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Citizens League
545 Syndicate Building
Minneapolis, Minnesota 55402

Minutes of Meeting
METROPOLITAN FISCAL DISPARITIES COMMITTEE
Thursday, January 16, 1969 - 6:30 p.m.
Minneapolis Public Library, Room 216

PRESENT: Earl F. Colborn, Jr., Chairman, Dr. Frank Boddy, B. L. Brayton, Thomas Connelly, John Costello, Mrs. Nicholas Duff, Robert Ehlers, James C. Erickson, Peter Meintsma, Gordon Moe, Thomas R. Mulcahy, Mrs. Vernon Olsen, Thomas Vasaly, Donald Wahlund, Don Cleveland (guest), Ted Kolderie (staff) and Paul Gilje (staff).

1. The meeting was called to order at 7:00 p.m. by Chairman Colborn. Minutes of the meeting of January 9 were approved as mailed, but Mr. Ehlers requested a clarification of his viewpoint on solving the disparities problem through the school aid formula. His point is that present state aids could be distributed in such a way (by changing some numbers in the foundation aid formula) so that some districts would be paying more property taxes and others less. This, of course, would mean that some districts would have their present level of state aid reduced. Committee members pointed out that such an eventuality is very unlikely.

2. Gross Earnings Tax -- The staff gave a background description of the gross earnings tax proposal. It was noted that back in May of last year we devoted a full meeting of the committee to the proposal. At that time we heard from Rolland Hatfield, State Commissioner of Administration, who came up with the idea of a gross earnings tax on utilities. The idea was an outgrowth basically of the power blackout on the east coast, which indicated how far from the users the major power plants can be located. With a property tax system for taxation of utilities, we find that the users are paying a tax for which many of them receive little or no benefit.

   The committee was brought up to date on statistics which had been given to the committee last May on the dollar amount of additional investment in generating capacity and transmission lines which are planned by the electric utilities in the next 21 years. We expect that something on the order of $3.3 billion worth of generating capacity and transmission lines will be built. The vast majority of this will be in major electric plants. We also know that this new investment will be concentrated in a very few locations. Although we do not know the amount of investment contemplated in the various locations, it is understood that as much as $600 million will be invested at one site. This would be for a facility that eventually could have three million kilowatts of generating capacity.

   We also know that a substantial amount of power available for Minnesota in the future will come from power plants outside the state, which of course will not be available for property taxation by this state. Specifically, there are major plans under way for plants on the Nelson River in northern Manitoba.

   We also know that the existing smaller power plants probably will be gradually phased out or phased into standby service. A plant which is placed on standby service probably will have lower valuation attached to it. The problems we have identified have led to the suggestion that we change the method of taxation of our utilities.

The bill which was introduced in the 1967 Legislature was reviewed. This bill called for a 12% gross earnings tax on electric utilities and a 7% gross earnings tax on gas utilities, exempting the co-ops and municipally owned facilities. The bill provided that local governments would be guaranteed as much as they now are receiving in property tax from the utilities. The bill also provided that each municipality would be given $15 per capita, with the revenue distributed among the governmental units within the municipality in proportion to their levies. The bill also provided that when a new generating plant is located in a municipality it would receive something extra, up to a total of $500,000, because the plant is located in that community.

It appears as if a bill will be introduced in the 1969 Legislature but that it might well be expanded to include regulation of the utilities as well. It also appears as if the bill will deal only with electric utilities and not the gas. Further, it looks as if the 12% rate may be lower, though this is not clear at this moment.

Mr. Connelly said that the Northern States Power Company was neither opposed nor in favor of the 1967 bill. He mentioned that other states are now getting interested in this possibility. He has just returned from South Dakota, and they recognize that there is much investment in Minnesota which they do not get a benefit from and are exploring the possibility of a gross earnings tax. Another factor in South Dakota is that the first nuclear power plant built by NSP was built in a small township and the property taxes from that utility were concentrated in just the township area itself.

There was a brief discussion by committee members of the impact on the bonding power of a locality if there is a gross earnings tax. The chairman said he believes that appropriate arrangements can be made for those outstanding bonds so that they will not be in jeopardy.

Mr. Ehlers reminded the committee that, to the extent you remove the electric utility valuation from a school district, the other side of the coin is state aid will have to be increased to that school district. Another committee member pointed out that if this takes place you will have state aid adjustments in communities which will benefit from the gross earnings tax. They will get less state aid than they had before.

Mr. Moe wondered whether it would not be better to base the distribution of the gross earnings tax on the basis of use of electricity rather than a per capita basis.

Mr. Boddy stressed that as far as he is concerned the logic is not necessarily in favor of a gross earnings tax versus a property tax. The key point for us to remember is the pooling of the taxes from the public utility and then distributing them on a far more equitable basis than now. This is the key decision. He also doesn't think it makes much difference whether you distribute the money on the basis of use or per capita. Any formula would be better than the present. Quite clearly, the gross earnings tax has lots of administrative advantages over the property tax on utilities. Simply pooling the property tax in Minnesota would not enable the state to take advantage of plants which are located outside the state.

There was some question whether the 12% gross earnings tax doesn't just amount to a 12% sales tax on utilities. It was pointed out that the utility now is paying the equivalent of a 12% gross earnings tax when it pays its property taxes.

