Rising property values expand fiscal disparities pool

by Kris Lyndon Wilson

As property values around the Twin Cities continue to grow, so too does the region’s fiscal disparities pool. Up almost 13 percent over last year, the pool’s $314,212,440 worth of commercial industrial tax base will be re-distributed among the 187 participating communities in an effort to reduce the disparities in commercial/industrial (C/I) tax base between metro communities.

What is Fiscal Disparities?
The Minnesota Legislature passed the Twin Cities tax base sharing law — commonly referred to as “fiscal disparities” — in 1971, and, after an unsuccessful court challenge, it was implemented in 1975. The law requires cities in the metro area to contribute 40 percent of the growth in their C/I tax base since 1971 to a region wide fiscal disparities pool. This tax base is then redistributed to participating communities based on a formula that takes into account a city’s population and the market value of all property in the jurisdiction.

If a community’s market value per capita, otherwise know as “fiscal capacity,” is greater than the metro average, it will receive less from the pool than it contributed. On the other hand, if a community’s market value per capita is less than the metro average, it will receive more from the pool than it contributed. Overall this year, 44 communities received less from the pool than they contributed, while 143 received more than they contributed.

The tax base put into the pool is taxed at a uniform regional rate, the tax burden on comparable pieces of C/I properties varies less from one jurisdiction to another than it otherwise would.

In addition to reducing the fiscal disparities between neighboring communities, tax base sharing is also intended to promote regional planning. By ensuring that all communities in the metro area benefit from valuable commercial industrial tax base, supporters hope to discourage communities from competing against one another for development and to encourage them to accept certain types of development that generate less tax base, but serve regional purposes, such as parks and nature preserves or affordable housing.

This Year’s “Winners” and “Losers”
Once again, in our annual analysis of metro cities with populations over 9,000, the city of St. Paul was by far the biggest beneficiary of the redistribution, with a net gain of approximately $27 million. Cottage Grove was a distant second with a net gain of approximately $3 million. Coon Rapids, South St. Paul and Richfield round out the top five gainers.

Cities experiencing the largest net loss of tax base as a result of tax base sharing include Bloomington, Eden Prairie, Plymouth, Minnetonka and Edina. Minneapolis, which tends to experience net gains some years and net losses other years, experienced a small net loss of $481,984 this year.

As in past years, Bloomington had the largest net loss, at approximately $22 million, which equals 14 percent of the city’s overall tax base. Minnetonka, Plymouth and Eden Prairie also lost more than $10 million and more than 10 percent of their overall tax base.

However, this redistribution of tax base was...
Imagine yourself looking down on the metropolitan area from above. Imagine, too, from that vantage point that you could see all the factories, warehouses, office buildings and shopping centers in the area.

"Now imagine lifting part of each commercial industrial building into the air, flattening everything out and dropping them back to earth. . .the tax base of every city in the metropolitan area would be affected. Some cities would have more, some less."

That's how Paul Gilje, former Citizens League research director, described Minnesota's tax base sharing law (also referred to as fiscal disparities) in a 1985 paper prepared for the Upjohn Company in Michigan. Gilje wrote the League report that proposed the tax-base sharing plan, was instrumental in the passage of the law and prepared the League's annual report that described how the law has been working. The book is the 30th anniversary of the tax base sharing law.

Most political observers agree that the landmark, bipartisan legislation of 1967 couldn't have been passed without promoting a tax base sharing law.

"Without that decision, the law has been virtually unaltered for more than a quarter of a century—nearly unaltered for tax legislation."

Toadaysome say that the law has failed to significantly alter growth and development patterns or stem the interjurisdictional envy that led to much of the development in the metro area. Some say it should be expanded to all development, not just commercial-industrial. Others argue that the law doesn't reflect that different cities have different needs and that it hurts developing cities by taking tax base that should be used to provide services. Despite those concerns and criticisms, the law has survived for 30 years and yet serves a powerful symbolic statement. Ted Kolderie, director of the League at the time the law passed, says the law is actually "on-fact disparities" and calls it the "metropolitan tax-sharing plan." It reflects the notion that tax base belong to a single municipality. Development occurs partly because of regional decisions about infrastructure and other regional assets that are based on the entire region should benefit.

