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Fiscal Disparities

Fiscal Disparities in the Twin Cities

Orientation for
Community Development
Committee
June 6, 2011

Overview

- History & context
- How fiscal disparities works
- Impacts & results
- Changes in program

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What is Fiscal Disparities?

- Taxing jurisdictions in seven-county metro area share part of growth in commercial-industrial (CI) tax base
- Geographic scope & amount of tax-base sharing unique
- Little changed since inception

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Why cover Fiscal Disparities?

- Impact on local government tax base & property tax rates
- Connection to regional planning
- Council's role in determining eligibility

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History

- Proposed in 1969
- Authorized in 1971
- Implemented in 1975
  (delayed by legal challenges)

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Context

- Metro Council established in 1967:
  Tax-base sharing complements
  metro governance
- Minnesota Miracle in 1971:
  Major restructuring of state fiscal policy

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Objective:
Redistribute fiscal resources

- Provide way for communities to share in region's growth
- Reduce competition for tax base
- Work within existing system of local governments & local decision making

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Objective:
Promote better planning

- Encourage regional cooperation
- Make resources available for early development & redevelopment
- Encourage environmental protection

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Minnesota property tax basics

- Tax base = taxable market value x class rate for type of property
- Local tax rate = levy / total tax base
- Tax-base sharing happens before jurisdictions levy taxes
- Two-year timeline for property taxes

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How fiscal disparities works: Contribution

- 40% of CI growth since 1971 goes into area-wide pool (area-wide tax base)

  - Growth in taxable value of commercial, industrial, public utility & other property
  - Tax base for most CI property = 2% of market value

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How fiscal disparities works: Distribution

- Redistribute area-wide tax base based on population & market value of all property in community compared to metro average
  - Community with relatively low market value per capita (fiscal capacity) receives larger share of area-wide tax base

Results for taxes payable 2011

- More net gainers (120) than losers (60)
- Shared 39% of CI tax base, up from 7% in 1975; shared 12% of total tax base, up from 2% in 1975
- Total shared tax base of $421 million; $544 million in tax revenue

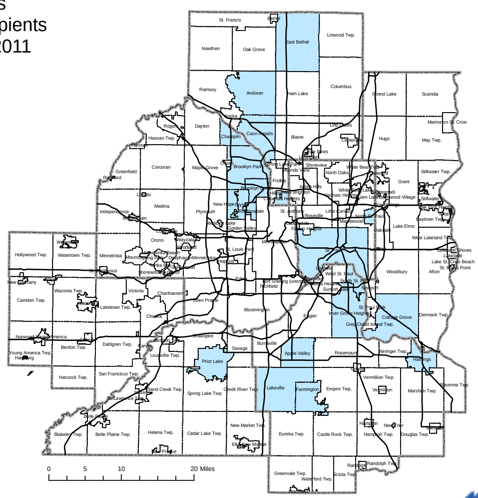
Top 20 net recipients

Fiscal Disparities
Top 20 Net Recipients
Taxes Payable 2011

Net Recipients

Andover
Apple Valley
Brooklyn Center
Brooklyn Park
Champlin
Columbia Heights
Coon Rapids
Cottage Grove
Crystal
East Bethel
Farmington
Hastings
Inver Grove Heights
Lakeville
New Hope
North St. Paul
Prior Lake
Robbinsdale
St. Paul
South St. Paul

Major highways



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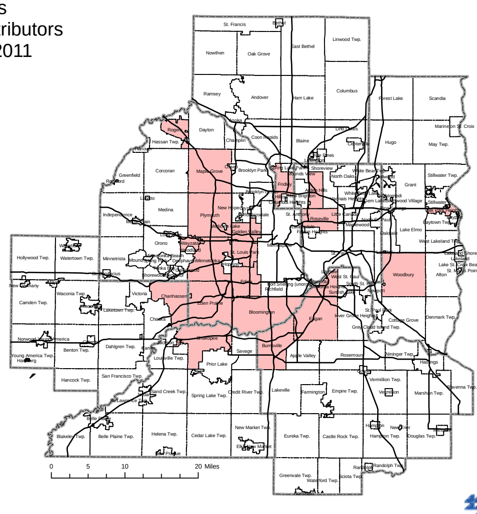
Top 20 net contributors

