

Citizens League  
84 South Sixth Street  
Minneapolis, Minnesota 55402

Minutes of Meeting  
METROPOLITAN FISCAL DISPARITIES COMMITTEE  
Thursday, December 12, 1968 - 6:30 pm  
St. Paul Public Library, Lexington Branch

PRESENT: Earl F. Colborn, Jr., Chairman, Arch Berreman, B. L. Brayton, Peter Meintsma, Gordon Moe, Thomas R. Mulcahy, Mrs. Vernon Olsen, F. W. Preeshl, Matthew H. Thayer, Thomas Vasaly, Donald Wahlund, Norman Werner, and Paul Gilje (staff).

Guests: Stephen Alnes (press), Don Cleveland, Dave Dahl, and David Walker.

1. The meeting was called to order at 6:50 p.m. by Chairman Colborn. Minutes of the meetings of November 7 and December 5 were approved as mailed. The Chairman introduced David Walker, Assistant Director of the Advisory Commission on Intergovernmental Relations in Washington, D. C., who was visiting the committee tonight. He was in town over night for a seminar on Friday.
2. The committee proceeded to a discussion of its working agenda. The Chairman reviewed quickly the three basic conclusions which are intended to form the basis for our discussion but which are not to be regarded at this time as being officially approved by the committee. These general conclusions are that we must approach the problem of tax equalization on a local-government-by-local-government basis. That is, we must try to see how the problems can be resolved at the school district level and then at the municipal level. Quite naturally, the way equalization occurs at one level of government will affect the other. Nevertheless, for purposes of orderly discussion, it appears appropriate that we work on a unit-of-government-by-unit-of-government basis. Because of the size of the school district tax burden in comparison with the municipal tax burden, we will devote our attention first to school district equalization.

The second conclusion is that the State Legislature could, by appropriating sufficient funds, equalize school district finance in the metropolitan area, but it is most unlikely that we will ever accomplish equalization in the area through additional state funds.

The third conclusion is that equalization is of critical importance within the Twin Cities area community, and that for certain reasons it is possible to analyze this apart from the question of statewide revenues for school districts. Basically this is possible, because in our urban area we have some 45 to 49 school districts. In the rest of the urban areas of the state a school district generally covers the entire urban area.

There was some committee discussion about the third conclusion on attacking our problem in the Twin Cities area apart from seeking only a statewide solution. Some committee members said that it is critical for equal opportunity for education to be provided statewide. Others concurred in this and claimed that we are not at all foreclosing a strong recommendation for improved state aids to

school districts. But it is simply the case that there are some particular unique differences within the metropolitan area. People may live in one school district, shop in another, and go to work in another. There is a great deal of mobility within the metropolitan area, much greater than between the metropolitan area and outstate.

It was further pointed out that we must not forget that our committee is looking at the fiscal disparities problem more than just from the viewpoint of equalization of educational opportunity. We are concerned about the impact of the fiscal differences on overall metropolitan development. We have discussed at length in the past the way in which the existing system stimulates local governments to enact restrictive zoning ordinances and to generally have local government policies which would not tend to encourage use of land which does not produce property taxes.

One committee member observed that we generally have a cross section of school districts throughout the state within our own metropolitan area, and whatever solution we come up with for this area might well be applicable on a statewide basis. At length, it was suggested by the Chairman and agreed by the committee that, for the moment, we will use our three conclusions as a working hypothesis without foreclosing the strong recommendation for state action.

3. The first item for discussion on the working agenda was the extent to which school property taxes should be uniform throughout the metropolitan area. At first the discussion revolved around the issue of a uniform rate of property tax assuring a certain level of education below which no community can go. There was some question whether we are in this committee trying to first provide sufficient funds for school districts and secondly to provide some sort of equity in the tax burden in the metropolitan area. Insofar as the second issue is concerned, the questions might well relate to what types of property should have a uniform tax for education rather than the specific level that we would want to seek. There are several alternatives. First, we could have a uniform property tax for education throughout the metropolitan area. Or, we could have an areawide tax only on commercial-industrial property. Other possibilities are that we would leave the current situation as it is and equalize only new additions and increases in value. Then also it is possible that within the commercial-industrial category we could equalize only certain kinds of property, say those above a certain level or certain categories like utilities.

