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Citizens League
530 Syndicate Building
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June 10, 1971

STATEMENT ON REVENUE DISTRIBUTION FOR GENERAL LOCAL GOVERNMENT TO THE SENATE AND HOUSE TAX COMMITTEES

We urge the Minnesota Legislature not to adjourn its special session without setting a clear policy on the way in which general local government is to finance its operations from non-property sources of revenue.

We do this because we see these local units being driven--by the changes in the system of public finance being made this year--into widespread use of municipal non-property taxes.

And we are convinced this would have the gravest consequences for the state.

First: The Legislature will thereby lose control of the tax policy of the state, so far as non-property sources are concerned.

Second: Enormous inequities in fiscal resources will be created between and among municipalities, both in the Twin Cities area and throughout the rural parts of the state.

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Recent experience in other revisions of the state's system of taxation and finance has demonstrated that changes in the law sometimes produce consequences which we do not expect, at the time . . . and which we later find we dislike and regret.

Unfortunately, these changes--once enacted--frequently are irreversible.

As we have followed the debate over state/local fiscal policy, this year, we have come to the conclusion that unanticipated consequences of this sort are almost certain to result from the changes being made which will affect the financing of general local government.

Preoccupied, as everybody is, with school aids and with the <u>raising</u> of new state revenue, little attention is being given to the area of municipal and county finance.

Yet the incentives being created will set up irresistible pressures, of which we must be aware. Specifically:

1) The Legislature seems likely to impose some kind of restraints on local use of the property tax . . . to guard against the kind of rapid re-escalation of levies which occurred following the relief granted in 1967.

2) At the same time, it is becoming clear to local governments that they are not likely to be cut in -- as they had hoped for so long -- for a significant share of the major non-property sources raised and collected by the state government. They see the state, in fact, this year taking away some of the taxes it has shared with local government in the past.

3) Legislative attention is directed at controlling not their total expenditures, but simply their property tax levies. Although most families and businesses pay all taxes out of a single checkbook, the emphasis is less on the burden of taxes in total than on the burden of the property tax alone.

4) Nothing is fundamentally serving to reduce the pressure on these local units for expanded services and for higher wages and salaries for their employees.

Local officials are bound to conclude from this that they must move, 'on their own', for whatever non-property revenues they can capture within their borders.

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Nobody means for this to happen.

Virtually every group that has studied this problem has concluded that this <u>should not</u> happen.

Yet this is the situation into which we are drifting.

For the door to local non-property taxes is open to some local units.

It is not open to counties. But municipalities with home-rule charters can enact all manner of non-property taxes on individuals and on business activity . . . sometimes by passing a referendum, sometimes simply by action of the city council. Only about 95 municipalities are, presently, home-rule-charter cities. But provisions exist in the law for villages to convert into cities -- and, of course, for some towns to be converted into villages.

We must assume, therefore, that the direct consequence of what is now proposed before this Legislature will be -- within a relatively few years -- a rash of new taxes, or local piggy-backs on existing state taxes . . . in some parts of the state and not in others . . . with varying bases, from location to location . . . and at varying rates.

The implications for the Legislature, as it attempts to return to these sources for state use in future years, are obvious enough.

It is worth underscoring, however, the terribly serious inequities this will produce among municipalities, not only in the Twin Cities area, but almost equally in the non-metropolitan parts of the state.

Some municipalities have, and will continue to have, virtually no commercial activity located within their borders. Some, on the other hand, will have millions of square feet of retail space.

Those without commercial activity are, of course, in many cases already the poorer, more heavily burdened, municipalities.

In the Twin Cities area those with (or about to get) major commercial activity are, in many cases, already the least heavily burdened.

We believe local sales taxes will be almost irresistible.

The big commercial centers draw trade today from far beyond the boundaries of the municipality in which they are physically located. (This is true even more of the non-metropolitan than of the metropolitan area of Minnesota.)

A municipality with such a center is in a position, therefore, to tax mainly non-residents . . . with the revenue used exclusively for its own residents, either in the form of improved services or in the form of further-reduced property taxes.

The problem this presents was forcefully brought home to the Citizens League by a letter from a rural state senator -- a member of the Tax Committee -- dated December 10, 1970 . . . in which he argued strongly for the use of these non-property revenues by municipalities on something other than a place-of-collections basis.

He concluded: "I personally would like to have the Legislature revoke the authority of individual municipalities to pass either sales or income taxes, because I think these taxes should be left for statewide use alone."

We checked, and learned something about his home community. We discovered it has become, in effect, a residential suburb of the county seat town a few miles down the new highway, in which his people now do most of their buying.

Only if monies are raised statewide, and distributed by formula, can his home town secure any significant revenue to finance the services that occur where the people live.

This approach . . . of uniform collection of non-property revenues, with distribution by formula . . . tends to be favored by the League of Minnesota Municipalities for municipal government generally, and -- with respect to the Twin Cities area -- by the Metropolitan Section of the League, by the Mayors Tax Study in 1966, by the Litterer Committee of the Joint Chambers of Commerce, by the Citizens League, by the Minneapolis Chamber of Commerce, the St. Paul Area Chamber of Commerce, and by the Metropolitan Council.

Different groups take somewhat different positions on what, specifically, the formula ought to be. <u>But all are agreed on distribution by formula</u>.

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We know the Legislature is heavily burdened with decisions, in this special session.

This decision about municipal revenues is, however, a decision it cannot escape.

To 'do nothing' will be -- in fact -- to decide in favor of municipal non-property taxes.

The Legislature must, therefore, before it adjourns, address itself to this issue.

The decision need not be terribly difficult, or time-consuming.

What is needed is for the Legislature:

1) To determine that--in order for Minnesota to have a coherent tax policy--major non-property sources will be imposed (and adjusted, from year to year) only by the state.

2) To open up a new program for the sharing of <u>revenues</u> with general local government.

Non-property sources, in other words, would be raised and collected for the state general fund. Revenues would be made available to municipalities and counties out of the general fund, by Legislative action, and distributed by formula to the different levels and units of local government.

<u>This would offer general local government access to the major non-property sources</u>, with the state retaining basic control over the amounts to be distributed.

It would, in effect, put municipalities and counties on the same footing, with respect to state non-property taxes, as the schools.

<u>And it would retain in the Legislature the basic decision-making authority over the state's tax system</u>.

Such an orderly program for local government non-property revenue is drafted . . . and (as HF 3183) was approved by the House Tax Committee late in the regular session.

We respectfully urge your attention to this problem. It is of the greatest urgency.