Citizens League
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"GETTING AFTER ONE OF THE REAL VILLAINS"

In which we argue that persons concerned about environmental and social problems -- in addition to excoriating the wicked -- should pay some attention to the rules of the local finance game

A good many of the major difficulties in the development of the Twin Cities area . . . including the destruction of the environment and the problems in building and finding housing . . . can be traced back, in significant part to the pressures put on local public officials by the present system of local finance. Specifically, by the combination of:

* <u>Continued</u> heavy dependence on the property tax.
* <u>The requirement</u>, under the existing rules of the game, that municipalities can tax only that property they have located -- or can somehow persuade to locate -- physically within their corporate limits.

As a consequence, the municipalities in this metropolitan area are forced into a kind of "beggar-my-neighbor" competition with each other . . . each under a compulsion to try to get into its own borders the development that pays in taxes more than it costs in public services; and to force onto somebody else the development that costs in services more than it brings in revenues. The damaging effects of this "policy" -- which has developed, unplanned, here, with the growing-together of the originally free-standing municipalities -- are well known:

* <u>Resistance</u> by individual municipalities and counties to the location, in their limits, of major parks and open space to serve people in other communities and counties.
* <u>Continued</u> construction of residences and commercial buildings in flood plains . . . and the filling in or marshes essential to the preservation of lakes.
* <u>Large-lot zoning</u>, minimum value housing requirements, prohibition of certain types of housing and other manipulations of the local development ordinances . . . all pushing up the average price of a new house.
* <u>Resistance</u> to the location of lower-value housing close to the center of the area where public facilities and jobs are located.
* <u>Construction</u> -- because of the land values and tax base presumably created -- of too many interchanges on freeways and other major roads . . . and the destruction, in consequence, of the public investment in the highway.
* <u>Controversy</u> over the location of major public facilities -- airports and transit lines, in addition to highways -- and pressure to make planning decisions, not on the merits of the system, but in terms of their fiscal effects on various municipalities.

It would be desirable -- and it would be possible -- to soften these pressures on local officials, and on the planning of metropolitan development projects. It would take only a rather simple change in the system of local tax and finance. Such a change was proposed at the 1969 session of the Minnesota Legislature and is now back before one of its interim committees for further consideration.

The proposal simply provides that in the future the growth of commercial property should be "reachable" for tax purposes by all the municipalities in the Twin Cities area, regardless of the physical location of the property. Specifically, it provides that half of the growth of non-residential valuation should be pooled on a seven-county basis and this tax base then shared with all municipalities, giving each a share proportionate to its share of the area's total population.

Such a change in the basic system of local finance would have the following advantages:

* Developing municipalities on the suburban fringe would then get tax base earlier, when they need it most: That is, when the subdivisions begin coming in and the demand for streets, schools, sewers, etc., begins . . . the commercial facilities usually not arriving until some years later.
* Developed municipalities -- the central cities, for example, but during the 1970's probably also including a number of the older suburbs -- would then have a way for their tax base to continue to grow, as they share in the growth of the area as a whole. This will ease them through the difficult transition between the time new commercial construction stops and the time re-development can begin.
* The basic incentives in the tax system will thus have been changed around . . . to work to unify, rather than to disunify, the metropolitan area.
* An incentive will have been established for municipalities to take people, since tax base then will come with them.
* Since municipalities will be sharing in the growth of the area wherever the commercial properties are located, there will be less pressure to build on marginal land in any given community . . . or for any set of local officials to accept an otherwise undesirable project solely because of its tax considerations.
* The increasing tendency of the private commercial developers to concentrate properties and valuations in relatively few municipalities will no longer work so sharply to create some rich and some poor jurisdictions.
* Private developers will be somewhat freer to locate plants and shopping centers in terms of their most desirable locations from a market standpoint . . . and have to worry less about the tax factor in private location decisions.
* Public projects (transit, for example) which tend to have the same effect on the concentration of valuations will no longer be so vigorously fought over, and decisions about their planning and development can be made somewhat more on the merits.

The moral of the story: Local officials are not bad-hearted people, but they will -- because they must -- respond to the incentives they are given by the system. If you want them to protect the environment, or work for more adequate housing, be sure those incentives are set up in the system.