Supply-side energy reform is only half the equation

State’s renewable fuels mandates will help Minnesota avoid an electricity crisis, but more needs to be done to secure the future

By Scott McMahon

In December 2002, a Citizens League study committee report on electricity reliability warned that Minnesota was facing a potential electricity crisis. Unlike the electricity crisis in California in 2000, which garnered considerable media attention, Minnesota’s looming crisis was not the result of short-term supply and pricing issues, cautioned the report, “Powering Up Minnesota’s Energy Future: Act Now on a Long Term Vision.” Instead, Minnesota’s problems stemmed from its lack of long-term strategic development, including the development of new policy frameworks, regulatory integration, planning mechanisms, and economic stimuli to encourage appropriate infrastructure development to assure a reliable, affordable supply of electricity while protecting the environment.

Since then not much has changed in the state—until now. In February, the Minnesota Legislature and the governor came together to design one of the most aggressive state energy policies in recent years. And on February 22, Gov. Tim Pawlenty signed legislation requiring the state’s utilities to draw on renewable energy for 25 percent of the state’s electricity needs by 2025.

The Citizens League report laid out a vision for Minnesota that addressed roles and responsibilities for both electricity producers and for consumers. This new legislation is only the first of many steps we must take to achieve that vision.

Of the 22 states that currently have renewable energy mandates, Minnesota’s is now the most aggressive. In addition to securing Minnesota’s electricity reliability into the future and improving the state’s environment, the new requirements will also serve as an economic driver, adding jobs and improving the economies of countless Minnesota communities.

This legislation truly is a step in the right direction. But we are not finished securing our state’s electricity future. The Citizens League report laid out a vision for Minnesota that addressed roles and responsibilities for both electricity producers and for consumers. This new legislation is only the first of many steps we must take to achieve that vision.

“Powering Up” conclusions and recommendations

After 18 months of research and deliberation, the Citizens League’s study committee reached the following conclusions:

• Despite some modest steps, neither the state of Minnesota nor the electric power industry has been sufficiently aggressive in moving towards an electricity supply system that provides an adequate and reliable supply of electric power without cumulative and unacceptable damage to the local and global environment and social impacts.

• The strong focus on keeping electrical energy prices as low as possible has deemphasized consideration of environmental concerns. This needs to be rebalanced, consistent with a reliable supply in the future.

• The state’s regulatory system as currently configured is not well suited to deal with environmental challenges.

• The very notion of state regulation ignores the reality that the electrical power system is increasingly a multi-state regional one.

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Spotlight on Lee Anderson

Citizens League Board of Directors since 2004

In 2005, he initiated the Pizza & Politics program at General Mills

What’s your day job?

Manager of state and local government relations at General Mills. I handle state lobbying, but also civic affairs programs to engage our employees across the U.S. in government and the public policy making process.

How did you get involved with the Citizens League?

I’m fortunate to work for General Mills, which supports the mission of the Citizens League and has done so since the beginning, and they encouraged me to get involved.

What’s Pizza & Politics all about?

It’s co-sponsored with the Citizens League, and gives employees at our headquarters an opportunity to hear from engaging public speakers over their lunch hour. The pizza goes fast, but I know from the feedback that employees really appreciate the way we’re making government and policy accessible to them at their office. I encourage other companies to contact the Citizens League to explore bringing similar programs into their workplaces.

March poll results

What is the most important change needed to make the health care system more affordable and secure for all Minnesotans?

- Patients need better information so they can take more responsibility for their own health (25%)
- The system should focus more on prevention (25%)
- Employer-based health insurance should be replaced with mandatory portable plans (19%)
- Government should invest more in public health (19%)
- Something else (tell us!) (12%)

Look for more responses from the survey on our Policy Blog at www.citizensleague.org/blogs/policy.

April member poll

Which recommendation from the Citizens League 2003 report on electricity (see page 1) do you think is most compelling?

- Companies that sell energy should operate under a carbon emission permit system.
- Minnesota’s electrical energy system should be as efficient as possible.
- The transmission and distribution system serving Minnesota should be flexible enough to take advantage of renewable resources.
- Minnesota should create incentives for increased reliability and environmental protection, while working to maintain a reasonable cost structure.
- We can’t separate them; we need to do all of these things together.

Go to www.citizensleague.org to vote!
The past five years have been filled with tough blows for newspapers and traditional TV news, and there’s a good argument that the next five years will be even harder. Some of the biggest names in print journalism seem to be on the ropes, unable to fight back effectively against a powerful new challenger: the internet. The fight hasn’t served public policy well. Mainstream newspapers’ coverage of policy issues has declined, leaving many of us in the policy world, like the clichéd old boxing coach, urging our once-great media champ to “just keep fighting” while moaning about the “glory days.”

Rather than romanticize a past that may be down for the count, perhaps it’s time for public policy advocates to step away from this fight and look for new strategies to achieve our goals. New tools offer us opportunities to help build a more exciting and dynamic future that blends public policy, traditional and new media methods and journalism. Our Minnesota Anniversary Project (MAP 150) offers clues as to how this might happen.