The tax base sharing program is the legal and legislative acknowledgement of the importance of regional assets, counties, schools and municipalities in the region.

"Imagine yourself looking down. . ." Phil Jeni is finance director of the Citizens League. He can be reached at:

By Phil Jeni

The Minnesota Journal
Publisher: Lyle Wray
Editor: Dana M. Schroeder
Managing Editor: Jennifer Conrad
Art Director: Mark Skeels
Managing Editor: Roy Hanson
The Minnesota Journal (ISSN 0741-9449) is a publica-
tion of the Citizens League, a nonprofit and nonpartisan Twin Cities public affairs organization.

708 S. Third St., Suite 500, Minneapolis, MN
55401. Phone: 612-336-0711. Fax: 612-337-5819. E-mail: info@minnesotajournal.net. Web site: www.minnesotajournal.net. Matthew L. Remerlen, president. Articles and commentary are drafted from a broad range of perspectives and do not neces-
sarily reflect League positions on policy questions. The Journal is published once a month. Periodical postage paid at Minneapolis, MN.

Annual subscription rate for nonmembers is $40 for 12 issues. Orders may be placed at 612-336-0711 or by mail at the above address. Prepayment of shipping charges to the Minnesota Journal, 708 S. Third St., Suite 500, Minneapolis, MN 55401.

Rising costs for local governments—tax reform proposals?

It's a miracle: Minnesota's tax base sharing law survives for 30 years

by Lyle Wray

If Minnesota's current system of local property taxes and state aids to cities, counties and school districts were pro-
posed today, it would be howled off the political stage as unfair and incompre-
nensible. Over time, Minnesotans have learned to deal with the system as a whole and special interests have grown up around each quixotic element.

Now the Ventrus administration has put together a package of reforms that would stand up to the test of public scrutiny—accountability for spending decisions, and better target state aid to local units of government. You can almost see the wolves beginning to circle in for the kill of the overall policy framework.

Broaden the base of taxation: Many of the administration's proposed reforms, espe-
cially those that broaden the tax base and expand taxation to nonprofits, are vintage Citizens League recommendations. In a 1995 Citizens League study on the global economy, the committee heard the need to adjust the mix of taxation away from inputs to outputs. For decades, the economy has been evolving away from goods and towards services. We are now at the point where a "broad and shallow"tax policy means including a larger array of goods and services. Clarify accountability for local spending decisions: The complex jumble of state aids has not been clarified since the 1971 fiscal reforms. One current tax system invites a lot of finger pointing. An intricate system of aids to local governments, combined with the tangle of state mandates and numerous local spending decisions makes it extremely

hard for citizens to determine who is responsible for increased spending. In an attempt to reduce this complexity and increase accountability, another 1995 Citizens League report, "Choose Reform, Not Declining Quality," outlined a division of state and local funding known as the "ABC-plan." The plan called for the state to pay 100 percent of the cost of com-
manded services, and to provide compens-
atory aid for those communities with unique local circumstances. Local govern-
ments would fund the full cost of determined services. The administration's current proposal for 100 percent state funding of the state-determined property tax levy for education would move any increase from federal aid by disentangling state and local spending decisions and increasing accountability.

Target aid to local governments.

Currently, 14% of the state's budget is passed directly to local governments in the form of LOAs ("local government aid") and HACAs ("homestead and agri-
cultural credit aid"). While continuing the LOA program, the administration is proposing reductions in HACAs, to pay for 100 percent of the state-mandated educa-
tion levy and changes to more closely align county HACAs with specific state-
mandated county-administered services. The League has long believed that gener-
ally-applicable state aid for local governments hampers accountability by buoying local property taxes and leaving local tax-
payers unaware of the true costs of the services they receive from their local govern-
ments. This is not to suggest that state assistance is not needed to help fill the gap between local capacity for raising rev-

enues and the costs of providing a basic level of public services. A decade ago the Minnesota Legislature received the so-called Federal Mandates report and fashioned a framework to rationalize and better tar-
gets aids with a "need, capability, gap" fund-
ing model. Again, the administration's current proposals would move Minnesota along this sound reform path.

