

Commentary and Suggestions on Selected Legislative Issues

February 1988

This summary connects several likely 1988 legislative issues with ideas and suggestions that have come from the Citizens League research process in recent years.

Our process depends not just on the experts — even though we are always indebted to a wide range of specialists who contribute to the factual basis of our work. What makes the results distinctive is the distillation of issues through months of discussion by citizens who give a lot of time to become "expert" enough to make sensible suggestions.

Coming through this sort of process, the reasoning and recommendations have already passed one kind of political, though carefully non-partisan, test. Some of our ideas strike legislators as more "ideal" than practical, but still valuable as benchmarks. We would argue of course that these ideas are in fact practical answers to the issues at hand.

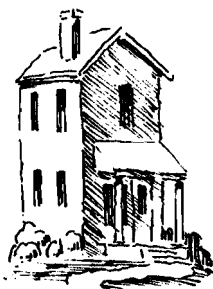
We hope that you find them useful. And we welcome a chance to discuss these issues as they move through the decision process.

The issues are addressed in the following order:

Property Tax
Transportation Finance
Lottery
Fiscal Disparities
Recycling/Container Deposit
Development Finance
Elementary-secondary Education
Post-secondary Education
Judicial Selection
Airports
Transit

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Property tax



Minnesota's property tax system is unquestionably the most complex in the nation. Whatever benefits there may have been in this complexity, they are outweighed by its burdens. Its largest defect is the commitment to a "classification" system of taxes. This system is a poor way of giving assistance to people who need it, because the amount of relief offered by a favored classification depends on the mix of property in a particular taxing jurisdiction. And the system constantly invites adding more classes — and even more complexity. The remedy is to get rid of classifications altogether. Target aid directly to where it is needed.

In addition, local units of government are entitled to more flexibility in local taxation matters, and should face clear accountability for the relationship between the authority to spend and the responsibility to tax.

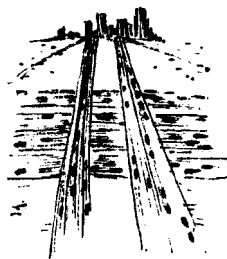
The League agrees that commercial-industrial property tax rates should and will come down.

- Replace the multi-class property assessment system with a one-class system; include a special statewide uniform tax on commercial-industrial property to avoid a major shift in tax burden from commercial-industrial to

other property. In a multi-class system shifts in tax burden are largely invisible; the size of the tax burden varies too much with the mix of property in a community; temptations always are present to add more classes.

- Replace the variety of property tax credits with a targeted refund program for homeowners and renters based on income. Among defects of the current system: it is difficult to determine who is accountable for increasing property taxes; some taxpayers receive more tax credits than they need; others don't receive enough.
- Eliminate levy limits on cities and counties. The state doesn't need to tell local governments how much they can raise if local governments are fully responsible for the incremental changes in property tax levels.
- Provide state credits only through specific appropriations, not open-ended entitlements. The level of state spending should not be determined by local government spending, as is currently the case.

- Replace existing differential property tax burdens for welfare among counties with an equalized welfare levy statewide. Counties should not have to assume different burdens for a program that the state, not the counties, controls.



Transportation finance

Even after the increase in the gasoline tax in the mid-80s, the rate of construction of Minnesota roads lags behind demand. One could argue that there are already more miles, particularly those for which the state is responsible, than we have the political will and financial capacity to take care of.


But reducing the size of the system, by any means, is a difficult political process. Meantime, there is evidence of increased public support for spending on roads. The League would support higher spending, provided that it is designed to result in a more rational allocation of the money, targeting increasingly scarce resources to the most urgently needed projects. We should avoid further guarantees or dedications of tax sources; they just add more structural pressure to Minnesota public spending, at the very time when there appears to be broad support for moderating tax rates.

- **Appropriate** dollars from the state general fund for highways and transit; **don't dedicate** the state sales tax

on motor vehicles to transportation. Dedication would be unnecessary, wasteful, set a bad precedent, and remove public dollars from legislative review. Without an appropriation more dollars would be transferred than would be needed to meet the needs of the state trunk highway system. Only 62 percent of the motor vehicle excise tax would go to state highways. The balance automatically goes to counties and cities; this should go through the appropriation process.