Black and blue

The internet is unalterably changing the economics and the practice of journalism. Information is a commodity. Citizens don’t have to depend on traditional media to find out what’s happening. Eyeballs are moving elsewhere. Although newspapers are still fantastically profitable, advertising revenue and circulation are declining. New owners have brought new priorities to the business of journalism, and arguably less experience in the practice of journalism. Features have replaced analysis. Aside from some editorial page superstars, column inches about relationship-building have replaced column inches about building a better health care system.

The relationship with the audience is changing too. The old media model delivered a wide range of content to a relatively passive but very diverse audience. In the new model the audience is highly segmented by interest, and much less interested in being passive consumers. Blogging and podcasting make anyone a content producer and distributor.

Red white & blue

But the fundamental purpose that journalism and the media serve in our democracy and in policy-making is more important than ever. We need access to accurate information from a wide variety of sources. We need a vigorous debate on the facts and policy choices. We depend on analysis about the long-term and personal implications of our policy choices. And in a democracy, citizens must be “producers,” not just consumers. How do we sort through the “puzzles and mysteries” of public policy that I mentioned here last month without the media and the skills and expertise of journalists?

The mainstream media is literally a common ground that helps build the common good. Or at least it should be. Can it be again?

MAP 150’s goldmine

We know from MAP 150 that Minnesotans want to become engaged in finding better solutions to their policy concerns, and that they have vital information that we need to implement better policy solutions. There are new opportunities if we’re willing to redefine the practice and structure of journalism and the connections between the media and public policy.

Technology now makes it possible to harness citizens as sources of information. For example, as we’ve asked in MAP 150, what can students tell us (literally), about what will motivate them to succeed in school? We can use new technologies to tap these citizen-sources to gain a goldmine of valuable information about policy.

Minnesota Public Radio’s Public Insight Journalism is one example.

What if these citizens were not just sources of information, but worked with journalists to produce and share answers to these questions? Could journalists also be in the “capacity-building” business, training citizens to do so? The Twin Cities Daily Planet is a local example of where this is happening now.

How can we create the “infrastructure” that connects citizens and allows them to share policy information on a greater scale? Efforts like OhMyNews in Korea are training citizen-journalists to collect and report information, and providing a larger platform to share this information with the public. Good journalism has always helped to aggregate information. Could we create a wiki-newspaper, as one local columnist suggested? The Pioneer Press’ new web site is a start.

Networks of citizens are now more powerful than TV networks. New web technologies and media will become more powerful and effective as they connect more citizens. What if the media and journalists helped to wrestle the world of blogging away from the blowhards, and helped to build spaces for more productive debate and discussion? How can we learn from social-networking sites like MySpace to create diverse citizen networks to solve policy problems? Can we use the power of YouTube and podcasting to do more than watch bizarre epic Care Bear animations? Can we help citizens share their very real stories about how public policy impacts their lives and their visions for Minnesota?

These are all opportunities for a new media and a new journalism to change how we view the news.

None of this will happen unless we make it happen. As citizen-leaders and policy-makers, we need to bring the capacities and skills of journalism into all of our work in policy-making, and proactively build this new media infrastructure and connect it to all institutions. To rephrase the cliché about team-building, there is an “I” and a “we” in “media.” Is there a “we”? There needs to be. This is a fight worth winning.

Sean Kershaw is the Executive Director of the Citizens League, and can be reached at skershaw@citizensleague.org or 651-293-0575x14. You can comment on this Viewpoint at: www.citizensleague.org/blogs/sean.
Energy reform

continued from page 1

• The state has not been a leader in the development and implementation of new technologies or new practices that could improve efficiency or conservation, or minimize environmental damages.

We must find ways to improve the system, not only on the production side of the equation, as this legislation does, but we must also find improvements in the way we consume electricity and regulate the decision-making process.

Given these conclusions, the committee offered the following recommendations:

• Companies selling electrical energy on the retail market should be operating under a carbon emission permit system. The system should be designed to limit the aggregate release of carbon dioxide from fossil fuels in the primary production of electricity. Allowable emission levels should be set to deal meaningfully with the global warming problem with the assumption that each region will bear a “fair share” responsibility for achieving national goals for reduced CO2 emissions from nonrenewable resources.

• Minnesota’s integrated electrical energy system, from primary energy sources to final use, should be at least as efficient as that presently projected by the federal Department of Energy laboratories with presently proven technologies.

• The transmission and distribution systems serving Minnesota should have the capacity and the flexibility to allow the state to take maximum advantage of renewable resources, such as wind, solar, and biomass energy, distributed capabilities, and co-generation installations.

• Minnesota should act quickly to adopt the necessary safeguards and incentives to allow for continued and increased reliability and environmental protection, while working to maintain a reasonable cost structure. The state also needs to monitor the changing environment of the region and the federal structure so that policies can be updated slowly by state mandates rather than thrust upon the state through federal requirements.

• Minnesota could face an electricity crisis, but with proper planning and continued observation, we can avoid it and assure a reliable electricity supply with an improved balance of reliability, environmental impacts, and cost.

Supply-side solutions

The legislation signed by the governor in February aims to create a more diversified electricity production portfolio by creating requirements for utilities to supply specific minimums of electricity produced by renewable resources. These include solar, wind, hydroelectric, hydrogen, and biomass. For the majority of the utilities, the annual requirements for percentage of electricity produced using a renewable resource is 7 percent by 2010; 12 percent by 2012; 17 percent by 2016; 20 percent by 2020; and, 25 percent by 2025.