Fiscal Disparities
Top 20 Net Contributors
Taxes Payable 2011

Net Contributors

Arden Hills
Bloomington
Burnsville
Chanhassen
Eagan
Eden Prairie
Edina
Fridley
Golden Valley
Maple Grove
Mendota Heights
Minnetonka
Oak Park Heights
Plymouth
Rogers
Roseville
Shakopee
St. Louis Park
Wayzata
Woodbury

Major highways



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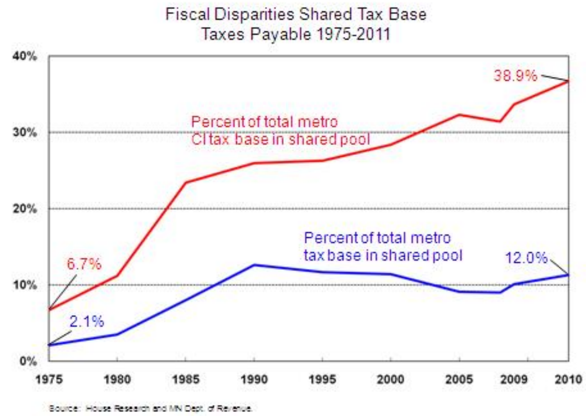
Shared tax base



The chart shows changes in shared tax base. Lines represent percentage shares of metro area CI tax base and total tax base from 1975 to 2011.

Reduces disparities

For cities with population above 10,000:

Ratio of highest to lowest CI tax base with & without fiscal disparities

• Per capita without sharing	10 to 1
• Per capita with sharing	3 to 1

Impact on individual parcels

- Commercial-industrial property taxed at two rates: local & area-wide
- Area-wide tax rate reduces differences across jurisdictions
- Separate state property tax enacted in 2001

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Changes:
Exceptions & addition

- Two exceptions to using revenue from shared pool for general purposes:
  - Mall of America surcharge in 1986; $50 million for interest on highway bonds
  - Livable Communities surcharge in 1995; up to $5 million each year
- Iron Range program created in 1995

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Changes:
Determine eligibility

- Added ability to exclude in 1991
- Exclude community if its zoning & planning policies conscientiously exclude most CI
- Determine eligibility annually – Council & Dept. of Revenue

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Excluded communities

- Excluded by statute:
  - MSP Airport & St. Paul Airport
  - New Prague & Northfield
- Ineligible to participate:
  - Sunfish Lake
  - St. Mary's Point
  - Birchwood
  - Woodland

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Changes:
Recent studies

- Change administrative calculations
  - Reported in February 2011 on feasibility of using current-year tax rates
- Study fiscal disparities program
  - Complete report to MN Legislature by February 1, 2012

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More information

- Met Council
  http://www.metrocouncil.org/metroarea/FiscalDisparities/index.htm
- House Research
  January 2005 report
  http://www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf

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More information

- Citizens League and NAIOP Minnesota
  Sharing the Wealth
  http://www.naiopmn.org/pdfs/policy/NAIOP_Fiscal_Disparities.pdf
- Minnesota Statutes 473F
- https://www.revisor.mn.gov/statutes/?id=473F

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Fiscal Disparities

Fiscal Disparities in the Twin Cities

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Supplemental Handout
Fiscal Disparities Program in the Twin Cities

Community Development Committee
June 6, 2011

Contents:

Steve Hinze and Karen Baker **Updated: January 2005**

The Fiscal Disparities Program: Commercial-Industrial Tax Base Sharing

What is the fiscal disparities program?

The fiscal disparities program is a system for the partial sharing of commercial-industrial (C/I) property tax base among all jurisdictions within a geographic area. In Minnesota, two programs are used: the primary one was created in 1971 and operates in the seven counties of the Twin Cities metropolitan area; a smaller scaled version was created in 1995 for the Iron Range in northern Minnesota.

Why share commercial/ industrial tax base?

The main purposes and goals of the program are to:

- *Support a regional approach to development*. Tax-base sharing spreads the fiscal benefit of business development spawned by regional facilities, such as shopping centers, airports, freeway interchanges, and sports stadiums. It also may make communities more willing to accept low-tax-yield regional facilities, such as parks.