It was noted that if we were, for example, to have a uniform tax on commercial-industrial property in the metropolitan area for school purposes, the mill rate on commercial-industrial property in the central cities would increase. This would undoubtedly mean that some sort of a distribution formula would be adopted whereby funds raised from commercial-industrial property in the central cities would be exported to certain suburbs. Others agreed, but pointed out that one of the problems currently is that the central city does not have adequate access to the tax base it has, because of other problems. If commercial-industrial property were to be taxed uniformly on an areawide basis for school purposes, a formula for distribution could be prepared to recognize the special educational needs of the central city, with the net effect that the revenue situation for the school districts in the central cities would be improved. At this point it was noted that an areawide tax on commercial-industrial property for school purposes would have the effect of perhaps making the total

burden on commercial-industrial property in the central cities higher than the median in the suburbs because of the extent to which the municipal tax rate already is high in the central cities.

At this point there was discussion of an idea which Mr. Preeshl had developed after one of our meetings last summer but which he had not revealed until tonight. The Preeshl proposal provides that all commercial-industrial assessed valuation in the metropolitan area would be allocated on a formula basis to each school district. For example, it might be possible to allocate the commercial-industrial valuation to each school district based on the number of pupils weighted according to certain factors. Thus a school district might have more or less commercial-industrial property allocated to it than it actually has. Each school district would keep its own homestead property which is located within its boundaries. The total assessed valuation applicable to that school district would thus be the amount allocated from the commercial-industrial total plus its own residential homestead. Each school district would determine its budgetary requirements as at present. A total dollar tax levy would be certified. A mill rate would then be determined by applying this dollar tax levy against the total assessed valuation as outlined above. This mill rate would be the mill rate directly applied to the homestead property in that school district. When the mill rate is applied to the commercial-industrial property allocated to that school district, a dollar amount of taxes to be raised from that commercial-industrial property will be determined. All of the dollar amounts to be raised from the commercial-industrial property in each school district in the metropolitan area would be added together. Then, a uniform mill rate throughout the metropolitan area would be determined for the commercial-industrial property to raise the total amount of dollars that are to come from the commercial-industrial property.

The effect of the Preeshl proposal is to make the mill rate on commercial-industrial property an average of the total mill rates on homestead properties throughout the metropolitan area. The rate on commercial-industrial property would be determined as a product of the actions of the local school districts in taxing their own homestead property. Mr. Preeshl pointed out that his approach would have the advantage of avoiding a situation whereby commercial-industrial property could be singled out for a higher tax. It also avoids the necessity of having any outside body determine what the mill rate would be on commercial-industrial property on an areawide base.

One committee member strongly suspects that you really cannot accomplish equalization of the tax base in the metropolitan area. According to this viewpoint, local school districts now in a favored position would not stand for exporting any of their tax base.

4. It was noted that we always have talked in terms of accomplishing areawide equalization of the property tax base along with a new source of revenue which would have the effect of preventing further increases in the property tax. The attention of committee members was addressed to a proposal from the Metropolitan Section of the League of Minnesota Municipalities, which is now under discussion by the Board of Directors of that organization. According to the proposal, an areawide income tax on gross income of residents of the area or a 2% piggy-back sales tax would be enacted. The first preference would be the income tax, which at a rate of 1½% would yield about \$53 million in 1970. According to the proposal as outlined, the revenue would be distributed 50% to school districts and 50% to counties and municipalities, with municipalities

receiving two thirds of that. Distribution formulas to the local units of government are proposed, with the formulas to take into consideration ability to pay and need, as well as valuation.

Committee members began discussing the pros and cons of an income tax which would be on gross income or whether it would be more advisable to piggy-back on the existing income tax at the state level. There was just brief discussion about the type of income tax that might be desirable and whether this would be favored over a sales tax. Committee members agreed that we will have to discuss this at greater length. Because of the urgency to have a report completed as quickly as possible, the committee agreed to meet again on Thursday, January 2, 1969.

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

Paul Gilje  
Staff