Discussing further the distribution formula as proposed in the 1967 bill, it was noted that the revenues are directed into the state general revenue fund and then distributed on a basis of $15 per capita. This currently is of some advantage to the localities because extra money from the state would be required to reach the $15 figure. However, this would only be a short run situation. In the long run, all the growth from the gross earnings tax would be directed into the state general revenue fund. This would mean that instead of the growth from the gross earnings tax being earmarked for local government it would turn out to be a new source of revenue really just for state government purposes. The $15 per capita looks pretty large today, but in the future it will be fairly small. There was strong feeling in the committee that all of the receipts from a gross earnings tax, not just $15 per capita, should be earmarked for distribution to the local governments. The local units of government have a very difficult time as it is in raising revenue. It also must be remembered that the distribution of the funds from the gross earnings tax goes back to those localities where the private electric utilities serve. They would not go back to those communities served by the co-ops or the municipal plants.

It was noted that if we distributed the proceeds from the gross earnings tax at least partially on the basis of use a community such as Burnsville, which is served by both private and co-operative utilities, would receive funds only on the basis that it used the electricity from the private utility.

Mr. Ehlers wondered why we shouldn't just put the revenue from the gross earnings tax into the school aid fund and distribute the money as we do state aid. It was pointed out that if we did this we wouldn't necessarily increase the level of state aid payments to localities. The state would just not appropriate other money that it would otherwise have appropriated. One committee member said that if you did this you would also do grave harm to the central cities.

At length, the chairman said it appears this committee has a consensus that we favor a program of eliminating the property tax on utilities and substituting a gross earnings tax generally along the lines of the bill that we have discussed. We however want to stipulate that the revenues from the gross earnings tax would be distributed completely and exclusively to local units of government and not go into the state general revenue fund. We also will grandfather in the local units of government which now are receiving a certain level of support from the property tax on utilities. There was not entire agreement that we would necessarily grandfather in these localities on a permanent basis at their present levels. The chairman asked whether any committee members disagreed with this consensus. Mr. Ehlers said he dissents. He believes that the idea has not been thought through yet; he is not satisfied that the impact of the foundation aid program has been understood.

3. The balance of the committee meeting was spent in a discussion of a general redistribution of the property tax base in the metropolitan area. The chairman reviewed the varying opinions which were expressed at the last meeting.

Mrs. Olsen observed that the teachers' salary problem is somewhat wrapped up with the whole problem of fiscal disparities. We find that school districts which are not wealthy in this metropolitan area are generally forced to adopt the same salary schedules as the wealthy ones. This clearly shows that we all are paying the same for education, in her opinion. Mr. Boddy said some people have been raising the question about the way teachers' negotiations are conducted in the metropolitan area. The teachers' organization will find it to their advantage to concentrate on a school district which has a good tax base to see if they can get them to settle first. The tax impact will not be great there, but in the poorer school districts, which are forced to follow suit, the millage increases will have to be very substantial.

For purposes of committee discussion, a policy alternative was distributed to committee members with some hypothetical figures as to what the impact would be. This alternative calls for a redistribution of 50% of the non-homestead tax valuation on a gradual 10-year basis, with the redistribution for schools or municipalities or both. The policy alternative was worked out on the basis of redistributing the tax base rather than the taxes, generally along the lines as suggested by Mr. Preeshl. It was noted that we really will find major problems if we talk about any radical redistribution of the property tax base today among local units of government. If, however, we can concentrate on the growth of the metropolitan area, we will gradually reduce the differences and thereby assist in a much more orderly development of this metropolitan area.

The question was raised whether we really need to go through the complicated process of redistributing the tax base, as is suggested by Mr. Preeshl. Mr. Wahlund and Mr. Colborn agreed that it would be far more simple to talk about the redistribution of the taxes. Mr. Wahlund contended that this could be accomplished in the same taxing year, and so you would not have to wait for a redistribution until the next year.

There was some additional discussion about whether it would be advisable for the committee to concentrate solely on recommending a new source of revenue and not dealing with the question of the redistribution of a portion of the tax base. Mr. Boddy pointed out that property taxes are going up at a rate of 10% a year, but a new source of revenue would increase at about 8% a year.

Mr. Vasaly said he has no philosophical objection to a pooling of a portion of the tax base, but he personally feels that it should cover both schools and municipalities. Mr. Moe said he cannot imagine how the central city would every benefit from such an approach. Mr. Wahlund responded that, unless we look to a situation where we have a broader sharing of the metropolitan area tax base, we are going to find our central cities dying without it. Quite clearly, if we were going to take 5% of the existing tax base today and redistribute areawide, the central cities would not get as much as they now do. But we have to take the long-range look to the growth of the metropolitan area and that this will provide a way for everyone to share in the growth.

The chairman noted that our adjournment hour had arrived. He said that for purposes of concentrating our meeting next week on the essential issues we assume we will be taking a combination of a new source of revenue and some redistribution of the property tax along the lines as suggested tonight, which would create a fund of dollars. The key quesion we now must ask is how those dollars will be redistributed. Committee members agreed that this is the general action we hope to take at our next meeting. The meeting was adjourned at 9:05 p.m.

Paul Gilje
Staff