- Increase the state gasoline tax, provided that the Legislature changes the way incremental dollars are apportioned among counties. The county formula is in serious need of change, which is likely to be possible only when additional dollars are made available.
- Adopt a new system for taxing trucks, basing their taxes on weight and mileage, instead of amount of fuel that is consumed. Trucks don't pay their share of road expenses under the existing system.

Lottery



The lottery issue is usually posed as a yes-or-no question. It's likely that the Legislature will, at some point, put the matter on the ballot. But more attention should be paid, in advance, to what kind of lottery is acceptable, how it would be operated, and what role state government should play. A lottery is not a good substitute for other taxes, and the state should not become dependent on revenue from it. The

state should be a regulator, not an operator.

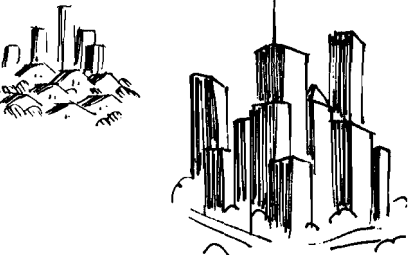
■ Submit to the voters a constitutional amendment allowing a lottery, provided the Legislature takes steps to assure that the state will only **enable and regulate** a lottery, **not encourage** its citizens to play. These steps should be:

- The lottery should not be taxed at a rate higher than any other taxable function or item in the state. The state should not be more dependent on lottery revenues for balancing the state budget than on revenues from any other source.

- Revenue from a lottery tax should be deposited in the general fund of the state, not dedicated to any specific purpose. Citizens should not be urged to buy lottery tickets by the beneficiaries of the lottery tax.

- The lottery should be operated by an entity other than state government, but regulated closely by a public commission. If the state operates a lottery, chances are the state will be urging citizens to spend their money on lottery tickets.

Fiscal disparities



Our tax-base sharing system, known as "fiscal disparities," continues to be a successful tool for reducing the otherwise vast

disparities that would exist between the wealthiest and least wealthy communities in the metropolitan area. But the law needs a number of refinements, mostly in the interest of fairness.

The Legislature should resist, though, changing anything really basic, particularly the contribution percentage of 40 percent. The effect of such a change would be a long-term reduction in the capacity of the program to accomplish its original and still worthwhile objectives.

■ Modify the fiscal disparities law:

- Eliminate exemptions granted to South St. Paul, property at the Minneapolis-St. Paul International Airport, and pre-1979 tax-increment districts. Public confidence in the law is enhanced if contributions must be made by all commercial-industrial property.

- Don't allow cities to escape making contributions

by undervaluing property. The fiscal disparities law can be adjusted for underassessment, as other state laws are adjusted.

- Don't allow cities to share in the pool if they prohibit commercial-industrial development within their borders.

- Remove special treatment given to cities with a high percentage of mobile homes in their borders.

- Remove special treatment given to cities with unusually high levels of market value per capita.

- Consider phasing in pre-1971 commercial-industrial value. Cities that have experienced most of their growth since 1971 are required to contribute more of their tax base than cities who had considerable growth before 1971 and aren't required to share that growth.

■ Keep the contribution percentage at 40 percent. It assures more uniformity in commercial-industrial tax rates across the metropolitan area; it keeps the fiscal disparities pool larger, and it preserves the integrity of tax-base sharing. Consider modifications in the distribution formula if the Legislature believes differences between the "winners" and "losers" are too great.



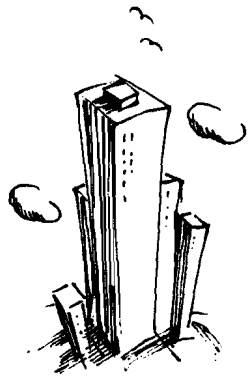
Recycling & container deposit

The Citizens League's suggestions here are aimed at restructuring our long-term policies: to deal directly with the reasons why we currently cannot reduce the waste stream through recycling, and to work toward changing the way individuals think about waste — from purchasing to disposing. Recycling costs less than other disposal forms; we should take advantage of the difference.

