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Minutes of Meeting

METROPOLITAN FISCAL DISPARITIES COMMITTEE

Thursday, January 23, 1969 - 6:30 p.m.

Minneapolis Public Library, Room 216

PRESENT: Earl F. Colborn, Jr., Chairman, Arch Berreman, Dr. Frank Boddy, Mrs. Nicholas Duff, Robert Ehlers, Peter Meintsma, Donald S. Nolte, F. W. Preeshl, Thomas E. Reiersgord, Arne Schoeller, Matthew H. Thayer, Thomas Vasaly, Donald Wahlund, Arthur Whitney, and Paul Gilje (staff). Guests: Bruce Brayton, Don Cleveland, Donald L. Frydenlund, and Anthony J. Reiter.

1. The meeting was called to order at 7:00 p.m. by Chairman Colborn.

2. Committee Schedule -- The chairman said that we will not meet for the next two Thursdays, but we will convene again on Thursday, February 13. Prior to the meeting on February 13 it is our intention to mail to the committee an outline, which the chairman hesitates to call a first draft of recommendations at this point, but which will contain the basic thrust of the committee to date. He called on Paul Gilje of the League staff to describe an outline that he had developed with him. Generally the outline which will be mailed to the committee will have four parts. First will deal with the question of sharing on a metropolitan basis a portion of the new property tax base growth in the metropolitan area. Second will be the discussion of a new source of revenue. Third will be the question of areawide or statewide guarantee of local bonds. And fourth will be the question of a gross earnings tax. In cases where committee consensus is evident, this consensus will be reflected in the draft. In other cases the alternatives will be clearly outlined. The chairman asked if there were any persons who disagreed with this kind of an approach, and there appeared to be general agreement that we should move in this direction.

3. New Source of Revenue and Distribution -- The chairman said that this subject has not been discussed in sufficient detail to date and that tonight we should really zero in on this question. We have talked about in the past the need to redistribute some of the revenues from new property tax growth and also the need for a new source of revenue so that the overall level of the property tax does not increase. As a takeoff point, he suggested that we look at the proposal advanced by the Metropolitan Section of the League of Minnesota Municipalities which was discussed by their executive director at one of our meetings last December. It was noted that the recommendation is that the revenues be distributed one half to school districts and one half to counties and municipalities, with municipalities getting two thirds of that portion. Then the money would be distributed to each local unit of government according to need and ability to pay. Ability to pay would be a combination of assessed valuation and income data. Need for school districts would be the number of weighted pupils, with pupils weighted according to different categories. For example, disadvantaged children would be weighted double, so that in effect you would get double the money for each disadvantaged child. There would be other weights for such

things as the physically handicapped and the mentally retarded and the high ability students. One committee member commented that we should be able to get actual cost figures from school systems as to what it does cost to educate certain types of children. This would enable a far more rational system to be devised for weighting the aid according to different types of students.

There was general discussion about the proportion which school districts and municipalities should share in a new source of revenue. One committee member noted that outside the central cities the school mill rate is sometimes ten times that of the municipal mill rate. On that basis he believes that giving the school districts only one half of a new source of revenue is not sufficient. One other committee member wondered why we could not concentrate the revenue in only one unit of government. Another committee member said that schools provide a fairly common level of service throughout the metropolitan area in contrast to municipalities.

On the other hand, another committee member pointed out that if we are to concentrate exclusively on school districts we ignore the very serious municipal problems in the central cities. The central cities don't really have a choice on the level of local municipal services that they are to provide. They just must provide them, and the level of services must be much higher than that of the suburbs. The argument conceivably could be made that if you provided additional non-property tax revenue to your school districts in the central city, this would correspondingly free up millage for local government. However, as a practical matter this is not going to be the case for many reasons including the severe limitations that are placed on the central cities in terms of millage limit. Further, the mill rates in the central cities for municpal purposes are substantially higher than most suburbs.

Another committee member said that, aside from the question of municipalities and school districts, if we talk about giving aid to school districts at all we have to take into consideration the parochial schools. This is a very critical problem in the central cities, particularly St. Paul.

One committee member observed that it is very difficult for him to talk about the distribution of a new source of revenue apart from the general discussion of how we redistribute the property tax. If we concentrate on one unit of government in the redistribution of that, we might use the new source of revenue to compensate for problems that could arise in connection with other units of government from a redistribution of the property tax. This might be particularly true if we were going to have any kind of an areawide levy for school purposes. This would have a particularly burdensome impact on the central cities. Thus if we had a new non-property source of revenue we might want to use part of that new non-property source to lessen the burden in the central cities from an areawide levy. According to this train of thinking you would use a portion of the new source of revenue to provide the funds that would otherwise have come from an abnormal increase in the property tax in the central cities. In effect this would be providing a buffer so that the substantial increase would not take place. Then the balance of the new revenue source would be distributed to all units of government.

Some committee members were cautious about any distribution plan for revenue that is inflexible. According to their viewpoint, a formula which fits today will not necessarily be the appropriate one in coming years.

During the discussion of ways to redistribute the property tax base on an area-wide basis, one committee member said that the principal problem we have, even in connection with the suggestion that would allocate property tax base back to each local unit of government, is the uncertainty on borrowing money. The taxation of the physical property which is located in a local unit of government is the sole basis of a locality's having an ability to borrow money. If you introduce uncertainty as to what that tax base is, you produce a disadvantage to that local unit of government. Others questioned whether the guarantee for bonds need rest at the local unit of government as against some higher level. It also was questioned whether we actually are taking tax base away from a local unit of government. The tax base stays there, some persons pointed out, and therefore can be available to guarantee bonds.

There appeared to be substantial feeling among committee members that there should be a close connection between a new source of revenue and redistribution of the property tax. If under certain redistribution formulas an undue burden would be placed on certain units of government, this burden would be compensated for by a better share of the new source of revenue to start with. This would avoid dramatic 50-mill increases in school millage, for example. There continued to be substantial feeling in the committee that the major share of the new source of revenue should be earmarked for school districts. In terms of distribution of the revenue, it was suggested that we could use the present state aid formula, or we could take the approach suggested by the Metropolitan Section of the League of Minnesota Municipalities. Many committee members liked the approach suggested by the Metropolitan Section. It was noted that if that approach is valid for redistribution of new revenue in the metropolitan area, the approach would conceivably also be valid as a new formula for distribution of state aids on a statewide basis.

4. Final consensus within the committee was not entirely apparent at the end of the meeting. The general thrust was clear, though, that the committee favors a new source of revenue with its distribution to be based first on what kind of impact a sharing of the tax base would have, and then second the new money would be distributed probably principally to school districts but with an assurance that the urgent municipal revenue needs of Minneapolis and St. Paul would receive very high priority in whatever plan we come up with. This will be discussed in greater detail in the draft which will be mailed to the committee before our next meeting. The meeting was adjourned at 9:00 p.m.

Paul Gilje
Staff