

BEFORE THE MUNICIPAL COMMISSION
OF THE STATE OF MINNESOTA

Thomas J. Simmons	Chairman
Robert W. Johnson	Vice Chairman
Gerald J. Isaacs	Member
Walter E. Barfnecht	Ex-Officio Member
LeRoy Engstrom	Ex-Officio Member

 IN THE MATTER OF THE RESOLUTION)
 FOR THE ORDERLY ANNEXATION OF)
 CERTAIN LAND TO THE CITY OF)
 MONTICELLO)

ORDER FOR AUTHORIZATION
OF SPECIAL TAX LEVY

WHEREAS, pursuant to an order of the Minnesota Municipal Commission, dated and entered the 19th day of September, 1974, certain property was annexed to the City of Monticello; and

WHEREAS, a public hearing was held on the 1st day of November, 1974, pursuant to Minnesota Statutes 414, as amended, before the Minnesota Municipal Commission to determine whether the City of Monticello should be granted a special levy pursuant to Minnesota Statutes 414.01, Subd. 15.

IT IS HEREBY ORDERED: that the City of Monticello is granted and is hereby authorized to implement a special tax levy for increased costs for the year 1975 in the amount of \$75,000.00.

IT IS FURTHER ORDERED: that the Minnesota Municipal Commission hereby retains jurisdiction to grant further levies.

Dated this 25th day of November, 1974

MINNESOTA MUNICIPAL COMMISSION
 304 Capitol Square Building
 St. Paul, Minnesota 55101

Howard L. Kaibel, Jr.
 Howard L. Kaibel, Jr.
 Executive Secretary

27424

M E M O R A N D U M

After exploring briefly the background leading to the decision embodied in the accompanying order, this memorandum will discuss three specific areas. First, we will explain the general problem we have discovered in this and other special levy proceedings, of the need for authority to adjust the levy limit base in such proceedings. Second, we will discuss the specific problem in this proceeding of inadequate adversarial analysis. Finally, we will explain briefly the reasons for today's order.

This proceeding is occasioned by the statewide levy limitation law as affected by annexations. This law, nationally recognized as "the Minnesota Miracle", provided badly needed increased state aid to school districts and local governments while holding down local property taxes. This was accomplished by placing a dollar limit on the amount of money political subdivisions could raise from property tax sources, substituting increased local government aids based roughly on the property tax effort expended locally.

The Governor and Legislature recognized last session the problems created in boundary adjustment situations such as today's proceeding. Here as a result of the annexation, the size of Monticello quadrupled with an obvious need for increased services such as police, road maintenance and planning. Even though the assessed valuation - the tax base - of the city is increased more than tenfold to finance those increased needs, they are not allowed to levy above the dollar amount levied last year (plus an annual adjustment of 6%). The legislature attempted to solve this problem last session by amending the law to permit the commission to give such municipalities a "special levy" that is the authority to levy a specific amount over and above the levy limit base for a specific period of years. Today's order attempts to carry out that responsibility in accord with the legislative intent, as explained below.

This is the third special levy proceeding that the Minnesota Municipal Commission has conducted and a general problem has arisen in all three which requires discussion and legislative attention. The commission is empowered only to grant a specific dollar-amount special levy for a specific period of years. There are two difficulties with this procedure. First, unlike the levy limit base which increases annually by 6% (or otherwise automatically as determined by the legislature) the special levy has no automatic or other adjustment for the effects of inflation. We attempted in the two prior proceedings to deal with the problem crudely by creating an escalating special levy, but the device is unsatisfactory for obvious reasons. Secondly, inadequate attention has been given to the problem of what happens when the special levy lapses - when the specific period of years is over. A special levy granted, for example, to allow the city to hire two policemen to patrol the expanded area is actually needed in perpetuity. Whenever the specific period of the special levy runs out, the city will not be able to stop patrolling the annexed area. (It is not an answer to suggest that the annual 6% increase in the levy limit base will eventually catch up to the special levy. This would unfairly discriminate against growing communities, depriving them of the minimal increase to offset inflation that is available to all other municipalities. It would discourage intelligent, long range, orderly community development and boundary adjustment). This problem has led communities to request, and the commission to grant, long special levy periods of up to 15 years in hopes that a better solution could be devised in the interim. (This is probably the reason that the city in the instant proceeding requested a 10 year special levy.) It seems to us that the most logical solution to this problem would be to eliminate the 'special levy' authority, substituting the authority

to make a permanent adjustment in the levy limit base. This would assure that such communities would receive the same treatment accorded all other municipalities by the legislature to cope with inflation and would eliminate the problems caused by the termination of special levy authorizations.

