Position Paper for Legislation on the Fiscal Disparities Law

INTRODUCTION

The fiscal disparities program has come under increased scrutiny and challenge in recent years. In January, a *Star Tribune* article described Hennepin County's concerns about the program and stated that county officials have "...made changing the program their top legislative priority of 1991."

The Metropolitan Council has supported the fiscal disparities program from the start. Region-wide sharing of tax base growth fits the Council's view that the Metropolitan Area functions as a single economic unit. Fiscal disparities is also supportive of regional planning objectives. Redistributing tax base can spread the benefit of economic development spurred by regional facilities such as freeways, interchanges and airports, help older communities finance redevelopment and encourage nontax-revenue-producing land use such as parks.

BACKGROUND

The fiscal disparities bill was passed by the legislature in 1971 and the program began operating in 1975. The primary purpose of the fiscal disparities law (Minnesota Statutes, Chapter 473F) is to reduce disparities in local property tax base.

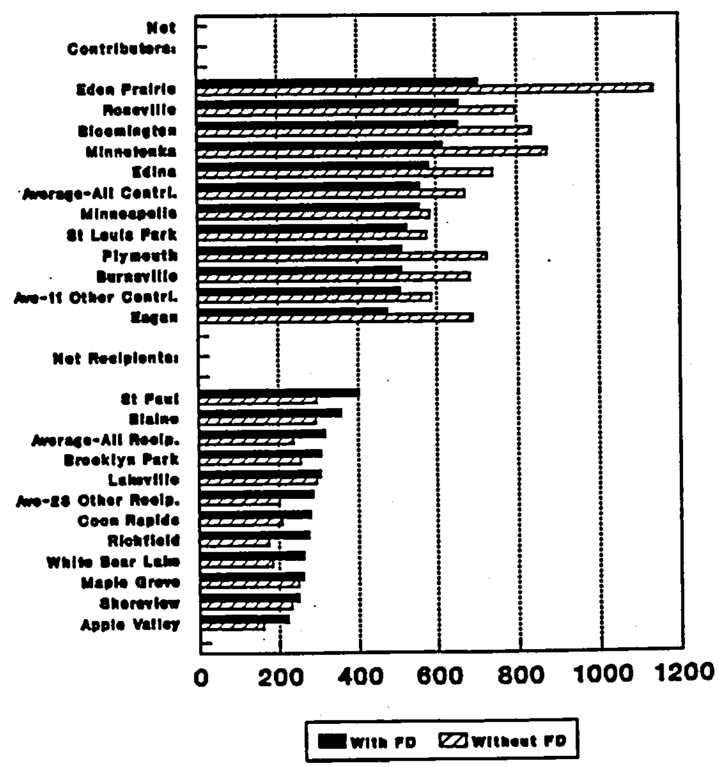
It does this by requiring taxing jurisdictions (cities, counties, towns, school districts and special taxing districts) in the seven-county Metropolitan Area to contribute 40 percent of growth in commercial-industrial (C-I) property tax base since 1971 to an area-wide pool. That pool of contributions is then redistributed among all communities.

The redistribution of tax base is based on a community's population and how its per-capita market value of all real property (fiscal capacity) compares to the average for the Metropolitan Area. A community with below-average tax capacity receives a somewhat larger distribution from the pool (larger than it would get on a straight per-capita basis), while a community with above-average fiscal capacity receives somewhat less.

EFFECT ON TAX BASE

Fiscal disparities significantly reduces disparities in tax base. According to the Citizens League, the ratio between the highest C-I tax base per capita and the lowest is 4 to 1 among cities with more than 9,000 residents. That ratio would be 22 to 1 without fiscal disparities. For the most part, communities with high C-I tax base remain the wealthiest even if they contribute more to the shared pool than they get back (*Minnesota Journal*, Jan. 15, 1991). Figure 1 illustrates the shift in tax base per capita among selected net contributors and net recipients.

Figure 1--Fiscal Disparities Program
1991 C-I Value Per Capita
With and Without Fiscal Disparities



Selected Cities Above 9,000 Population

Metropolitan Council

April 1991

Shared C-I tax base has grown to make up a significant portion of total C-I tax base for taxes payable in 1991. In 1991 the shared pool amounted to $290 million of the region's $943 million in C-I tax capacity or 30.8 percent, up from 6.7 percent in 1975.

ISSUES

Issues related to fiscal disparities fall into two broad categories: contribution issues and distribution issues.

The most important contribution issues involve proposals to: expand the base by eliminating exemptions such as South St. Paul and phasing out the 1971 base exemption; equalize valuations; and reduce the contribution rate.

A major distribution issue is the use of fiscal disparities proceeds. The central question is whether shared tax base should be used for special purposes (i.e., as a funding source for special projects or to provide selected services).

Other plans for modifying fiscal disparities have been raised from time to time. Issues have focused on equity, the growing size of the shared pool of tax base and the size of tax base shifts, dedicating tax base for specific purposes and changing the program in response to proposals to restructure the state-local finance system.

COUNCIL POSITION

1. The Council supports the current fiscal disparities program as an appropriate regional tool for tax base sharing. The Council strongly opposes the use of the fiscal disparities base as a revenue source or a borrowing source. The shared base is a regional resource created for the specific purpose of reducing tax base disparities. To allow any single community to tap part of that "regional resource" for its own purposes takes those resources out of the hands of all other communities.

2. The Council recommends that the legislature review the current fiscal disparities program. This review should include a review of the basic purposes of the program and a careful evaluation of how any proposed changes would better achieve those purposes. It should also relate to the other current or proposed state, regional and local fiscal programs such as HACA, LGA and school aids.

3. The Council will do an extended review of fiscal disparities and develop recommendations for the 1992 legislative session. The goal will be to have a position adopted by late summer so we can meet with legislators in the fall to discuss the issue and our recommendations.

4. The Council recognizes the fiscal crisis (relating especially to human service funding) that is facing counties and other local governments. It urges the governor and legislature to address this issue in the budget process.

METROPOLITAN COUNCIL (MINNEAPOLIS/ST. PAUL)
FISCAL DISPARITIES LAW--REVENUE SHARING
summarized

1. The Fiscal Disparities law, as it is called, is strictly revenue redistribution to local communities--they decide for themselves how any money they receive is spent. There have been proposals to use this revenue to finance regional facilities--such as a convention center and light rail--but the Council has resisted, preferring to fall back on the original intent of the law, which was to reduce tax base disparities. Although the Council members are appointed by the Governor, they are done so after consideration and input from local governments, which might explain why the Council has been reluctant to withhold some of the revenue for regional facilities.

2. The revenue is derived from 40% of commercial and industrial property tax base growth in the metro area. Each year this growth is determined by subtracting commercial-industrial tax capacity of the year 1971 from the current commercial-industrial (C-I) tax capacity. C-I property in place prior to 1971 is exempt. Also, it is worth noting that in Minnesota personal property--residential--is not subject to ad valorem taxation.

3. The revenue is redistributed based on local fiscal capacity. This is derived by dividing the value of real property in a city by the city's population and then comparing it with the average fiscal capacity of the metro area. Cities with below-average fiscal capacity would receive a larger distribution from the pool.