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November 7, 1968

The Honorable Stafford King
State Auditor
State Administration Building
St. Paul, Minnesota 55101

Dear Mr. King:

This letter is to communicate officially with you concerning errors discovered by the Citizens League in the property tax relief payments to local governments. These errors involve the payments, to school districts and municipalities, of replacement funds for taxes on personal property now tax exempt under the 1967 Property Tax Relief and Reform Act. I am aware that you already have been in touch with a member of the League staff on this matter and that written communication is desirable on matters concerning the administration of the Act.

The Citizens League has been analyzing the Tax Relief and Reform Act for several months. As part of this analysis we have been determining the amount of property tax relief and replacement funds going to governmental units in the Twin Cities area under various provisions of the Act. This has included gathering information on the distribution of the replacement monies for newly exempt personal property. We have had to deal directly with the seven county auditors in the metropolitan area in gathering this information. We understand that the distribution of the replacement monies to each local government is not reported to any state agency.

We received excellent cooperation from the county auditors in the metropolitan area as we were determining the amount of replacement monies to each district. As you know, many taxing districts, particularly school districts, but also a few municipalities, overlap county boundaries. Thus, when we were trying to determine the total amount of personal property replacement monies going to a school district or a municipality which crossed county boundaries, we had to add pieces together from different counties.

While adding the pieces from different counties together, we discovered some serious errors. We found that county auditors were following different procedures for billing the state for replacement funds. In some cases county auditors from two different counties each billed the state for replacement funds for the same property, resulting in double payment to a municipality or school district for that property. In some cases, the reverse occurred. Each county auditor thought the other was going to bill the state, but neither did, resulting in an underpayment.

Essentially, the different procedures were as follows: Some counties, including Anoka, Washington and Ramsey Counties, billed the state for replacement monies for all of the newly-exempt personal property located within their county boundaries. In the case of school districts or municipalities which crossed into other counties, they billed only for the portion within their county. For purposes of understanding this problem, we will refer to that procedure as Procedure A.

Some other counties, including Hennepin, Dakota, Scott and Washington, followed another procedure, which we can call Procedure B. These counties billed the state for the total amount of the replacement funds for those school districts and municipalities whose offices were headquartered in their respective counties. If such school districts and municipalities overlapped into other counties, the portion in the other counties was billed for as well. The counties following Procedure B did not bill the state for replacement funds for other property in their counties; that is, for school districts and municipalities whose headquarters were located in other counties.

Some counties followed a combination of Procedure A and Procedure B. These included such counties as Rice and Goddhue Counties. Basically, they followed Procedure A, but shifted to Procedure B to handle those districts overlapping in counties following Procedure B.

County auditors said they received no written instructions on what procedure they should follow. Consequently, they worked out arrangements among themselves. So long as each county auditor knew what the other was doing, there were no overpayments or underpayments. But in many cases -- undoubtedly due in large part because of the complexity of the issue -- an auditor did not know the procedure being followed in neighboring counties.

Let me discuss the overpayments and underpayments more specifically. We were unable to determine the total amount of the overpayment because so many school districts are involved. We have not contacted all the counties in the state. Our investigation of the seven metropolitan area counties and some of the counties which border the metropolitan area revealed that overpayment for 1968 was at least $147,279. The breakdown of this amount is as follows:

St. Anthony School District 282	$80,346
St. Anthony Village	7,015
Hastings School District 200	7,470
Hastings City	108
New Prague School District 721	36,427
New Prague City	3,175
Belle Plaine School District 716	5,213
Norwood-Young America School District 108	3,236
Watertown School District 111	4,289

We also have information that would indicate that School District 261, which is between Carver County and Rice County, also had an overpayment. The amount of this overpayment is apparently not too large, involving exempt personal property with a valuation of about $4,121. The amount of overpayment would be about 15 or 20 per cent of this. Our investigation is not complete, and we do not know at this time whether there are additional overpayments.