- Require garbage collection fees to vary based on

volume of waste disposed, to encourage citizens to dispose of less waste, by producing less and recycling more.

- Enact a container deposit law, but delay its effective date for four years. After that time the law would go into effect automatically, if the amount of waste recycled voluntarily was not at least as much as container deposit would be expected to accomplish. If, however, the recycling goal had been reached, container deposit would not go into effect.



Development finance

Tax-increment financing, clearly a favored tool among Minnesota cities (particularly in the metropolitan area) for facilitating real estate development, remains an essentially unaccountable, unnecessarily indirect program. In the long-term we should move away from this practice, replacing it with a direct development fund. In the near-term,

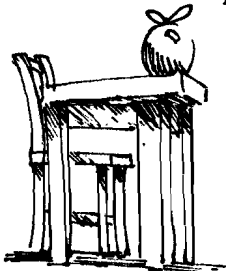
restrictions are needed to guard against excessive use.

- Phase out tax-increment financing provided cities are given access to a redevelopment fund, paid for from direct

revenue sources, including general fund transfers, direct property tax levies, limited surplus revenues, general obligation bonds, and other sources. The system for financing redevelopment should not be outside the regular budgetary process, as it now is.

- In the meantime impose restrictions on tax-increment financing (TIF) to stop excessive use, such as: disallow the formation of districts where no redevelopment is occurring; require city governments to partially reimburse the state for its loss of revenue due to TIF; disallow the accumulation of surpluses; discontinue pooling tax-increment dollars; require that city administrative expenses be financed from sources outside TIF.

Elementary-secondary education



Minnesota policy-makers have distinguished themselves nationally for pursuing improvement through incentives and opportunities, rather than new mandates and ostensibly higher standards. The extension of choice to parents and students is creating a more open, responsive system. These gains

should be protected and built upon. And now the attention should turn to opportunities for educators and their schools and districts to restructure themselves, so that parents and students will find real choices among programs and methodologies, and generally improving quality across the system. In addition, the state should move toward a system of measurement that tells us where we are. The League also supports the visions and policies of the 1987 Governor's Discussion Group statement.

- Preserve and extend open enrollment statutes, including:

- (a) post-secondary options
- (b) graduation-incentives program, and
- (c) voluntary inter-district participation.

By giving parents and students the option to choose, the state will stimulate school districts to make educational improvements in the best interests of children and educators alike.

- Make it possible for teachers to share in the operational decision-making authority in their own school buildings. Daily contact with students puts teachers in the best position to know what needs changing in any particular school.

Post-secondary education



High rates of high school graduation along with high post-secondary participation rates have made the post-secondary sector a prominent part of the Minnesota strategy. An emphasis on "access" has resulted in a far-flung array of colleges, universities, and institutes.

Constantly changing educational challenges and fiscal realities now suggest that offering nearly everything nearly everywhere is unaffordable, without disastrous sacrifices in quality. It is time for more distinct differences in mission and programs.

The place to start is with the flagship institution, the University of Minnesota, where the leadership already is working to reshape the mission and scope of the institution. This effort deserves strong philosophical and financial support. The

legislative response to the university's initiative may be the most important public investment decision of the decade.

- Continue support for "Commitment to Focus" at the University of Minnesota, making sure that the University follows through on its plans to reduce the size of its undergraduate enrollment and to narrow the breadth and improve the quality of its curricular offerings. A first-class university is key to strong economic development in Minnesota.

- Provide incentives for community colleges and area technical institutes to merge. If area technical institutes desire to remain under local management, require some local funding. The two systems are more alike than they are different. Keeping them artificially separated makes it difficult for students to receive the breadth of curriculum that they want.

Judicial selection



Even though some appointments have been controversial, the Citizens League commends both Governors Quie and Perpich for establishing by executive order and following a merit system for

identifying nominees for judgeships. We should build on their examples, and with some refinements, put such a system into statutes to assure that these principles will always govern appointments in this important and sensitive sector.