The second problem which we encountered in this particular proceeding was inadequate adversarial analysis. As a quasi-judicial commission, we depend on the hearing process to analyze evidence, sharpen issues and develop alternative solutions. Here the city proposed authority to levy nearly \$350,000 a year in additional taxes for 10 years for a total of three and a half million dollars. The proposal would more than triple taxes for local government purposes next year for taxpayers in the newly annexed area. No one objected or even questioned the request of the city, including counsel for the largest taxpayer - Northern States Power Company - although present at the hearing. In future years, NSP consumers will be paying 90% of this increase.

Despite the above discussed problems, we have considered the request at length and rendered what we feel is the best decision possible under the circumstances. The city requested a special levy of \$346,000. Taxes for taxpayers of the city exclusive of the newly annexed area would have remained constant at 31 mills despite a tenfold increase in taxable valuation. Taxes in the newly annexed area would have more than tripled from roughly 3 to nearly 11 mills. We have instead granted a special levy of only \$75,000 which should result in a uniform tax rate throughout the old city and the newly annexed area of just over 5½ mills. The \$75,000 special levy may seem to be a drastic cut of \$271,000 in the amount requested, but it is a sizeable increase more than doubling their current levy limit base of \$62,000. City taxes for residents of the original city will be cut more than 80% from 31 mills to roughly 5½ mills. City taxes in the annexed area should increase less than 3 mills and should be substantially below the township mill levy for next year.

We wish to stress that it is not our responsibility to second guess or make any decisions regarding specific aspects of the proposed budget.

This is the responsibility of the elected city officials and it will be their responsibility to decide how to live within the levy limitations as adjusted by today's order. We have examined carefully the details of the request to determine which are actual and necessary to meet the increased costs as a result of the annexation. We are satisfied that the special levy will be sufficient to meet those costs during the next year together with the other revenues available to the city. We have retained jurisdiction to reconsider the matter next year and examine any serious problems. Perhaps, if authorized by the legislature in the interim, we can then make a permanent adjustment in the levy limit base. We urge that the city council consider in the interim the possibility of establishing a rural-urban taxing district either at their own initiative or by commission order, pursuant to Minnesota Statutes 272.67. There are a number of farm parcels in the recently annexed area which will not require and won't be receiving full municipal services and should not therefore be required to pay full municipal taxes. Establishing such taxing districts would more fairly apportion the city tax burden.

Our unanimous initial response to the requested special levy was that city officials are trying to do too much, too fast. Without contradicting the expert testimony provided by the city manager of Burnsville, we would simply point out that Monticello with a population of 2,000 is not Burnsville with a population of 20,000. There is no conclusive evidence that Monticello will experience the same kind of urban development and no evidence as to the rate at which it might be expected to occur. Some of the specific proposed expenditures, such as the band shell restoration, might be more appropriately provided for through federal revenue sharing. Administrative costs might be cut by considering the combination of the offices of administrator and clerk. We note that this was recently accomplished in the neighboring municipality of Big Lake, where the administrator has assumed the duties of the clerk. Officials may wish to reconsider other sources of revenue than property taxes such as licenses and special assessments which tend to distribute the costs of

regulating particular activities and providing particular services more equitably. The city might also consider bonding for some of the proposed improvements, as taxes to retire such obligations are already special levies under the levy limitation law. Some of the proposed expenditures are in the nature of nonrecurring capital improvements which might be scheduled over future years after determining priorities. Many communities have found that establishing a long range capital improvement program is a useful device for establishing and scheduling such priorities.

Finally, we note that the special levy established in the accompanying order is not an absolute limitation. The levy limitation law provides all communities with the option of increasing taxes beyond the limitation if approved by the voters in a referendum. This device guarantees that officials take large increases in property taxes to the citizens and explain the necessity. In establishing the special levy, we have been cognizant of the legislative intent behind this device and have attempted to preserve its utility. We are anxious that the procedure created for establishing special levies should not become a substitute for the referendum requirement.

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STATE OF MINNESOTA
DEPARTMENT OF STATE
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Arlen J. Edsall
Secretary of State