For a nuclear utility, the standard is 15 percent by 2010; 18 percent by 2012; 25 percent in 2016; and, 30 percent by 2020. Of that 30 percent, 25 percent must be generated from wind. This is expected to add 5,000 to 6,000 megawatts of new renewable energy to the system.

The recent legislation also addresses the need for better planning of transmission and distribution systems. It requires the utilities to study and develop plans for enhancing the transmission and distribution systems to support the renewable energy standards discussed above. The reviews must identify ways to optimize the delivery of the renewable energy to Minnesota retail customers while maintaining the reliability of the system. Addressing the issue of the regionalization of the electric system, the utilities are required to collaborate with the Midwest Independent System Operator to integrate Minnesota’s transmission plans with other regional transmission considerations.

Moving forward on the demand side

Although this recent legislation constitutes a major step forward, diversifying the electricity portfolio and investing in the transmission and distribution systems only achieves a portion of the vision laid out in the “Powering Up” report. We must find ways to improve the system, not only on the production side of the equation, as this legislation does, but we must also find improvements in the way we consume electricity and regulate the decision-making process.

A good starting point for the next phase of Minnesota’s electricity reform is further consideration of Gov. Pawlenty’s Next Generation Energy Initiative. This initiative calls for increased conservation, including reducing energy from fossil fuel by 15 percent by 2015 and building a total of 1,000 ENERGY STAR buildings by 2010. (The Environmental Protection Agency awards the ENERGY STAR label to buildings that use 40 percent less energy without compromising comfort or services.) Currently, 87 schools, office buildings, and churches in Minnesota have received this distinction.

Also included in the initiative are efforts to create market reforms by encouraging utilities to offset carbon emissions from new fossil fuel generation facilities. Gov. Pawlenty is also proposing that Minnesota join the Chicago Climate Exchange or some alternative collaborative whose purpose is to reduce greenhouse gas emissions.

Minnesota is moving in the right direction, and is once again a national leader in energy reform and environmental protection, but our transformation is not complete. This is not the time for our political leadership to sit back, content that a renewable portfolio standard will solve our impending electricity crisis. Instead, they should view this as the start of a bipartisan partnership to lead Minnesota into the future, and continue to build Minnesota role as the nation’s leader in redefining the future of electricity production and consumption.

Scott McMahon served as the Citizens League staff for the electricity reliability study committee from 2001-2002. He currently serves as an independent policy consultant. He can be reached at scott.h.mcmahon@gmail.com.


For more information on Governor Pawlenty’s Next Generation Energy Initiative, go to www.governor.state.mn.us/mmediacenter/pressreleases/2006/december/PR00007863.html
I received a telephone call the other day from someone in the city of Edmonton in Alberta, Canada asking about fiscal disparities. Since I started working at the Citizens League three-and-a-half years ago, I have been contacted by folks in Pennsylvania, Florida, Colorado, and Washington D.C. regarding Minnesota’s unique tax-base sharing program, fiscal disparities.

It makes intuitive sense to me that tax-base sharing helps build a more economically cohesive region and I think that is why people keep calling from around the country to talk about it. With all the countervailing forces at play, however, it is impossible to show many of the ways that the fiscal disparities program has strengthened the Twin Cities regional economy over the past 36 years, particularly if you are talking about what makes intuitive sense to most Minnesotans.

A 2005 House Research Department report on fiscal disparities cut to the heart of the matter: “The question of greatest interest is: how would tax burdens be different if the fiscal disparities program had never been enacted?”

The basic idea behind fiscal disparities is that each community contributes 40 percent of the growth in its commercial-industrial tax base (since the base year 1971) to a regional pool. The tax base in the pool is then redistributed based on whether a community has higher or lower fiscal capacity than the regional average. The goal is to promote more orderly regional development and to improve equity in the distribution of fiscal resources.

Closing the gap

It’s clear that fiscal disparities improves equity and closes the gap between the communities with the lowest and the highest tax-base wealth. Table 1 shows the five cities with the highest tax base per capita and the five cities with the lowest tax base per capita (more than 5,000 population) before and after fiscal disparities. The range of tax base per capita for the top five cities is $1,858-$3,765 before fiscal disparities; after fiscal disparities, that range is reduced to $1,728-$3,739. The range of tax base per capita for the bottom five cities is $674-$765 before fiscal disparities and increases to $794-$847 after fiscal disparities.

The disparity between the top five and the bottom five communities in terms of tax-base wealth has been generally reduced. Between the highest and the lowest (Orono and St. Paul Park), the disparity is reduced by $147 per capita in tax base wealth and in each of the other examples the disparity is reduced between $53 per capita to $212 per capita. Tables 2 and 3 show similar impacts for communities with populations less than 1,000 and those with populations up to 5,000.

Winners and losers

Beyond reducing wealth disparity, it is difficult to assess the real impact of fiscal disparities without the inevitable focus on who “wins” and who “loses.” At the county level, Hennepin County is the only net contributor of tax base in the seven county metro area covered by the law (see Table 4).

The question of greatest interest is: how would tax burdens be different if the fiscal disparities program had never been enacted?

