. Lund said that we have to recognize that this is a single metropolitan area from a social and economic standpoint, but from a political standpoint we have to live with the structure we have. We are simply not going to ever be able to consolidate these local units of government. We have to recognize that a way to solve our problem is to have a broader tax base and distribute the funds back to the local units of government.

Mr. Whitney contended that if you levy a uniform tax on commercial-industrial property throughout the metropolitan area the effect will be to increase the level of taxes in Minneapolis. Mr. Boddy replied that this may be the case, but we also have to remember that all new tax base in the metropolitan area will also be available for Minneapolis. The Minneapolis rate may go up in the short run, but in the long run it would clearly stand to gain because it would have the benefit from all growth in the metropolitan area. Mr. Moe contended that anything that raises the mill rate in Minneapolis will tend to push development out of the city. Others contended that property tax differences in the metropolitan area are a relatively minor factor in the decision of a business to locate in one place as against the other.

Mr. Wahlund noted that when we talk about redistribution of the property tax we also have to acknowledge that most proposals suggest a new source of revenue at the same time. Perhaps in the redistribution of the property tax the property tax rate might otherwise be forced up in the central cities, but if the central city were given a favorable break on the distribution of a new source of revenue this could well take up the difference. Another suggestion advanced was that you don't necessarily have to make your big step on a regional tax base all at once. You can go in steps.

Committee members discussed whether, on an areawide basis, you should tax the residential property as well as the commercial-industrial property. It was pointed out by some that if you do not do this you will still have the situation of communities with expensive homes being better off than those communities with cheaper homes. One proposal suggested was that you could provide that on values of housing above a certain level this would be part of the areawide tax base.

It was pointed out that there is no reason for the property tax rate to be different within the wards of Minneapolis than between suburbs within the metropolitan area.

There was discussion about what kinds of functions would be served best by the redistribution of property tax revenues within the metropolitan area. A strong point was advanced by the chairman that at least in the education field you can

be much more specific on the type of dollar expenditure that should be worked for in each community. The problem is much more difficult in connection with municipal government, where certain municipal governments may want to have a lower level of service or a higher level of service than other governments.

Discussing how a distribution formula could be worked out, Mr. Boddy said he likes the idea advanced by the Advisory Commission on Intergovernmental Relations, which provides that a simple formula be set forth in law and that the formula can be changed if a sufficient majority of the school districts affected agree to change the formula.

Mr. Whitney said that to the extent there are problems with local governments in the Twin Cities area we should treat the problems on a locality-by-locality basis. For example, we should remember that the maximum effort school aid law takes care of the crisis situation.

At the close of the meeting the chairman asked for a general feeling from committee members on whether it is advisable in general to seek additional increases in the property tax on an overall basis. The general reaction of the committee is that we should not. At our next meeting we shall try to reach consensus on the extent to which the tax base should be broadened in the metropolitan area.

6. The meeting was adjourned at 9:00 p.m.

Paul Gilje
Staff