- *Equalize the distribution of fiscal resources*. Communities with low tax bases must impose higher tax rates to deliver the same services as communities with higher tax bases. These high tax rates make poor communities less attractive places for businesses to locate or expand in, exacerbating the problem. Sharing C/I tax base can reduce this effect.
- *Reduce competition for commercial-industrial development*. Communities generally believe that some kinds of C/I properties pay more in taxes than it costs to provide services to them. This encourages communities to compete for these properties by providing tax concessions or extra services, which can weaken their fiscal condition. Tax-base sharing reduces the incentive for this competition, thereby discouraging urban sprawl and reducing the cost of providing regional services such as sewage and transportation.

How does the fiscal disparities program work?

Contributions to the areawide tax base. Each taxing jurisdiction annually contributes 40 percent of the growth in its C/I tax base since the year of enactment to an abstract entity called the “areawide tax base.” This contribution value is not available for taxation by the jurisdictions where the property is located.

Distributions from the areawide tax base. Each municipality receives a share of the areawide tax base through a formula based on its share of the area’s population and its relative property tax wealth (tax base per capita). The municipality is allowed to tax this distribution value at the same rate as the tax rate paid by its residents. All taxing jurisdictions whose boundaries encompass the municipality are also allowed to tax the municipality's distribution value (i.e., counties, school districts, and special taxing districts).

Calculating the property tax for each commercial-industrial property. The property tax statement for each C/I property has a local portion and an areawide portion, based on the relative amount of the tax base that is contributed (areawide portion) versus the relative amount that is retained (local portion) for the municipality where the property is located.

How has the metropolitan area program grown?

In the first year of implementation (1975), the areawide tax base included 6.7 percent of the total metro C/I tax base and 2.1 percent of the total metro tax base. For 2004, the areawide tax base was 32.3 percent of the total metro C/I base and 9.8 percent of the total metro tax base.

How much do fiscal disparities affect tax burdens?

A House Research study based on taxes payable in 2004 found that the average homestead tax in St. Paul, which is one of the largest net beneficiaries of the program, was 8.8 percent lower because of fiscal disparities. The study also found that the average homestead tax in Bloomington, which is one of the largest net contributors, was 5.5 percent higher. Homestead effects throughout the area generally varied between these extremes.

For commercial-industrial properties, average taxes were 2.7 percent lower in St. Paul due to fiscal disparities and 9.7 percent higher in Plymouth, another suburban city that is a large net contributor. Commercial-industrial properties elsewhere in the metro area fall in line between these extremes.

The study looked only at the direct effect of fiscal disparities, i.e., the redistribution of tax base, and made no attempt to factor in alternative development patterns that might have occurred without fiscal disparities.

How did the 2001 property tax reform affect fiscal disparities?

The elimination of the general education levy, imposition of a state property tax levy, and reduction in commercial-industrial class rates caused the nominal amount of money redistributed by the fiscal disparities program to decrease. However, based on the aforementioned House Research study, the net effect of fiscal disparities on tax burdens is similar to what it was before the reform.

What about the Iron Range program?

Tax effects of the Iron Range fiscal disparities program are much smaller in magnitude since the percentage of tax base being contributed is so low due to the relative infancy of the program.

For more information: Contact legislative analyst Steve Hinze at 651-296-8956 or Karen Baker at 651-296-8959. Also see the House Research publication *Minnesota's Fiscal Disparities Programs: Twin Cities Area and Iron Range*.

Fiscal Disparities in the Twin Cities
Key Findings for Taxes Payable in 2011

Tax base shared and revenue generated

- Tax base shared: $420.7 million
39% of commercial-industrial tax base (net tax capacity)
12% of total taxable tax base

- Distribution levy: $544.1 million in tax revenue generated for taxing jurisdictions (cities, townships, school districts and special taxing districts)

Net recipients of shared tax base

- Total communities: 120 - 86 cities and 34 townships

- Share of region: 32% of commercial-industrial (CI) tax base
42% of CI tax base with net changes from fiscal disparities (distribution tax base minus contribution tax base)
40% of total taxable tax base
50% of population

- Top five: St. Paul, Brooklyn Park, Brooklyn Center, Coon Rapids and Andover

Net contributors of shared tax base

- Total communities: 60 - 51 cities and 9 townships plus State Fair Grounds

- Share of region: 68% of commercial-industrial (CI) tax base
58% of CI tax base with net changes from fiscal disparities
59% of total taxable tax base
50% of population