### Tables 1-3: 2007 Metropolitan Disparity Reductions

#### Table 1: Metro Communities over 5,000 Pop.

<table>
<thead>
<tr>
<th>City</th>
<th>Before Sharing</th>
<th>After Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orono</td>
<td>$3,765</td>
<td>$3,739</td>
</tr>
<tr>
<td>Minnetrista</td>
<td>2,500</td>
<td>2,523</td>
</tr>
<tr>
<td>Edina</td>
<td>2,206</td>
<td>2,161</td>
</tr>
<tr>
<td>Shorewood</td>
<td>2,148</td>
<td>2,082</td>
</tr>
<tr>
<td>Eden Prairie</td>
<td>1,858</td>
<td>1,728</td>
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</table>

#### Table 2: Metro Communities Between 1,000 and 5,000 Pop.

<table>
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<tr>
<th>City</th>
<th>Before Sharing</th>
<th>After Sharing</th>
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</thead>
<tbody>
<tr>
<td>Wayzata</td>
<td>$4,091</td>
<td>$3,806</td>
</tr>
<tr>
<td>Tonka Bay</td>
<td>3,492</td>
<td>3,468</td>
</tr>
<tr>
<td>Dellwood</td>
<td>3,237</td>
<td>3,201</td>
</tr>
<tr>
<td>Medina</td>
<td>3,046</td>
<td>2,994</td>
</tr>
<tr>
<td>Deephaven</td>
<td>2,992</td>
<td>2,933</td>
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</table>

#### Table 3: Metro Communities Under 1,000 Pop.

<table>
<thead>
<tr>
<th>City</th>
<th>Before Sharing</th>
<th>After Sharing</th>
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<tbody>
<tr>
<td>Minnetonka Beach</td>
<td>$4,631</td>
<td>$4,617</td>
</tr>
<tr>
<td>Greenwood</td>
<td>3,871</td>
<td>3,814</td>
</tr>
<tr>
<td>Marine on St. Croix</td>
<td>2,546</td>
<td>2,548</td>
</tr>
<tr>
<td>Medicine Lake</td>
<td>2,448</td>
<td>2,469</td>
</tr>
<tr>
<td>Gem Lake</td>
<td>2,435</td>
<td>2,250</td>
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</table>

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**Continued on page 6**
### Table 4: 2007 Metro Tax-Base Sharing by County

<table>
<thead>
<tr>
<th>County</th>
<th>2005 Pop.</th>
<th>2007 total tax base before sharing ($)</th>
<th>2007 C/I tax base before sharing ($)</th>
<th>2007 fiscal disparities contribution ($)</th>
<th>2007 fiscal disparities distribution ($)</th>
<th>2007 net loss or gain due to sharing ($)</th>
<th>2007 net loss or gain per capita ($)</th>
<th>2007 % change in tax base due to sharing</th>
<th>2007 % change in C/I tax base due to sharing</th>
<th>2007 tax base before sharing after sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anoka</td>
<td>326,393</td>
<td>316,194,507</td>
<td>78,066,246</td>
<td>25,612,240</td>
<td>40,308,681</td>
<td>14,696,441</td>
<td>45</td>
<td>1.83%</td>
<td>10.83%</td>
<td>$969</td>
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<tr>
<td>Carver</td>
<td>85,204</td>
<td>101,257,624</td>
<td>19,084,296</td>
<td>6,282,221</td>
<td>8,325,489</td>
<td>2,043,268</td>
<td>$24</td>
<td>1.98%</td>
<td>10.71%</td>
<td>$1,212</td>
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<tr>
<td>Dakota</td>
<td>391,558</td>
<td>455,853,332</td>
<td>116,777,871</td>
<td>38,247,755</td>
<td>41,786,559</td>
<td>3,538,804</td>
<td>$9</td>
<td>0.78%</td>
<td>3.03%</td>
<td>$1,164</td>
</tr>
<tr>
<td>Hennepin</td>
<td>1,150,912</td>
<td>1,520,075,598</td>
<td>517,590,111</td>
<td>155,191,276</td>
<td>114,866,983</td>
<td>-40,324,293</td>
<td>-$35</td>
<td>-2.65%</td>
<td>-7.79%</td>
<td>-$1,321</td>
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<tr>
<td>Ramsey</td>
<td>515,258</td>
<td>516,410,064</td>
<td>173,677,583</td>
<td>61,043,530</td>
<td>62,882,530</td>
<td>12,882,616</td>
<td>$25</td>
<td>2.49%</td>
<td>7.42%</td>
<td>$1,002</td>
</tr>
<tr>
<td>Scott</td>
<td>115,997</td>
<td>143,738,115</td>
<td>26,620,211</td>
<td>9,139,512</td>
<td>10,973,096</td>
<td>1,833,584</td>
<td>$16</td>
<td>1.28%</td>
<td>6.89%</td>
<td>$1,239</td>
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<tr>
<td>Washington</td>
<td>224,857</td>
<td>291,341,589</td>
<td>56,611,955</td>
<td>17,107,443</td>
<td>22,437,047</td>
<td>5,329,094</td>
<td>$24</td>
<td>1.83%</td>
<td>9.41%</td>
<td>$1,286</td>
</tr>
</tbody>
</table>

