

Citizens League
545 Syndicate Building
Minneapolis, Minnesota 55402

Minutes of Meeting

BOARD OF DIRECTORS

Friday, March 14, 1969

Leamington Hotel -- 12:00

PRESENT: Dr. Francis M. Boddy, President, Fred Cady, Homer Childs, Earl F. Colborn, Jr., Mrs. Nicholas Duff, Harold D. Field, Jr., Mrs. Ralph Forester, David Graven, Greer Lockhart, Charles Lutz, Donald W. McCarthy, John W. Pulver, Paul Van Valkenburg and John Windhorst. Guests: Robert Ehlers and Arthur B. Whitney. Staff: Ted Kolderie, Neill Carter, Irma Sletten and Paul A. Gilje.

1. The meeting was called to order at 12:45 p.m. by President Boddy. Minutes of the meeting of March 5 were distributed.
2. The Executive Director presented the following staff reports:
 - The Executive Committee has reviewed the meeting place and time of our Board meetings, and it is generally felt that many people would prefer spending less for a noon meal, and we have made arrangements to meet at the Minneapolis Public Library for our regular noon meetings. We can go through their cafeteria line at a very reasonable price. They have a good room available.
 - It appears as if the Metropolitan Sewer Bill is starting to move in the Legislature, and this is a good sign.
 - The annual Citizens League election of Board members will be held on April 30. Eight members of the present Board of Directors will be leaving because their three-year term has expired. A Nominating Committee has been appointed to select 12 nominees. They will be announced soon.
3. The following committee appointments by the President were presented and approved:
 - Airports Committee: Louis Farrell, James Jorgenson, William Pearce, Roger Hale, Thomas Mulcahy, Donald P. Brown, Robert Whitlock and James Anderson.
 - Criminal Justice Planning Committee -- Joyce Hughes Smith and Alan K. Ruvelson, Jr.
 - School Personnel Committee -- Ernest Johnson and Roland Reimers.
4. The chairman introduced Earl F. Colborn, Jr., chairman of the Fiscal Disparities Committee. Mr. Colborn was asked to review the recommendations of the committee and last-minute developments. Mr. Colborn noted that two members of the committee, who are not Board members, are present today -- Arthur Whitney and Robert Ehlers. In addition, Francis M. Boddy and Mrs. Nicholas Duff, who are Board members, served on the Fiscal Disparities Committee. An average of about 20 people attended the meetings on a regular basis. A total of 39 meetings was held. He believes that in his experience this is one committee which probably worked harder than any

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other. He said that the prime thrust of the report is to look to the future of this metropolitan area.

Mr. Colborn pointed out that the committee met twice this week, after the March 11 draft had been mailed to the Board members. He reviewed changes made by the committee in the report. The committee took final action last night at 9:45 p.m. First, the major change in the draft is that the committee is recommending that all residential property, both homestead and rental property, remain in the local base. It had earlier been recommended that only the homesteaded portion would remain in the local base, and the rental property would be part of the shared portion. Second, the specific recommendation on bonding was made by the committee. This had not been included in the previous draft. This recommendation calls for modifying the current state law relating to special state assistance to school districts with heavy bonding requirements, perhaps by broadening the eligibility for state assistance and by having the state guarantee bonds, rather than issue them itself for needy districts. Third, the committee has made a more specific recommendation on the distribution formula for non-property revenue. This change concerns the fact that the Legislature would be requested to adopt the formula, but that the local area, if it desired, could change the formula. This could be accomplished by the Metropolitan Council, if it becomes elective, or by school districts with 80% of the children or municipalities with 80% of the population, for their respective shares of the non-property revenue.

Mr. Colborn then capsulized the four principal sections of the report: Pooling 50% of the non-residential growth and distributing the growth back to each locality on a per capita basis; a non-property tax to be collected and distributed from at least the metropolitan level to be apportioned where the needs are, and to hold down further increases in the property tax; a bonding change as suggested already; and replacement of the property tax on utilities with a gross earnings tax.

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It was moved and seconded that the report be adopted.

5. The chairman called on Robert Ehlers, a member of the committee to state his views. Mr. Ehlers said he dissents for the following reasons:

- Substitution of a gross earnings tax for electric utilities. He believes this is not desirable. He noted that the locality where a large electric plant is located does not receive as much state aid for its school districts as it would receive if the plant were not located there. Thus, it is not a case of "winner take all." If we can justify a gross earnings tax on the electric utility plant, we can justify a gross earnings tax on a Dayton's Department Store for the same reason.
- He objects to the pooling of 50% of the non-residential growth because this would be harmful to emerging localities, he contends, which are in their growing stages. And he contends that the central cities would not benefit.
- Finally, he believes that the majority report rests too much on the alleged unresponsiveness and other problems of the property tax, and does not take account of the total tax mix in Minnesota. He contends that the property tax is a defense of local government, and that it is the only tax that local government really can call its own. He contended that, when you take other taxes into consideration, the total tax mix is quite progressive. He believes

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that the property tax has proven to be a tax very responsive to the money needs of local government. He said that property, and taxes on property, form the only tax base on which local governments can identify and, whatever its faults, defense of property taxes is a defense of local government. Minnesota local governments have been proven to be remarkably effective in providing for the needs and wants of their citizens. To the extent we homogenize the tax base, local governments will be weakened. It may well be that the reason for the high level of education and local public service in Minnesota and in the metropolitan area is the very competitiveness and "fragmentation" which the majority report so deplors.