So what is standing in the way of these reform proposals? With yet another healthy state surplus projected, it would seem to be a good time to smooth the way for major reform of the Minnesota's local taxing and spending system. But the usual reactions to reform are surfacing—"the devil you know is better than the devil you don't." But even with the current sys-
tem rather than leap into the unknown." Organized by highly motivated and generously funded "losers" under the reform proposals, the cherry picking of desirable items and discarding of an inte-
grated reform package has begun. While there are pieces of the Governor's overall budget proposal that Roundup will be considered, the League believes this is the best oppor-
tunity in years to truly reform Minnesota's fiscal system. The time is right to move on taxing and spending reform.

For decades, the League and others have studied the current taxing and spending system. A multitude of studies have been referred to the Latimer Tax Commission and the Ladd Report have recommended targeting state aid to local governments in a way that funds state mandates and fills the gap between need and capacity. If the state doesn't move quickly in this direction, a larger tax increase will be lost. For his part, the Governor will continue to be pivotal. Now that he has laid out a com-

pelling blueprint, he needs to call on his colleagues in government and the public to push hard for the major reforms that are long overdue in Minnesota.

Lyle Wray is executive director of the Citizens League.
not enough to knock these cities out of their among the wealthiest metro,

Bloomington, Golden Valley, Eden Prairie, Roseville, Shakopee, Minnetonka, Arden Hills and Edina are the top eight cities in terms of CII tax base per capita. The Twin Cities is not the only tax base sharing region in the state. Since 1995, the range has had its tax base sharing program that provides for sharing 40 percent of the growth in CII tax base. It includes the Range's (incore tax relief area, which consists of all of Lake and Cook Counties, much of St. Louis (excluding Duluth) and Isaca Counties and portions of Aitkin, Crow Wing and Koochiching Counties. A lawsuit challenging the constitutional.
2001 Tax Base Sharing at a Glance

<table>
<thead>
<tr>
<th>County</th>
<th>Total*</th>
<th>Net Gain or Loss</th>
<th>Net Gain or Loss Due to Tax Base Sharing</th>
<th>Net Gain or Loss Due to Tax Base Pool</th>
<th>% Change in Total Tax Base Due to Sharing</th>
<th>% Change in C/I Tax Base Due to Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hennepin</td>
<td>1,089,024</td>
<td>$5,194,865</td>
<td>$8,198,366</td>
<td>$3,003,500</td>
<td>10.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Ramsey</td>
<td>1,066,014</td>
<td>$3,641,908</td>
<td>$4,291,529</td>
<td>$650,621</td>
<td>7.6%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Anoka</td>
<td>1,054,319</td>
<td>$2,991,346</td>
<td>$6,006,552</td>
<td>$3,015,206</td>
<td>17.5%</td>
<td>17.5%</td>
</tr>
</tbody>
</table>

**# Population figures are Metropolitan Council estimates for 1999.**

* A county's net tax capacity is its total tax base for taxes payable in 2001, before adjustment for fiscal disparities. This figure includes value in tax-increment finance districts, even though that value is "captured" to pay off costs related to economic development or other projects. **Commercial-industrial net tax capacity, or tax base, for taxes payable in 2001.** This figure includes value in tax-increment finance districts.

Sources: MINNESOTA HOUSE RESEARCH DEPARTMENT; MINNESOTA DEPARTMENT OF REVITALIZING.

Disparities continued from page 4

In 2001, the 188 communities participating in the Iron Range tax base sharing program will share a pool of C/I tax base valued at $1,181,123. The biggest net losers are an unorganized portion of Lake County (-$66,266), Two Harbors (-$64,041), Ely (-$62,658), Grand Rapids (-$32,111) and Blackwater Township (-$27,129). M

Kris Lyndon Wilson is a research associate with the Citizens League. She can be reached at klyndon@citizensleague.net.

**Commercial-industrial net tax capacity, or tax base, for taxes payable in 2001.** This figure includes value in tax-increment finance districts, even though that value is "captured" to pay off costs related to economic development or other projects.