2007 Total: 2,810,179 3,346,874,829 888,428,274 302,721,361

2006 Total: 2,771,030 3,214,611,346 878,194,013 273,063,608

Difference: 39,149 132,263,482 10,234,262 29,657,753

% Difference: 1.41% 4.11% 12.55% 10.86%


### Table 5: 2007 Metro Tax-Base Sharing at a Glance

<table>
<thead>
<tr>
<th>Top 10 Contributors (in dollars)</th>
<th>Top 10 Gainers (by % of tax base)</th>
<th>Top 10 Contributors (by % of tax base)</th>
<th>Top 10 Gainers (per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>St. Paul $20,453,892</td>
<td>St. Paul Park</td>
<td>Rogers -16.05%</td>
<td>-$245</td>
</tr>
<tr>
<td>Minneapolis $3,858,623</td>
<td>Falcon Hts</td>
<td>Arden Hills -10.85%</td>
<td>-$170</td>
</tr>
<tr>
<td>St. Paul Park</td>
<td>Columbia Hts</td>
<td>Bloomington -10.34%</td>
<td>-$167</td>
</tr>
<tr>
<td>Cottage Grove</td>
<td>Circle Pines</td>
<td>Roseville -9.65%</td>
<td>-$15</td>
</tr>
<tr>
<td>Andover</td>
<td>St. Francis</td>
<td>Golden Valley -9.44%</td>
<td>-$14</td>
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<tr>
<td>Coon Rapids</td>
<td>Jordan</td>
<td>Eden Prairie -6.99%</td>
<td>$-14</td>
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<td>Brooklyn Park</td>
<td>South St. Paul</td>
<td>Mendota Hts -6.14%</td>
<td>$-13</td>
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<td>Columbia Hts</td>
<td>Robbinsdale</td>
<td>Vadnais Hts -6.10%</td>
<td>$-12</td>
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<tr>
<td>South St. Paul $1,999,524</td>
<td>Linwood Twp</td>
<td>Edina -5.63%</td>
<td>$-11</td>
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<tr>
<td>Crystal</td>
<td>East Bethel</td>
<td>Mendoia Hts -5.93%</td>
<td>$-10</td>
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<td>Champlin $1,705,720</td>
<td></td>
<td>Maple Grove -5.88%</td>
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<td>Maplewood -$2,200,821</td>
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<td>Wayzata $-1,926,103</td>
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<td>Oak Park Hts $-669,863</td>
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<td>Louis ville Twp $-62,926</td>
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<td>Up to 1,000 Population*</td>
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<td>Landfall $-688,348</td>
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<td>Hampton $100,278</td>
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<td>Vermillion $45,791</td>
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<td>San Francisco Twp $40,708</td>
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<td>Randolph $38,814</td>
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<tr>
<td>Hanover** $37,316</td>
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<tr>
<td>Bethel $36,064</td>
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<td>Up to 1,000 Population*</td>
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<td>Coates $-8,344</td>
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<td>Gem Lake $-86,601</td>
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<td>Lyllydale $-70,070</td>
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<td>Greenwood $-5,343</td>
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<td>Benton Twp $-2,050</td>
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<td>Coates $-19,400</td>
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<td>Loretto $-8,292</td>
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<td>Minnetonka Beach $-8,973</td>
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<td>Waterford Twp $-3,584</td>
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<td>Mendota $-1,646</td>
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Source: Minnesota House of Representatives Research Department
Calculations by Citizens League

* = Only 9 communities under 1,000 in population are net contributors to the fiscal disparities pool in 2007.
** = Only the portion of these cities in Hennepin County contributes to the tax-base sharing pool.
That makes sense to me because Hennepin County is clearly the economic center of the region. Does that make Hennepin County a “loser”? With a net contribution of 2.7 percent of its total tax base to the pool in 2007, Hennepin County provides the Twin Cities region with a measure of fiscal stability that no other region can claim. And these days, regions are the competitors in the national and global marketplaces. I don’t call that losing.

Below the surface
What makes fiscal disparities work so well is that the law is designed to operate on a structural level using a few basic principles, beneath the annual political battles over taxing and spending.

That is also the main reason why modifying the fiscal disparities law is a relatively risky proposition. Any changes to the law must offer the same level of structural integrity as the existing law and shouldn’t be designed to respond to short-term political concerns.

It’s impossible to show all the ways the fiscal disparities program has strengthened the Twin Cities regional economy over the past 36 years.

Over the years, bills have been introduced to eliminate or change the fiscal disparities law, often by those who are large net contributors to the tax-base sharing pool. Some observers have advocated sharing residential tax base in addition to commercial-industrial tax base, but the potential for disconnecting property taxpayers from their local governments is a big risk in my view, even if sharing residential tax base was politically palatable.

Others have recommended fiscal disparities be extended to more counties to better reflect the Twin Cities economic region. A very frank discussion about all the rules and laws regarding development would need to take place before extending the benefits of tax-base sharing beyond the seven-county area.

