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

<table>
<thead>
<tr>
<th></th>
<th>10 to 1</th>
<th>4 to 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita without sharing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per capita with sharing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

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

Metropolitan Council
Top net contributors

Fiscal Disparities
Top 20 Net Contributors
Taxes Payable 2008

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

Major highways

Metropolitan Council
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
  - St. Mary’s Point
  - Birchwood
  - 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

- House Research
  January 2005 report
More information

- Citizens League
  Minnesota Journal, June 2008 article & tables

- Minnesota Statutes 473F
  http://www.revisor.leg.state.mn.us/statutes/?id=473F
Fiscal Disparities in the Twin Cities

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