

## Fiscal Disparities

# Fiscal Disparities in the **Twin Cities**

---



# What is Fiscal Disparities?

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



# History

---

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



# Context

---

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



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



Objective:

# Promote better planning


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



# Regional perspective

---

- Metro area is single economic unit
- Public facilities influence CI location
- CI development tends to concentrate
- Concern about tax base differences




# How it works: Contribution

---

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





# How it 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

# Reduces disparities

For cities with population above 10,000:  
Ratio of highest to lowest CI tax base  
with and without fiscal disparities


- |                              |         |
|------------------------------|---------|
| • Per capita without sharing | 10 to 1 |
| • Per capita with sharing    | 4 to 1  |

# Results


- More net gainers (119) than losers (61)
- Shared 31% of CI tax base, up from 7% in 1975; shared 9% of total tax base, up from 2% in 1975
- Total shared tax base of \$347 million; \$402 million in tax revenue

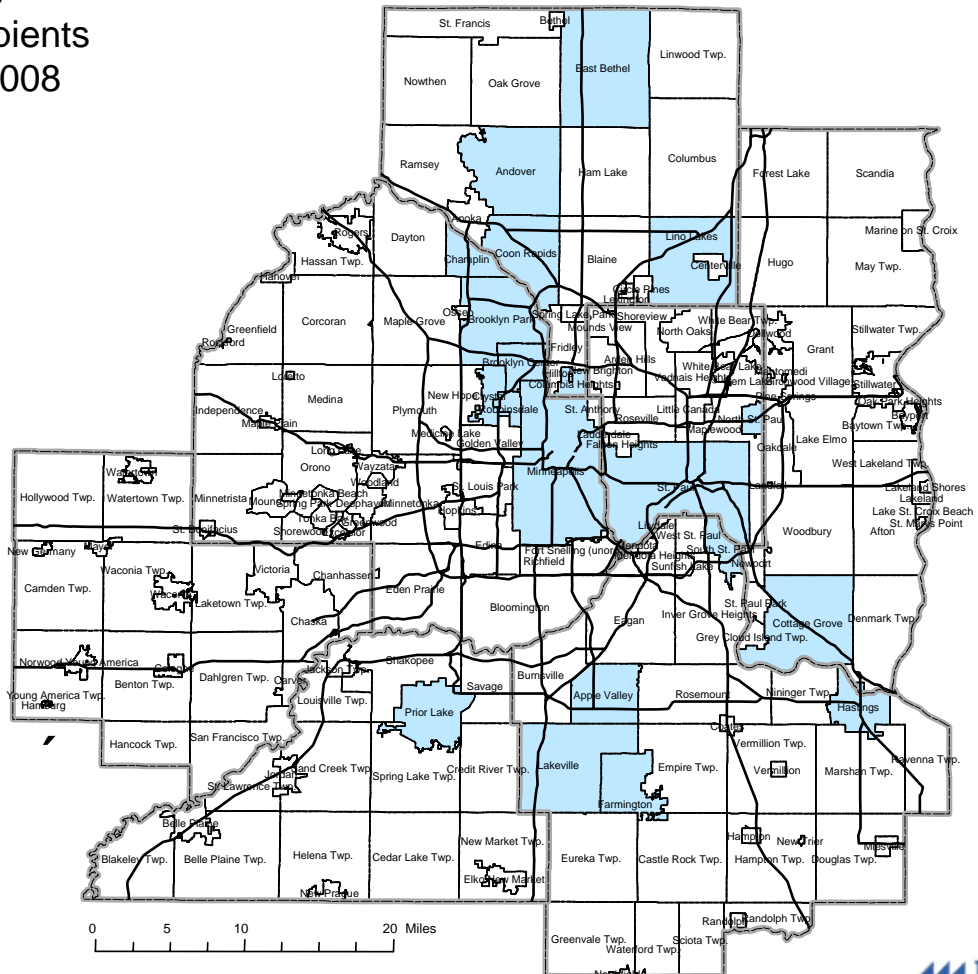
# Top 20 net recipients

Fiscal Disparities  
 Top 20 Net Recipients  
 Taxes Payable 2008

 Net Recipients

- Andover
- Apple Valley
- Brooklyn Center
- Brooklyn Park
- Champlin
- Columbia Heights
- Coon Rapids
- Cottage Grove
- Crystal
- East Bethel
- Farmington
- Hastings
- Lakeville
- Lino Lakes
- Minneapolis
- North St. Paul
- Prior Lake
- Robbinsdale
- St. Paul
- South St. Paul