This year Rep. Ann Lenczewski (DFL-Bloomington) has authored a bill (H.F. 1924) proposing the Department of Revenue study fiscal disparities. Here is how the bill is written:

The study shall consider to what extent the program is meeting the following goals, and what changes could be made to the program in the furtherance of meeting those goals:
1) Reducing the extent to which the property tax system encourages inefficient development patterns
2) Ensuring that the benefits of economic growth are shared throughout the region
3) Allowing taxing jurisdictions to deliver services in proportion to their tax effort
4) Compensating jurisdictions for low-tax-yield properties that provide regional benefits
5) Promoting a fair distribution of tax burdens across the region
6) Reducing economic losses from competition for commercial-industrial tax base.

These are questions that we would all like answers to, but it will be difficult to answer them in a satisfactory way. Each of these issues is influenced by a myriad of other factors beyond fiscal disparities, and it will be a significant challenge to strip away those factors and make judgments about the answers and any need for change.

If a study of the fiscal disparities program is approved this year, the Citizens League will be ready to engage in the policy discussion that will follow as we gear up for the next 30 years of “breaking the tyranny” of local property taxes.

Bob DeBoer is the Director of Policy Development at the Citizens League. He can be reached 651-293-0575 ext. 13 or by email at bdeboer@citizensleague.org

Charles R. Weaver Metropolitan Revenue Distribution Act

Minnesota’s unique system of property tax-base sharing, commonly referred to as fiscal disparities, has been part of the Twin Cities regional economy for more than 30 years, and part of the Iron Range economy for more than a decade.

While the concept of tax-base sharing has been discussed in policy and academic circles for many years, Minnesota’s implementation is unique within the United States, and may be unique worldwide in terms of the geographic area covered and the amount of tax base shared.


The report concluded the (then) current system of property taxes had created a problem called “fiscal fragmentation,” where residents in metro communities with differing tax wealth were paying differing levels of property taxes for roughly equal levels of service.

The fiscal disparities law created a tax-base sharing pool. Each community in the pool agreed to contribute 40 percent of the growth in its commercial-industrial tax base after 1971, the base year. The tax base would then be redistributed based on whether a community had higher or lower fiscal capacity than the region average.

The law outlined six objectives:

- Provide a way for local governments to share in the resources generated by the growth of the area, without removing existing resources from local governments.
- Increase the likelihood of orderly urban development by reducing the impact of fiscal decisions on the location of business and residential growth and transportation facilities.
- Establish incentives for all parts of the area to work for the growth of the area as a whole.
- Provide a way for the area’s resources to be available within the existing structures of local government and decision making.
- Help communities in different stages of development by making resources increasingly available at early stages of development and redevelopment when financial pressures are greatest.
- Encourage protection of the environment by reducing the impact of fiscal considerations and encouraging flood plain protection and the preservation of land for parks and open space.
Fiscal “disparity” creates business “parity”
Tax-base sharing law has reduced rewards for business that relocate in search of tax breaks

Paul Gilje

Quietly, unobtrusively, almost invisibly, the 36-year-old tax-base sharing law (more popularly known as the fiscal disparities law) continues its job of helping to unify the Twin Cities metropolitan area.

The law was passed by the Minnesota Legislature in 1971 following recommendations of a Citizens League report, “Breaking the Tyranny of the Local Property Tax.” Today it remains almost the same as when it was originally approved. A similar law was enacted for the Iron Range several years ago.

Most of the public discussion since the law was enacted has focused on those localities that gain or lose the most tax base. But an overlooked—and more significant—impact has been the homogenizing effect on property taxes rates paid by stores, offices, factories and other commercial property.

Leveling the playing field
Because of the tax-base sharing law, business owners know that the tax rate on a significant portion of their property value, approaching 40 percent, will be the same no matter where in the metropolitan region that business is located. Business owner won’t get hammered because service levels are higher in some communities, but they won’t find a haven to escape taxes either.

Under the law, 40 percent of the net growth in taxable value of commercial-industrial property since 1971 is taxed at the average tax rate for all units of government. Revenue is distributed among these same units of government.

It makes no difference if the property is a convenience store in St. Francis, a warehouse in Cottage Grove, a shopping center in Maplewood, a factory in Lakeville, or an office building in Minneapolis. The tax rate on up to 40 percent of the taxable value of each parcel of business property in the region is identical. Different local rates apply to the balance of business value.

Another less understood part of the law is its moderating effect on tax base differences among school districts that raise revenue through property tax referendums. Without the law, lower-valuation districts would have less local wealth to tax, and high-valuation districts would have even more wealth.

Sharing more isn’t better
Because of the success of the fiscal disparities law, there are suggestions perennially to expand the program. The most common proposals call for sharing 100 percent of taxable business value and including residential property under the law. But such changes would remove incentives for new business growth and would disrupt local accountability.

If localities were required to share considerably more business tax base they might lose incentive to encourage new business within their borders. Clearly, sharing 40 percent has not diminished such incentives. In fact, inter-municipal competition for tax base is as strong as ever, maybe even stronger. One wonders why cities in the region still seem so compelled to offer expensive enticements to businesses, apparently overlooking the fact that if such businesses locate elsewhere in the region, they and other cities will still benefit under the tax-base sharing law.

Not a miracle cure
The tax-base sharing law never was intended to solve all fiscal ills. As a legal defender once said in court, “there’s far less to this law than meets the eye.” It functions as an insurance policy. Your premium is that you share 40 percent of the increased value since 1971 of business property within your locality. Your benefit is that you are guaranteed a portion of the revenue from all business property growth everywhere in the region, whether in your locality or not.