6. The chairman introduced Arthur Whitney, who was the other dissenting vote from the majority report. Mr. Whitney said he agrees with Mr. Ehlers. He said that the property tax is the basis of local government. He said that the one problem with the property tax is that it is too high; therefore, he wholeheartedly supports the section of our report dealing with the need for a non-property source of revenue. He also believes that our recommendation on bonding is sensible.

Mr. Whitney said that there has been a great deal of talk about the differences between local governments, but actually these differences are not that great. We have a 2 to 1 difference in tax burden on equivalent property among localities, even though there is something like a 7 to 1 difference in property tax base. In a sense, we could say ~~we could say~~ that we have solved 80-90% of the problem already through our school aids. He believes that the true way to solve fiscal disparities is to handle each problem that we identify. He personally would favor levying a tax over the entire metropolitan area, and then placing that money where the need is. The distribution of the fund, or any new money, by a set formula is a waste of money. You have to address yourself to the problems which are most critical, and then place the money there. He further stated that early in the committee's work we identified fiscal disparities as being the difference in resources and needs between localities. He believes that our report does not solve that problem. He said that it erodes the property tax as a basis of local government.

7. There was extensive questioning by members of the Board. During this discussion the following points were made:

-- Mr. Colborn said that the report is partly intended for the 1969 Legislature, partly intended to be an educational tool, and partly intended to stimulate interim work looking toward the 1971 session. We naturally cannot predict exactly what will happen, but it is urgent that this report be out as soon as possible.

Mr. Boddy relinquished the chair to Mr. Lockhart

-- Mr. Windhorst wondered why we should use a population formula for distributing the property tax base and a different formula to distribute non-property revenue. Mr. Colborn said we are really attacking two different things here. First, in distributing the base on population, we are trying to correct the system and not provide for special needs. In the non-property distribution formula we are trying to account for differing needs in each locality. Mr. Windhorst wondered whether we might not accomplish much more if we were to allocate the base on a formula which took into consideration need and ability to pay. And, further, if we could include all commercial and industrial property and not only one half. He believes that we will have frozen in the inequities that exist today, and doesn't expect that this recommendation will

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have impact for a very long time. In response, Mr. Colborn said that we are looking to the long run; perhaps we will have to wait until the year 2000 before a major amount of tax base has been redistributed. It was also noted by Mr. Boddy that the recommendation would have an immediate effect on the metropolitan development goal. That is, the incentive of local governments to do those things which work against the betterment of the entire area would not be present to the degree they are now. That would be an immediate effect and is something we should not forget.

- Mr. Boddy said that we must look at this report in the light of all the debate that has taken place. There are many things in the report that he personally is not completely satisfied with. He would have preferred to go much faster and farther than the report recommends. He said it is very difficult to come up with an ideal formula for distribution of a tax base. This is particularly a problem when the distribution of the tax base is accomplished for all units of government and not just for one.
- Mr. Graven said that he has had two speaking engagements in the past week before suburban groups of municipal officials. He has talked about the distribution formula of the Metropolitan Section of the League of Minnesota Municipalities, and sewer developments, and then has requested reaction to some of the points in the Citizens League draft. He has found that there was an immediate understanding of the Citizens League idea, because it was easily understood and was not just a new tax. Interestingly, he said, the reaction of many officials was that we are not going far enough when we recommend only 50%. They indicated to him that they are tired of the "cutthroat" game, and that they would like to think that you could keep only 25% of the commercial and industrial base locally. He believes that the recommendation has a great psychological impact and favors it very strongly.
- Mr. Van Valkenburg asked whether we can predict what the effect of this proposal will be in the long run. Mr. Colborn said it is very difficult for us to predict at this time. We have established a logical basis and believes this is what is needed. He did say that one member from Minneapolis was very concerned about the impact on the central city as a result of this proposal, but then checked the building permits in the metropolitan area and became much less concerned, because he recognized that substantial development is taking place outside the central city.
- Mr. Cady said that the report should not indicate a willingness on the part of the federal government for federal revenue-sharing. He believes this is not the case at this time, and we should not plan on that to any great degree. Further, he believes that the reasons for only imposing the metropolitan non-property tax at the metropolitan level, rather than at a local level within the metropolitan area, are not clearly stated. He was particularly concerned because he doubts that if you were to impose a local option non-property tax in the metropolitan area any local government would fail to approve it. He believes everyone would fall in line immediately. Third, he believes that the recommendation on uniform levy limits does not have sufficient factual backing in the report. Mr. Colborn replied that the first point about revenue sharing is a small part of the total report. He then commented that he believes the uniform levy limit issue is very real and is substantiated in the report. He said that you have a very difficult time when you have arbitrary

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trary limits in one locality which are different from another, and then suggest the imposition of an areawide non-property source of revenue. On the question of the reasoning for having only a metropolitan non-property tax as against non-property taxes within localities in the metropolitan area, it developed in the conversation with Mr. Colborn and Mr. Cady that Mr. Cady is not opposed to this, but just believes the case is not made as well as it might and that there is something misleading in one of the statements. It was agreed that we will try to get this changed.

8. As the adjournment hour arrived, committee members felt that we cannot take action today. It is most important, however, the Executive Director said that we act as soon as possible, because there is a great deal of interest at the State Legislature in this report. It was agreed that we would prepare a complete report with all the changes as had been approved by the committee and get a clean copy to all board members. It was agreed that the Board would meet next Thursday at 4:00 p.m.
9. The meeting was adjourned at 2:20 p.m.

Paul A. Gilje
Staff

I have read the above minutes and find them to be in the form approved by the Board of Directors on March 20, 1969.



Francis M. Boddy, President