We also found that the valuation of newly-exempt personal property which was not reimbursed for totaled some $326,935 for five school districts in western Hennepin County, and $4,921 for two municipalities. In addition, we found some $1,184 of newly-exempt personal property in the portion of Henderson School District 734 in Scott County which was not reimbursed for. There appear to be other examples as well, but, again, our investigation is not complete. The breakdown of the valuation of the newly-exempt personal property which was not reimbursed for is as follows:

School District 728	$72,528
School District 877	67,749
School District 879	51,975
School District 883	76,133
School District 11	58,550
Rockford Village	223
Hanover Village	4,688
Henderson School District 734	1,184

The total dollars these school districts should have received was somewhere in the vicinity of about $50,000.

Since the problem was discovered and pointed out to various county auditors, certain corrective steps have been taken. The Hennepin County Auditor intends to correct for the overpayment to St. Anthony School District and St. Anthony Village by withholding property taxes, which these two taxing districts would have received before the end of the year, in the amount of the overpayment. The Hennepin County Auditor has also sent checks to the school districts which were underpaid for property in his county. These included $7,406 to District 877, $7,295 to District 879, $16,582 to District 883, $11,345 to District 728, and $8,692 to District 11. When we talked to the County Auditor we learned that similar replacement dollars had not been given to Rockford Village and Hanover Village. Both of these were fairly small and apparently had been an oversight. Nevertheless, this points up the problem very dramatically. We do not know whether corrective steps have been taken elsewhere.

The Citizens League staff talked directly with you on October 21. You then mailed to the Citizens League a copy of a memorandum dated January 24, 1968, which was prepared by the Department of Taxation, sent to the Attorney General's office and received by the State Auditor on January 25. You said in a letter to the Citizens League that you understand this memorandum was distributed to all county auditors. This memorandum indicated that each county auditor should report the exempt property reimbursement for that portion of a joint school district lying within his county. The memorandum included an example to follow. It is interesting that this memorandum refers only to school districts, but I assume that the same procedures would apply for other taxing districts which cross county boundaries.

It appears that this memorandum was never relayed to the county auditors. We delivered a copy of the memorandum to the Hennepin County Auditor when we received it from you. He said he never had seen the memorandum. The Dakota County Auditor told us the same thing by phone. In our discussion with county auditors, they indicated they were not given written instructions on the procedures they should follow.

You indicated in your letter to us that you have notified the Minnesota Public Examiner to investigate these errors. We understand that the Public Examiner is investigating the situation in all counties of the state. Your prompt action in requesting an investigation by the Public Examiner indicates that you see fully the seriousness of the problem. Had the error not been discovered, it would have been repeated automatically in 1969, and, presumably, thereafter. We understand that, as a result of your action and that of the Public Examiner, corrective steps soon will be taken. It appears desirable, based on our limited knowledge of the complexities of the Tax Relief and Reform Act, that these steps include the following:

* Written instructions should be mailed to all county auditors, describing the errors and how these errors can be corrected. Should, for example, other county auditors take the same corrective steps as were taken in Hennepin County?

* Uniform, written procedures should be adopted and sent to all county auditors so that this year's mistakes will not be repeated and so that county auditors will know the correct procedures to follow.

* The state should require that each county auditor report to the state the amount of the disbursements of Property Tax Relief and Reform Funds (including the replacement for the exempt personal property and the 35% homestead credit) to each taxing unit. The state should also require each county auditor to report the assessed valuation of newly-exempt personal property by taxing unit. In effect, a central reporting of data on the disbursements from the Property Tax Relief and Reform Fund is needed. Such information will assure complete reporting, permit validation of countywide totals, and assist policymakers in evaluating the benefits of tax relief funds and their effect on local taxing units. If such a reporting system had been in existence, it is very likely the errors we discovered would have been recognized immediately. We would appreciate hearing from you as to how such a reporting system might be set up and how we might be of assistance.

Sincerely,

FMB:VS

Francis M. Boddy
President