Paul Gilje formerly served as associate director of the Citizens League (1964-1988). He served as staff to the Citizens League committee that originated the tax base sharing proposal. He is a semi-retired public affairs consultant.
Most people think regionalism is essential for better transportation, more efficient government and smarter land use. Those are surely benefits, but few people appreciate how critical regional cooperation is for creating good jobs.

Arthur Rolnick at the Minneapolis Federal Reserve Board and other observers rightly decried the costly “economic war among the states.” But when a company is considering where to expand or relocate, it compares metro regions, not states. And the emphasis is on regional assets, not tax giveaways.

A site-searching company evaluates the skills of the region’s workforce and the quality of its infrastructure systems. It examines the region’s schools and universities and its quality of life to decide if it will be able to transfer, recruit, and retain good workers. It will look at individual communities, but only after deciding that a region has the right stuff. That’s why using economic development dollars—such as tax increment financing, or TIF—to fuel competition within a region is wasteful and ineffective.

Besides, we live in a region. Many of us live in one jurisdiction, work in another, and then shop, study, recreate, or worship in others. We live regionally, yet some of our local taxing jurisdictions act like, well, Hatfields and McCoys. Local officials need an improved cooperative structure to curtail zero-sum job piracy and focus instead on jointly promoting the region.

Historically, the Twin Cities have grasped the value of regional cooperation. The creation of the Metropolitan Council and a regional tax-base sharing agreement more than 35 years ago allow some shared governance and a funding structure that improves every community’s economic performance. Regional cooperation has also resulted in a higher quality of life by providing a jointly planned and funded public transit network, parks and environmental protections, and an inclusive planning structure.

However, this system has not inoculated the Twin Cities from the pressures of long-term growth. In December, Good Jobs First released the study “The Thin Cities: How Subsidized Job Piracy Deepens Inequality in the Twin Cities Metro Area.” It examines 86 cases in which businesses already located in the Twin Cities region received economic development incentives to simply relocate within the region. The subsidized relocations involved 8,200 jobs and $90 million in subsidies; three-fourths of the deals took advantage of tax increment financing.

Despite the 1971 enactment of the Charles R. Weaver Metropolitan Revenue Distribution Act (commonly known as the Fiscal Disparities Act), which provides for partial regional sharing of the incremental growth in commercial-industrial property tax revenue, Good Jobs First found that tax-base competition is alive and well in the Twin Cities region. Development incentives such as TIF—originally intended to help revitalize older areas—are instead being used by outlying suburbs to pirate jobs and tax revenues from older localities.

The relocations also contributed to disparities in wealth and employment opportunity among localities in the region. Companies moved jobs away from areas with higher rates of poverty and higher numbers of people of color to more affluent and less racially diverse areas. Winning suburbs enjoyed tax capacity growth rates (property tax wealth) five times higher than losing localities.

By updating the Fiscal Disparities Act, Minnesota could reduce this zero-sum competition. The Act covers seven counties, but the regional labor market has grown to encompass 11 Minnesota counties and two more in Wisconsin. Almost a third of the relocations found by the study were in the four counties not covered by the Act (Chisago, Isanti, Sherburne, and Wright).

These four counties get to retain 100 percent of the increase in their commercial-industrial tax base, instead of sharing 40 percent.

In other words, the metro region’s four most distant and thinly populated Minnesota counties have a stronger fiscal incentive to pirate jobs and tax base from the other seven—a structural prescription for more sprawl.

Modernizing the Fiscal Disparities Act to include these four counties won’t stop all such job piracy, but it would surely encourage local officials to stop robbing each other and focus on what really matters for a competitive economy—a strong region with skilled workers, good schools, efficient infrastructure, and high quality of life.

We cannot allow the situation to be aggravated further by the continued concentration of tax base in some communities at the expense of others.

### Findings

**A.** Local governments in the Twin Cities rely heavily on property taxes for revenue. Local governments are taking actions on an individual basis calculated to improve their own tax base. Each of these actions in the context of a local government’s property tax system may be entirely defensible. A city council wants to do all it can to hold down local property taxes. But, in the aggregate, many of these actions by local governments are having very serious effects on the development of the Twin Cities areas.

**B.** Many of these actions are calculated to benefit the tax base of specific local governments, but work against the benefit of the whole. Examples of such problems include:

- Many outlying areas in the Twin Cities have shown resistance to metropolitan parks.
- To increase tax base local governments have been allowing development of unsuitable land.
- Localities with favorable property tax positions often refuse to merge with districts with a poorer property tax base.
- Local governments too often advocate for increasing access to freeways in a manner that is insensitive or unsafe.
- Suburban governments have enacted strict residential building ordinances which discourage low-income housing.
- Communities desperate for a property tax base may grant too much of a tax break to an industry.

**C.** Many factors affecting distribution of the tax base lie essentially outside the control of each locality. These factors include: terrain and soil characteristics, location of waterways, access to transportation networks, and the location of tax-exempt property.

