Fiscal Disparities in the Twin Cities

Overview of
Fiscal Disparities Study
Metropolitan Council Meeting
February 22, 2012

Why study this program?

- Twin Cities seen as national model because of Met Council & fiscal disparities program
- Program unique in geographic scope & amount of tax base shared
- Program enacted over 40 years ago.

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Objectives of program: Redistribute fiscal resources

- Provide way to share resources generated by region's growth
- Reduce competition for tax base & make orderly development more likely
- Make resources available within existing system

Objectives of program:
Promote better planning

- Give incentives for all to work for growth of region as a whole
- Help communities in different stages of growth
- Encourage environmental protection

How fiscal disparities works: Contribution

- 40% of CI growth since 1971 goes into areawide pool (areawide tax base)
  - Growth in taxable value of commercial, industrial, public utility & other property
  - Tax base for most CI property = 2% of market value

How fiscal disparities works: Distribution

- Redistribute areawide 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 areawide tax base

Results for taxes payable 2011

- More net recipients (120) than net contributors (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

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Legislative study

Study of the Metropolitan Area Fiscal Disparities Program

Metropolitan Council

Legislative study

- Required by legislation in 2010
  - MN Dept. of Revenue hired consultant TischlerBise, Inc. to prepare study
- Completed on February 1, 2012
- Presented to legislative committees on February 15 and 16

Main contents of study

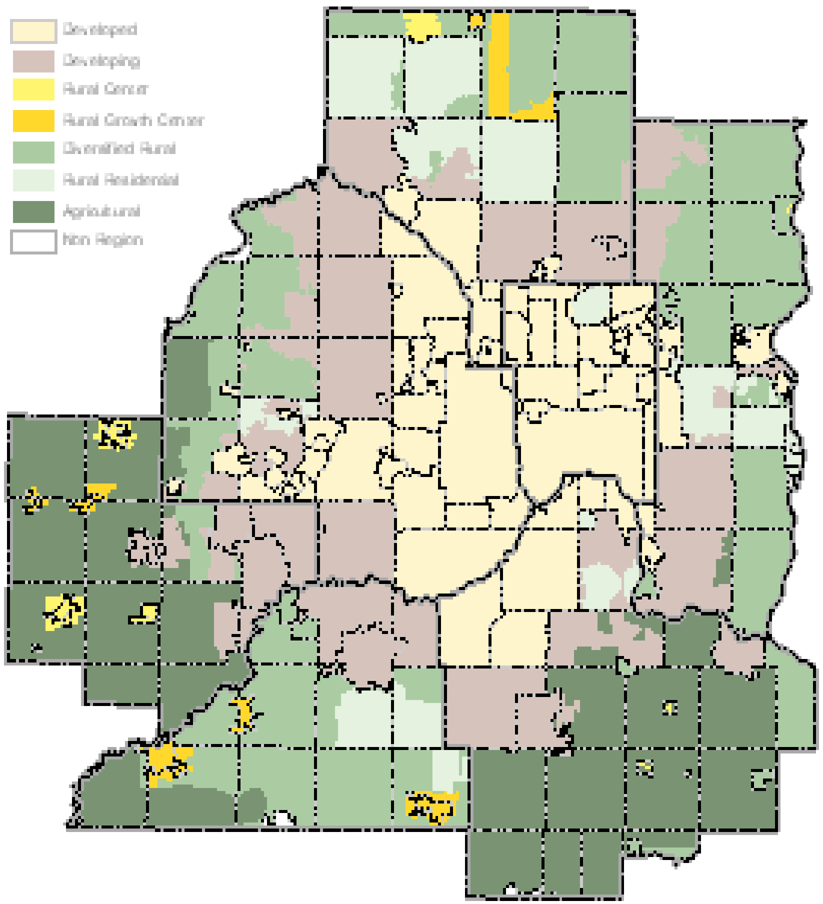
- Growth trends
- Tax base & economic trends
- Program trends
  - Impacts if program eliminated
- Fiscal impact analysis of “overburden“
  - Impacts if program eliminated
- Policy considerations

Growth trends

- Outward growth of population & jobs
  - Follows national trend
- Brookings Institution study: Twin Cities among more than half of metro areas that saw "rapid decentralization" in job location

