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In defense of fiscal disparities

Once again Minnesota's fiscal-disparities law, which provides for the sharing of 40 percent of the commercial and industrial tax base in the metropolitan area between rich and poor counties, cities and school districts, has become an issue in the legislative session. Hennepin County lists elimination or reform of the fiscal-disparities law as its top legislative priority.

The fiscal-disparities bill was passed in 1971 as a response to the tremendous differences in tax base between the various cities, counties and school districts in the metropolitan area. It was obvious at that time that the difference in the ability of these jurisdictions to raise money to support their local services from the property tax was simply not acceptable.

The disparities had become a deterrent to good planning because of the struggle to accumulate tax base. Even the most basic planning decisions were influenced by the necessity to attract commercial and industrial development that provided high property valuation. On the other hand, public facilities such as parks and open space were resisted because they didn't provide tax revenues. Compounding the problem, tax havens were being created resulting in most of the new commercial and industrial growth taking place in communities with large valuations and lower taxes.

Since the bill became law in 1971, the disparity in tax base per capita from the richest community to the poorest community has been reduced from 10 to 1 to approximately 4 to 1.

To illustrate, with tax-base sharing the valuation per capita in Anoka County is $2,062, while in Hennepin County the valuation per capita is $3,323, a 50 percent difference. Without tax-base sharing the Anoka County valuation per capita would be $1,490, while Hennepin County would be $3,685; a difference of almost 150 percent.

While the bill has substantially closed the gap, in a report to the 1988 Legislature, Karen Baker and Steve Hines of House Research wrote that, "Fiscal disparities will close up more of the equality gap each year, but not as fast as the gap is increasing." It is also interesting to note that of the 10 largest gainers, St. Paul has the highest net valuation per capita of $2,835. Among the 10 largest losers, Plymouth has the lowest valuation per capita of $3,149. This simply means that even though a community may be a loser in the distribution formula, the losers still have more net resources to draw from than any of the winners.

In Hennepin County, 28 of the 46 municipalities are helped substantially by the tax-base sharing bill while 18 communities contribute more to the pool than they receive back. However, all of these 18 communities have been the recipients of substantial commercial-industrial growth and, despite being contributors, have considerably more resources to draw from than any of the 28 "winners."

If the bill were repealed in 1989, Richfield would lose approximately $23 million in tax base; Brooklyn Park would lose $29 million; Champlin would lose approximately $12 million. On the other hand, Minneapolis, the largest gainer the year the bill became operational and a substantial winner for the next 10 years, is now a loser because of the tremendous increases in tax base over the last five years. It is quite possible that many of the current communities that gain will go into the losing column as their tax base develops, but at that point their tax base will be competitive with communities with strong commercial and industrial development.

The fundamental goal of any tax policy should be to achieve equality between people who are similarly situated. In the case of income tax and sales tax, people who earn and spend the same amount with similar deductions pay the same amount of tax. However, since real-estate taxes are a function of valuation and spending in each taxing jurisdiction, we have always had tremendous disparities in real-estate taxes on properties of equal value in different communities even when local spending is the same in the communities. This is the problem that the fiscal-disparities law addresses, and it is working well.

The 1988 Tax Reform Act did address many of the inequities between communities statewide. However, we still must rely substantially on the local property tax to meet local spending requirements. In fact, unless changes are made in the '88 tax bill, there will be an even greater reliance on the amount of commercial and industrial property in a taxing jurisdiction's property value. As long as this condition exists, the fiscal-disparities law is vital to equal economic opportunity in the metropolitan area.

Charles R. Weaver, Coon Rapids. Attorney, former chairman of the Metropolitan Council and former state legislator who was chief author of the fiscal-disparities law.