
FISCAL DISPARITIES IN THE TWIN CITIES

Background on the Twin Cities

- 2.8 million population
- 2 central cities
- 7 counties, 141 cities, 46 townships, 48 school districts
- Nearly 3,000 square miles

What is Fiscal Disparities?

- Taxing jurisdictions share part of growth in commercial-industrial tax base in seven-county metro area
 - 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 challenges)

Context

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

Objectives of Fiscal Disparities

- Redistribute fiscal resources
 - Allow all cities to share in region's growth
 - Reduce competition for tax base
 - Spread benefits of regional public investments
- Promote better planning
 - Encourage regional cooperation
 - Provide extra resources for redevelopment
 - Encourage environmental protection

How It Works

- **CONTRIBUTION**

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

- **DISTRIBUTION**

- Area-wide tax base is redistributed on a per capita basis, adjusted by measure of local property wealth
- A community with low property wealth (fiscal capacity) receives a relatively larger share of the area-wide tax base

Impact on Individual Parcels

- Commercial-industrial property taxed at two rates
 - Portion taxed at local rate
 - Portion taxed at area-wide rate
- Area-wide tax rate reduces differences across jurisdictions

Impact on CI Tax Base: Reduces Disparities

For cities with population above 9,000

- Per capita without sharing 13 to 1
- Per capita with sharing 4 to 1

For cities with population above 5,000

- Per capita without sharing 19 to 1
- Per capita with sharing 10 to 1

Results

- More net gainers (129) than losers (52)*
- 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 \$273 million;
\$333 million in taxes
- Less fiscal competition? (cities more selective)
- Tax burden reallocated

*Excludes State Fair Grounds

More Information

- House Research

January 2005 report

<http://www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf>

- Citizens League

Minnesota Journal, March 2005 edition

<http://www.citizensleague.net/publications/journal/archives/2005-03-29.pdf>

- Minnesota Statutes 473F

<http://www.revisor.leg.state.mn.us/data/revisor/statutes/2005/473F>