Source: TischlerBise, Inc., Executive Summary, pp. 4-6 and full report, pp. 55-56

Regional planning areas



Fiscal & economic trends

- Residential homestead tax base became majority of tax base value
- Developing area gained 8% of the region's CI tax base from 1996 to 2011*
- Central cities & developed area each lost 4% of the region's CI tax base*

* Before fiscal disparities distributions. Source: TischlerBise, Inc., Exec. Summary, pp. 8 and 11

Program trends 1976-2011

- Central cities – St. Paul net recipient & Minneapolis net contributor/recipient
- Developed area – net contributors grew
- Developing area – net recipients greater than net contributors; ratio remained constant
- Rural area – more net contributors
- Rural growth centers – still all net recipients

Source: TischlerBise, Inc., Executive Summary, pp. 14

Tax impacts without program

- Tax rates by county
  - Hennepin County down by 3.03% & Anoka County up by 10.26%
- Total taxes paid by county
  - Hennepin County down by 2.6% & Anoka County up by 5.6%

Source: TischlerBise, Inc., Executive Summary, pp. 18-19

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Impacts without program

- Tax rates by planning area
  - Rural growth centers up by 14.74% & developed area up by 0.40%
- Taxes paid by planning area
  - Rural growth centers up by 10.5% & developed area down by 1.4%

Source: TischlerBise, Inc., Executive Summary, pp. 19-21

Impacts without program

- Median taxes paid by residential homestead as percentage of income
  - Up in all planning areas
  - Largest increases in rural growth centers, rural area & central cities

Source: TischlerBise, Inc., Executive Summary, p. 24

New fiscal impact analysis

- What type of development pays for itself? Do revenues cover costs?
- Covers cash flow to public sector
  - City, county & schools
- Four examples & two scenarios (with and without fiscal disparities program)
- Impacts from 9 land uses

Source: TischlerBise, Inc., Executive Summary, pp. 25-27

Results for nonresidential

- Retail, office & industrial land uses
  - Results better without program
  - Retail results vary more across examples
- Retail at city level
  - Does not pay for itself
  - Net deficits smaller without program
- Institutional land uses do not cover costs

Source: TischlerBise, Inc., Executive Summary, pp. 28-35

Results for residential

- Single-family homestead land uses of higher value
  - Pays for itself under both scenarios (except developed city without program)
- Other residential land uses
  - Most do not cover costs under both scenarios
  - Results worse without program

Source: TischlerBise, Inc., Executive Summary, pp. 28-35

Key findings of analysis

- Fiscal impacts depend on
  - Type of land use
  - Level of government
- More similarities than differences among four examples

Source: TischlerBise, Inc., presentations on Feb. 15 and Feb. 16, slide 31

Key policy considerations

- Debate over effect on business location decisions
- Changes if eliminate program
  - Tax rates in more jurisdictions go up than down
  - Rates primarily decrease in job centers
  - Interactions within fiscal system

Source: TischlerBise, Inc., presentations on Feb. 15 and Feb. 16, slide 33

Key policy considerations

- Program equalizes tax base & tax rates; assess changes without program
  - Rates for rural area & rural growth centers increase
- Responses to overburden
  - Add measure of needs like LGA does?
  - More research?

Source: TischlerBise, Inc., presentations on Feb. 15 and Feb. 16, slides 32 and 34

What's next?

- More questions & analysis
- Proposals to change or eliminate program
- Part of tax reform in 2013?

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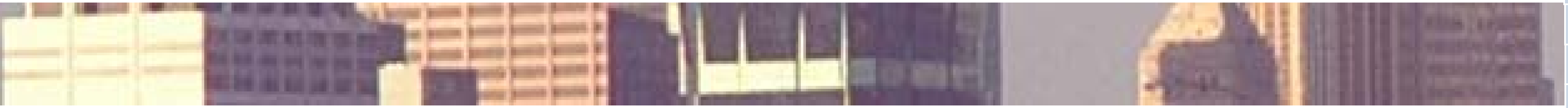

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Debra Detrick 651-602-1327
Debra.Detrick@metc.state.mn.us

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