**D.** Major shifts in the property tax base of the Twin Cities area have occurred over the last two decades. People no longer work and shop in the districts where they live and go to school. When shopping and working outside of their local district, these individuals support the tax base outside of their place of residence. The result is a system in which no community is truly balanced, with the same income distribution and the same mix of residential, commercial, and industrial property as is characteristic of the entire metropolitan area.

### Conclusions:

**A.** The situation that encourages local governments to act directly contrary to the best interest of the entire area must be changed.

**B.** We must change the situation whereby the ability of a local government to obtain an adequate tax base to provide necessary public services is dependent upon the boundaries which divide the metropolitan area into 130 municipalities and townships and 49 school districts.

**C.** We cannot allow the situation to be aggravated further by the continued concentration of tax base in some communities at the expense of others.

### Recommendations:

**A.** The committee recommends that the state Legislature change the property tax system in the Twin Cities metropolitan area so that the entire area will share to some extent in the growth of the property tax base in years to come. The committee proposes that the Legislature adopt a plan for sharing the growth of the property tax base.

- The plan should assure no further growth in disparities between property tax bases. Furthermore the plan should ensure that differences decrease as the area grows.
- The legislation should reduce incentives of city councils to attract commercial and industrial development.
- Local governments should continue to determine their own budgets, to be able to calculate the property tax impact on their homeowners, and to be responsible to local voters for their decisions.

**B.** The legislation should:

- Allow all increases in residential valuation to continue to go exclusively to the units of government where located.
- Beginning after the base year, divide the increases occurring year by year in the non-residential valuations...allocating one-half of such increases to the local base of the unit where the property is physically located and allocating the other half to a new areawide base.
- Distribution of areawide tax base should be done year by year according to population.
- Each local unit would retain its own expenditure level and determine its own revenue requirements.

**C.** The Citizens League has strongly urged in previous reports that administration of property tax assessment be improved so that differences in assessment levels from locality to locality will be minimized. Our proposal for partial sharing of the growth in the property tax base in the metropolitan area underlines the need for further improvement in property tax administration.
As much as we believe in the virtues of democracy, we’ve also come to believe that the individual ingredients of democracy (i.e., citizens) are ignorant and apathetic.

2004 presidential election, the majority of citizens remain ignorant about many of the issues at stake” (Political Ignorance Is No Bliss, by Ilya Somin, Sept. 22, 2004).

There are plenty of critics who argue the opposite, or at least attempt to explain why citizens act the way they do. But one of the most common questions Citizens League Executive Director Sean Kershaw and I get when we’re out talking about the Minnesota Anniversary Project (MAP 150) is, “How do you know that people aren’t just selfish, ignorant whiny babies?” This is why the Citizens League’s principles are so profound. As much as we believe in the virtues of democracy, we’ve also come to believe that the individual ingredients of democracy (i.e., citizens) are ignorant and apathetic. So if you really truly believe the Citizens League’s principles, you’re making a pretty profound affirmation.

As is often the case today, debates are frequently structured as either/or propositions. But MAP 150 takes a different approach. It asks, “What if the nature of systems themselves (education, health care, political, media) makes it difficult if not impossible for people to understand what’s going on, or to feel that they can make a difference?” I use the Iraq war as a personal litmus test. It’s something I care deeply about. But what information am I privileged to that decision makers are not? How could I possibly weigh in meaningfully? Who would listen to me anyway? So things just slosh around in my brain. Does that make me ignorant or apathetic? I’d like to think not.

Harvard University professors Richard Zeckhauser and Jeffrey Liebman have a similar take. They call it schmeduling. How can people make wise decisions when the price signals are all mixed up and confusing? They offer this example:

“If line 11 is equal to or more than line 12, enter the amount from line 8 on line 14 and go to line 15. If line 11 is less than line 12, divide line 11 by line 12. Enter the result as a decimal (rounded to at least three places).”

What if we’ve just made it nearly impossible for people to do the right thing?

One way to look at this is to ask whether people want to do the right thing. Last summer, four journalists from the University of Minnesota went around the state and asked people to talk about what mattered to them. People were not only earnest and concerned, they talked about public policies in terms of the greater good and long-term good. Darla Moore of Hibbing spoke about the loss of her husband’s pension. “We’ve already hit the bottom and there’s nothing that they can do for us. But the ones that are still working—they need to be guaranteed that they will have a pension and it will be fully funded.”

In the same vein, a recent survey by the New York Times found great compassion around health care: 65 percent of those who responded said that covering the uninsured was more important than lowering costs for everybody; 70 percent said the number of uninsured was a very serious problem; 64 percent thought the federal government should guarantee health coverage, and 48 percent thought so even if it meant their own insurance would cost more. Finally, 60 percent were willing to pay higher taxes to cover everybody, and 49 percent were willing to pay $500 or more.

I don’t know how you could call that apathy.

Stacy Becker is the MAP 150 Project Director.
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PARADES

PERIODICALS

Education Policy Working Group

Interested in education policy? This spring, we are launching the Education Policy Working Group. Members will read past Citizens League reports on education, keep track of the changing landscape of education policy in Minnesota, and advise the Citizens League staff and board on projects relating to education. We're looking for people of all ages, experience, and perspectives. Contact Victoria Ford for more information at vford@citizensleague.org or 651-293-0575 ext. 17, or go online to volunteer: www.citizensleague.org/get-involved/committees.