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Fiscal Disparities

Fiscal Disparities in the Twin Cities

Presentation to Wisconsin
Legislative Council
Special Committee
November 10, 2010

Overview

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

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About the Twin Cities

- 2.9 million population
- 2 central cities
- 7 counties, 143 cities, 43 townships & 48 school districts
- Nearly 3,000 square miles

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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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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

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

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

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

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

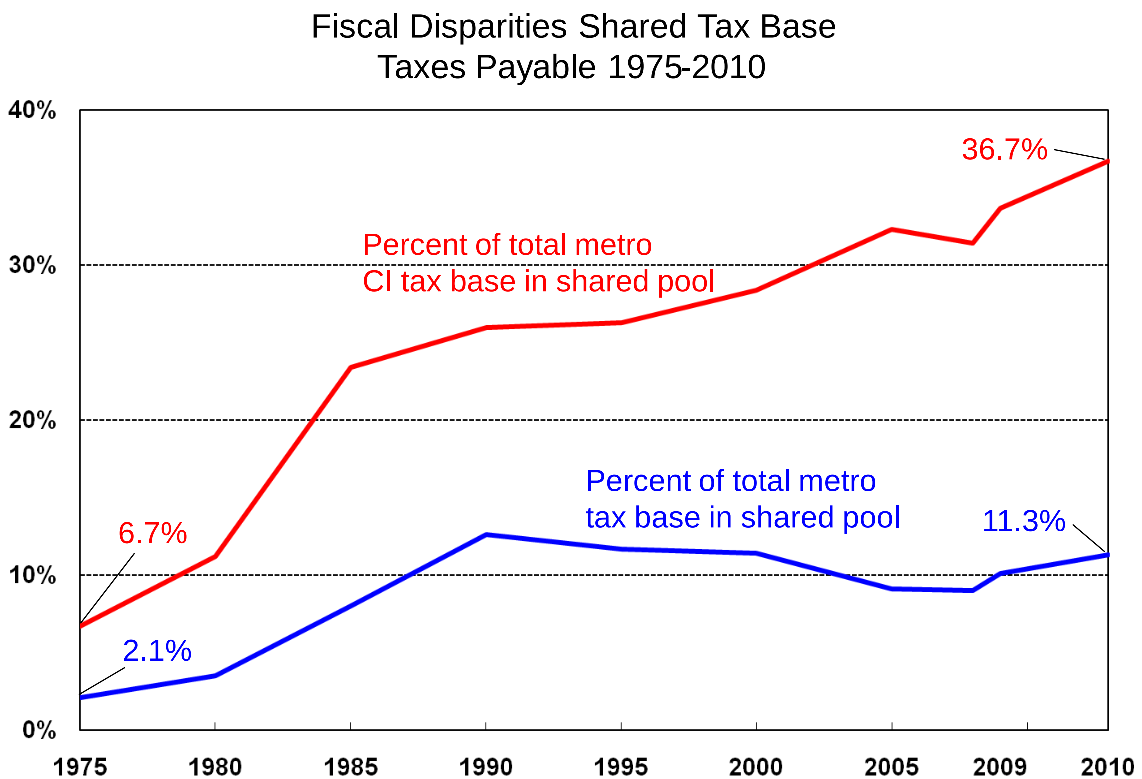
Revenue generated & tax rate

- Revenue (distribution levy) for community = share of area-wide tax base x last year's tax rate
- Area-wide levy = sum of all distribution levies
- Area-wide tax rate = area-wide levy / area-wide tax base

Results for taxes payable 2010

- More net gainers (123) than losers (57)
- Shared 37% of CI tax base, up from 7% in 1975; shared 11% of total tax base, up from 2% in 1975
- Total shared tax base of $424 million; $517 million in tax revenue

Shared tax base



Source: House Research and MN Dept. of Revenue.

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 2010.

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

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

- Tax rates generally higher for net contributor communities & lower for net recipient communities:
  - 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

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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 for grants

- Iron Range program created in 1995

Other changes

- Added ability to exclude in 1991
  - Exclude community from participating if its zoning & planning policies intentionally exclude most CI
- Study fiscal disparities program
  - Complete report to MN Legislature by February 1, 2012

Sample of proposed changes

- Include residential tax base in shared pool
  - Passed in 1995 but vetoed by governor
- Use shared pool to help finance Mall of America Phase II
  - Vetoed in 2007; funding source changed before passed in 2008

Lingering policy issues

- Use shared pool for special purpose
- Expand or eliminate program
- Alter contribution/distribution formulas

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

- Minnesota Statutes 473F

  https://www.revisor.mn.gov/statutes/?id=473F

Fiscal Disparities in the Twin Cities

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