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May 22, 1969

TO: Members, Minnesota Legislature

FROM: Citizens League Board of Directors

SUBJECT: Non-property Revenue for Local Government

In the closing days of the 1969 Legislature, major decisions are being made on the collection and distribution of additional non-property taxes for local government.

We strongly support additional non-property revenue for local government to ease the property tax burden, and we commend the Legislature for placing high priority to this subject. The Legislature recognizes the excessive burden of the property tax and the need to find an alternative source for local government.

The Citizens League in its report "Breaking the Tyranny of the Local Property Tax," March 20, 1969, addressed itself in detail to this question. The League paid particular attention to the possibility of "local option" non-property taxes. The essence of the League's recommendations was that, if local option taxes are to be authorized, the Legislature should treat the entire Twin Cities area with a single policy and not allow each individual municipality within the Twin Cities area to decide by itself whether to impose a non-property tax and retain all revenue from such a tax within its borders for itself.

This position is consistent with previous Citizens League reports which have indicated opposition to distribution of non-property taxes to the place of collection. On April 13, 1966, the League opposed a broad grant of authority to the City of Minneapolis, by charter amendment, to impose non-property sales and income taxes. Such taxes, the League said, should be imposed and distributed on a broader-than-municipal basis. This position was restated in the League's report of May 5, 1967, recommending a 3% state sales tax, two-thirds of which would be apportioned directly to local governments on the basis of population (for municipalities) and school children (for school districts).

In the last week of the session a new amendment has been suggested, and is actively under consideration, which would allow county boards to decide whether to impose a 1% piggy-back sales tax. One-tenth of the revenue would go to county government and the balance would be distributed among municipalities within the county according to population. The proposal provides that in the absence of action by a county board the tax could go into effect if municipalities with a majority of population in the county and in the county commissioner districts pass resolutions requesting the tax. The county board would retain the right to nullify the tax if it desired.

The proposal further provides that, if counties with 80 per cent of the population of the seven-county Twin Cities area decide to impose the tax, then 50 per cent of the revenue collected in these counties would be distributed among them on the basis of population, with the other 50 per cent remaining within each county where collected. The distribution within each county would remain the same -- one-tenth for county government and the remainder for municipalities according to population.

Finally, the proposal provides that an individual municipality may enact a tax and collect the revenue within its borders for its own use if no such tax is passed for the entire county.

In the light of this new proposal and our position on non-property revenue for local government, we recommend as follows:

1. The Legislature should provide additional non-property revenue for local government throughout the state.

2. Distribution of the revenue should not be according to place of collection. The Citizens League favors a distribution plan to each municipality which would recognize the need for governmental services and the ability to pay. No formula recognizing these factors has yet been agreed upon. We support distribution according to population as an alternative. Although it can be improved, distribution according to population is clearly preferable to place of collection.

The Legislature at this time should avoid any long-term commitments on the distribution plan. Intensive interim study before the 1971 session on the entire tax system is likely. The opportunity to adopt a different form of distribution in 1971 should be encouraged. In its original proposal to the Legislature, the Metropolitan Section of the League of Minnesota Municipalities suggested that a per capita formula be in effect only until July 1971 and that funds be placed in escrow after that date. The intent of this proposal was to force a decision by the 1971 Legislature on a distribution plan.

3. We accept the county-option approach as a possible vehicle for enabling local public officials, not the State Legislature, to decide whether to impose the additional tax and for arriving at a uniform, non-property tax for the entire Twin Cities area. But modifications in the county-option approach, as presently suggested, are needed to improve its workability in the seven-county Twin Cities area. If two or more counties in the metropolitan area elect to impose the tax, then they should jointly share in the revenue according to population. We do not think sharing should be contingent upon counties with 80 per cent of the population of the metropolitan area enacting the tax, as the proposal currently provides. Further, all revenue, not just 50 per cent, should be collected and distributed according to population among the metropolitan counties.

4. We have grave reservations about giving individual municipalities in the Twin Cities area the right to enact their own local sales taxes and keep all revenue within their borders if no countywide sales tax is imposed. The principal shopping centers serving the citizens of the Twin Cities area are concentrated in a few municipalities. Indications are that, as the area grows, such concentration will continue, and become greater. This means that tremendous financial bonanzas will be captured by a few communities which enact local sales taxes, while other communities would receive little or no benefit. Such local taxes would aggravate all the problems which have occurred in the area to date because of fragmentation of the property tax base. It is possible to draw some distinction on municipal local-option sales taxes between the two central cities and the suburbs. Because of the substantial public service requirements in the central cities and their relatively large shopping areas, the disparity problem caused by letting the central cities keep sales taxes collected within their borders would not be as great as in the suburbs, where municipal local option would be intolerable. Nevertheless, we believe the problem can be handled better through county option rather than any municipal local option.