- Top five: Bloomington, Eden Prairie, Minnetonka, Edina and Plymouth

- Top 20: 44% of commercial-industrial tax base

Fiscal Disparities in the Twin Cities
Historical List of Net Recipients and Net Contributors

Top 10 Net Recipients by Year Taxes Payable

Payable 1975	Payable 1985	Payable 1995	Payable 2005	Payable 2011
St. Paul	St. Paul	St. Paul	St. Paul	St. Paul
Minneapolis	Coon Rapids	Minneapolis	Minneapolis	Brooklyn Park
Richfield	Brooklyn Park	Coon Rapids	Andover	Brooklyn Center
Crystal	Richfield	Richfield	Cottage Grove	Coon Rapids
South St. Paul	South St. Paul	South St. Paul	South St. Paul	Andover
White Bear Lake	Blaine	Crystal	Brooklyn Park	Cottage Grove
Columbia Heights	Crystal	Champlin	Columbia Heights	Columbia Heights
Stillwater	Apple Valley	Cottage Grove	Crystal	Crystal
St. Louis Park	White Bear Lake	Columbia Heights	Coon Rapids	South St. Paul
Hastings	Cottage Grove	Brooklyn Park	Champlin	Apple Valley
Total Net Recipients Each Year				
137	140	141	132	120

Top 10 Net Contributors by Year Taxes Payable

Payable 1975	Payable 1985	Payable 1995	Payable 2005	Payable 2011
Edina	Minnetonka	Bloomington	Bloomington	Bloomington
Bloomington	Bloomington	Eden Prairie	Eden Prairie	Eden Prairie
Inver Grove Hgts.	Eden Prairie	Eagan	Minnetonka	Minnetonka
Shakopee	Edina	Burnsville	Plymouth	Edina
Plymouth	Roseville	Minnetonka	Edina	Plymouth
Golden Valley	Plymouth	Edina	Roseville	Roseville
Fridley	Maplewood	Roseville	Eagan	Eagan
Maplewood	Minneapolis	Plymouth	Golden Valley	Maple Grove
Eagan	Golden Valley	Maplewood	Maple Grove	Golden Valley
Burnsville	St. Louis Park	Fridley	Shakopee	Rogers
Total Net Contributors Each Year				
51	48	47	50	60

Minnesota Session Laws

Key: (1) ~~language to be deleted~~ (2) new language

2010, Regular Session

CHAPTER 389--H.F.No. 3729

Sec. 28. **FISCAL DISPARITIES STUDY.**
The commissioner of revenue shall conduct a study of the metropolitan revenue distribution program contained in Minnesota Statutes, chapter 473F, commonly known as the fiscal disparities program. By February 1, 2012, the commissioner shall submit a report to the chairs and ranking minority members of the house of representatives and senate tax committees consisting of the findings of the study and identification of issues for policy makers to consider. The study must analyze:
(1) the extent to which the benefits of economic growth of the region are shared throughout the region, especially for growth that results from state or regional decisions;
(2) the program's impact on the variability of tax rates across jurisdictions of the region;
(3) the program's impact on the distribution of homestead property tax burdens across jurisdictions of the region; and
(4) the relationship between the impacts of the program and overburden on jurisdictions containing properties that provide regional benefits, specifically the costs those properties impose on their host jurisdictions in excess of their tax payments.
The report must include a description of other property tax, aid, and local development programs that interact with the fiscal disparities program.
EFFECTIVE DATE. This section is effective January 1, 2011.

Sec. 29. **FUND TRANSFER FROM FISCAL DISPARITIES LEVY.**
For taxes payable in 2011 only, the Metropolitan Council must certify to the Ramsey County auditor the amount of $100,000, to be certified by the Ramsey County auditor to the administrative auditor as an addition to the Metropolitan Council's areawide levy under Minnesota Statutes, section 473F.08, subdivision 5. Upon receipt of the proceeds of this levy, the Metropolitan Council must transfer this money to the commissioner of management and budget for deposit into the general fund. One-half of the proceeds of the levy must be transferred prior to June 30, 2011.