- Establish a Judicial Selection Commission by statute, with these key provisions:

- The Governor and the Minnesota Supreme Court would share in the appointment of commission members, with the Governor naming a majority of the members. Involving the Governor and the Court in appointments should assure that a broad spectrum of candidates would be considered. The Governor, ultimately responsible for making appointments under the Constitution, should have a majority.

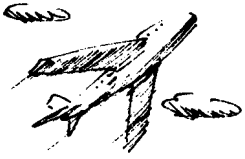
- The Commission would deal with appointments to the Court of Appeals and the District Courts, but not the Supreme Court. It is undesirable for the Supreme Court to exert influence over a group that recommends its peers.

- Not more than one-half of the members, other than the chair, should be lawyers, to assure that members of the public will be strongly represented. The chair could either be a non-lawyer or a lawyer.

- The Governor and the chief judge from every judicial district each would name two members from each judicial district, who would participate only when vacancies occurred within their respective districts, to assure that local interests are represented on the commission.

- The Commission would submit three to five names to the Governor, in alphabetical order. If the Governor refuses to appoint from the list, a second list must be requested, after which the Governor would be free to name any qualified candidate, whether on the list or not. The ultimate selection authority of the Governor should be protected.

Airports



Long hailed as one of the most conveniently located and efficiently operated metropolitan airports in the country, the Minneapolis-St. Paul International Airport (MSP) has

become the object of increasing controversy. Increased traffic volume, due both to deregulation and to growth, has generated noise levels regarded as intolerable by area residents and a concern about MSP's maximum capacity.

We conclude that noise objections alone are not a sufficient reason to replace the current airport. But in combination with actual long-term capacity needs, the case for permanent reliance on MSP is less certain. Given the length of time required to plan and build such a major facility, and the disappearance of land in convenient proximity to the bulk of the population, it is imperative that a search process be initiated in case the present airport needs to be replaced. The studies associated with site-acquisition will yield the most definitive-possible answers to need and environmental acceptability.

In the near-term, every feasible action that reduces the negative

consequences of the present site, while maintaining its operating advantages, should be taken to preserve its longevity.

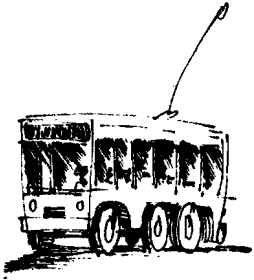
■ Require the Metropolitan Council to identify a search area for a possible replacement airport. Require the Metropolitan Airports Commission (MAC) to plan for and acquire a specific site within the search area. The site would be held as insurance against a time when a replacement airport might be needed.

■ Provide public tax dollars to support some costs of search and acquisition, rather than relying exclusively on fees paid by airport users, the current source of Airports Commission revenue.

■ Require the MAC to make improvements in noise control and capacity at the existing Minneapolis-St. Paul International Airport, so that the airport can be used as long as possible.

■ Require the Metropolitan Council to develop an information analysis model to assist in determining long-term demand for air travel and long-term capacity of the existing airport.

Transit



Forecasts of growing congestion are fueling greater interest in the region's long-term transportation needs. While there is activity on many fronts, there is also danger that resources may not be allocated where the needs actually are, and that decisions will be made piece-meal, without a dynamic sense

of the development of the entire region. Legislative judgment is needed in areas of governance and finance. Decisions must be based on getting the most ridership out of the dollars expended.

■ Reject the current light rail transit proposals because:

- They do not attract significant numbers of drivers from single-occupant cars,
- They do not propose to leverage private sector dollars from the benefiting property owners,

● The public dollars used for the proposals will not provide the most ridership per dollar.

■ If light rail transit is to be built, consider building it in short-distance applications that serve many trips between various points within major activity centers, like a downtown.

■ Require that the Regional Transit Board propose and the Metropolitan Council decide whether to proceed with light rail transit (LRT), and if so, what corridors should be selected, in which priority, and how the system should be financed. Regional leadership, urgently needed, is largely absent as counties have taken the initiative.

■ Place more responsibility for providing funds for transit on the beneficiaries, including developers, whose land values increase; businesses, whose customers and employees receive transit's benefits, and riders. A more intelligent decision on transit improvements is likely if the individuals and groups who will receive most of the direct benefit assume most of the costs.