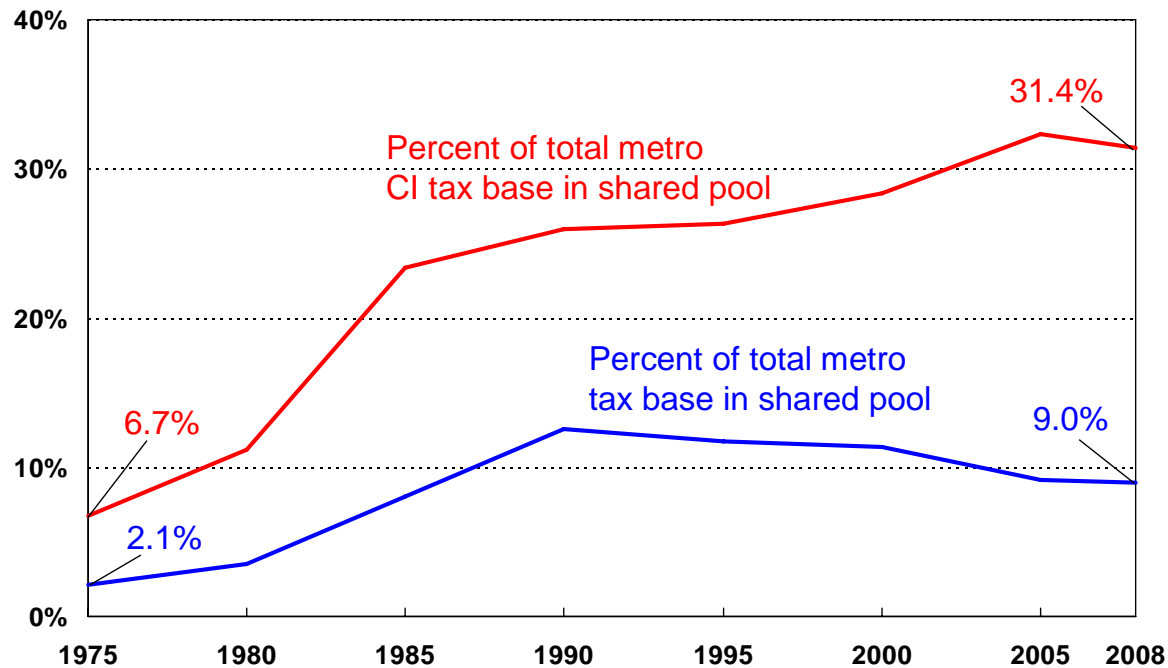
 Major highways





# Shared tax base

Fiscal Disparities Shared Tax Base  
Taxes Payable 1975-2008



Source: House Research and MN Dept. of Revenue.



# Impact on individual parcels

---

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



# Total impact on parcels

---

- Impact more complex than net change in tax base for community
- Effect on county can offset impact on community
- Local government aid (LGA) may mitigate impact on some communities





# Impact on taxes

- Average CI taxes almost 3% lower in St. Paul & 10% higher in Plymouth
- Average homestead taxes nearly 9% lower in St. Paul & more than 5% higher in Bloomington

Source: House Research 2005

# Changes to program

- 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

# Changes in eligibility

- Added ability to exclude in 1991
- Exclude community if its zoning & planning policies intentionally exclude most CI
- Decide annually which communities ineligible – Council & Dept. of Revenue



# Excluded communities

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

# Sample of proposed changes

- Include residential tax base in shared pool
  - Passed in 1995 but vetoed by governor
- Use shared pool to help finance MOA II
  - Passed in 2007 tax bill but vetoed
  - Changed source of funding before passed in 2008



# Lingering policy issues

---

- Use shared pool for special purpose
- Expand or eliminate program
- Alter contribution formula
- Study impact of program & policy implications in depth

# 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>

# More information

- Citizens League  
Minnesota Journal, June 2008 article & tables  
<http://www.citizensleague.org/what/projects/tax/fd/2008/>
- Minnesota Statutes 473F  
<http://www.revisor.leg.state.mn.us/statutes/?id=473F>





## Fiscal Disparities

# Fiscal Disparities in the **Twin Cities**

---

Contact information:

Debra Detrick

[Debra.Detrick@metc.state.mn.us](mailto:Debra.Detrick@metc.state.mn.us)

651-602-1327