The Minneapolis plan: What if we shared the wealth?
Sharing the tax base keeps Twin Cities region flush
Sunday, June 20, 2004 Michael O'Malley

Minneapolis - Imagine new Legacy Village, the showy, upscale shopping complex in Lyndhurst, paying a big chunk of property taxes to help out decaying Lorain, a rust belt city 45 miles away.

Or picture Fortune 500 firms headquartered in Cleveland paying shares of property taxes to Akron.

Free-marketers and territorial mayors might scoff at such a scheme. But that kind of sharing occurs here among the cities and towns in the seven counties that make up Minnesota's Twin Cities region.

The multicounty plan, adopted by Minnesota state law 33 years ago, is the largest and most ambitious of its kind in the country.

It annually calculates the growth in value of the commercial and industrial tax base in each community since 1971, then puts 40 percent of the increase into a pool. The region's 184 municipalities tax the pool at their own tax rates. Based on a formula, poorer cities get more money from the pool than their richer neighbors.

About 75 percent of the cities and towns gain under the system, while 25 percent lose.

"Cities that gain more than they give say it's a great regional policy," said Myron Orfield, a law professor at the University of Minnesota Law School. "The ones that give more than they get say it's communism."

Big gainers are old urban areas like St. Paul and some inner-ring communities, though Orfield says more than half of the region's suburbs are gainers as well.

One big loser is suburban Bloomington, a growing city and home to Mall of America, the nation's largest shopping mall. This year, the mall paid $18.7 million in property taxes, $5.2 million of which went through the seven-county tax pool.

"The losers grumble, but they're outnumbered," said Curtis Johnson, an urban affairs writer and former top aide to a Republican governor.

The tax-base-sharing system is a key component to a regional structure here, complemented by a seven-county planning council and a school funding formula that spreads the wealth like few others around the country.

The structure, initiated by Republicans in the late 1960s, was designed to reduce barriers between municipalities so that all could share both the benefits and costs of growth.

A 1969 report by the Minnesota Citizens League urges the legislature to "give each locality . . . part of the growth of the tax base in the entire region, regardless of how much of that growth occurs within its own boundaries.

"In effect, no one loses anything . . . and everyone shares the growth."

Sharing industrial and commercial growth reduces pressure to increase residential property taxes and tempers cut-throat competition among cities scrambling for revenue.

In Greater Cleveland, cash-strapped municipalities regularly look to economic development to boost their bottom lines. They might offer tax abatements to lure businesses or relax zoning and planning codes, sacrificing nearly every inch of open land to builders.

But some cities those with poor access to freeways or densely developed communities with no room to grow can't compete. They face decline.

The result is rich cities get richer and poor cities get poorer, creating a fractionalized region where some schools suffer, segregation builds and the costs of running declining cities soar because there is no sharing of expenses.

"There has to be strong regionalization in order to compete globally," said St. Paul Mayor Randy Kelly. "You have to be able to attract the world's best and brightest corporate leaders and workers. And you can't do that at the municipal level. You have to look beyond your borders."

Fortifying the Twin Cities' regional structure is a seven-county council that oversees planning and development and operates regional sewer and transit systems.

The 17-member Metropolitan Council, appointed by the governor, is not a legislative body, but it has the authority to stop development if it clashes with the agency's regional growth plan.

The council, paid for by government grants, taxes and fees, operates on a $425 million annual budget and employs 3,500. Since 1995, it has granted more than $100 million to communities for development projects, including low-income housing and cleanups of polluted sites.

"The Met Council has helped us to have a more robust region," said Mayor Kelly. "Investments have been wiser."

The council is constantly under attack for either having too much power or not enough. The battle is fought along party lines, with Republicans wanting it to have less power and Democrats pushing for more.

"The right-wing Republicans think the roads come from Jesus," said Democrat Ted Mondale, a former chairman of the council, a former state legislator and son of former Vice President Walter Mondale.

Lately, the council has wielded less power than in the past because many of the members are Republican appointees who favor constraint.

Both parties, however, generally agree that the council provides an incentive for cities to work together, which leads to effective planning and careful spending.

"The far left and the far right don't like the Met Council, and that's probably the best evidence that it's working," said Mondale.

"The Met Council gives us a place to have discussions about regional issues. We can actually debate an issue, understand how to deal with it and then have the government make it happen."

Republican Charlie Weaver, also a former council chairman and former state legislator, added: "The Met Council has played a critical role in limiting sprawl."

And limiting sprawl helps to keep urban areas strong, experts say. Minneapolis, which is sometimes a loser and sometimes a winner under the tax-sharing plan, has actually subsidized some of its suburbs.

With strong cities come strong schools. Twin Cities schools benefit from both tax-base sharing and strong financial support from the state.

Ten years ago, the Minnesota Legislature, realizing it costs more to educate children who live in poverty, created a formula that gives poor districts more money per pupil than rich districts.

Education Week, a national schools newspaper, recently ranked Minnesota third in bringing fiscal equity to schools. Ohio ranked 37th.

"In Minnesota, the bigger you are and the poorer you are, the more you get out of the system," said Curtis Johnson. "It does not eliminate disparities, but it reduces them.

"We've never suffered a Cleveland collapse. We've never been a joke on late-night TV."

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