2001 Twin Cities Tax-Base Sharing for Cities with populations above 9,000

<table>
<thead>
<tr>
<th>City</th>
<th>Total Tax Base</th>
<th>C/I Tax Base</th>
<th>Net Gain or Loss</th>
<th>Change in Total Tax Base Due to Sharing</th>
<th>Change in C/I Tax Base Due to Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomington</td>
<td>$392,398,672</td>
<td>$367,950,434</td>
<td>$24,448,238</td>
<td>6.2%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Brooklyn Center</td>
<td>$125,500,042</td>
<td>$76,482,033</td>
<td>$49,018,009</td>
<td>39.2%</td>
<td>39.2%</td>
</tr>
<tr>
<td>Minneapolis</td>
<td>$1,928,298,478</td>
<td>$1,383,376,497</td>
<td>$544,921,981</td>
<td>28.4%</td>
<td>28.4%</td>
</tr>
</tbody>
</table>

**Top 5 Net Gainers in 2001:**

1. Bloomington
2. Brooklyn Center
3. Minneapolis
4. Saint Paul
5. Eden Prairie

**Top 5 NetLosers in 2001:**

1. Eveleth
2. Chisholm
3. Hibbing
4. Chisholm
5. Eveleth

**Top 5 Cities Before Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities After Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities Before Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities After Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities Before Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities After Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities Before Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities After Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities Before Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove

**Top 5 Cities After Tax Base Sharing**

1. Bloomington
2. Saint Paul
3. Minneapolis
4. Eden Prairie
5. Cottage Grove
The recent ramp meter study had a lot of useful data about the effects of the meters for the entire system. And it seems clear that on average the system is aided by the meters. But unfortunately there was little information about how the meters affect trip lengths in various parts of the system. For instance, while overall travel times increased, along with congestion for the entire system, when the meters were on, the trip from Minneapolis to St. Paul generally took less time. This certainly raises questions for smart growth advocates. Do we want to make it easier for people to commute in from farther out, while making it more difficult for those living in the denser inner ring areas? —Phil Jenni.

A glance through the list of 918 organizations that gave $100,000 or more in “soft money” during the 2000 election cycle reveals some pretty strange bedfellows (For the complete list see the Center for Responsive Politics at www.opensecrets.org). Here are a few pairs of donors with roughly equal giving levels: 

- Slim-Fast Foods ($1.36 million, all but $20,000 to Democrats) and the National Rifle Association ($1.38 million, all to Republicans);
- Blue Cross/Blue Shield ($1.03 million, just over $800,000 of it to Republicans) and the International Brotherhood of Electrical Workers ($1.01 million, all to Democrats);
- Gap, Inc. ($184,000, $132,000 of it to Republicans) and employees of the U.S. State Department ($184,000, all to Democrats);
- Martha Stewart Living Omnimedia ($112,000, all to Democrats) and the Teamsters Union ($112,000, with $10,800 actually going to Republicans).

Campaign-finance reformers say these soft money contributions buy influence in Washington. But in a contest between Martha and the Teamsters, can anybody say who would win? —Janet Dudrow.

The Purina pet food company recently surveyed 2001 dog and cat owners across the US. Questions to dog owners included everything from whether they have trained their dog to whether they hug their dog (95 percent said yes). A 1999 survey of dog owners who use Ramsey County’s off-leash site at Battle Creek provides an interesting comparison. For instance, fewer than 20 percent of Purina respondents have taken their dogs to obedience training, while more than 50 percent of Battle Creek respondents have taken their dogs to training. Sixty-six percent of Purina respondents have spayed or neutered their pet compared with 88 percent of Battle Creek respondents. So it seems that, like the children in Lake Wobegon, the dogs in Ramsey County are all above average. —P.J.

Invariably on television cold temperature is described as “bad weather” and the temperature warming up is described as “better weather.” Which is maybe understandable, since most of the TV people don’t come from here. In Minnesota, though, cold temperatures mean sun and blue sky and dry roads and usable snow. “Warming up” means clouds and gray and dirt all over the streets and wet snow you don’t want to go out in. At 33 degrees the raw cold can even seem worse.

What we need is an alternate weather map. Minnesota’s reputation gets killed by the conventional maps where the colors show temperatures. We need a map where the raw cold can even seem worse. But unfortunately there was little information about how the meters affect trip lengths in various parts of the system. For instance, while overall travel times increased, along with congestion for the entire system, when the meters were on, the trip from Minneapolis to St. Paul generally took less time. This certainly raises questions for smart growth advocates. Do we want to make it easier for people to commute in from farther out, while making it more difficult for those living in the denser inner ring areas? —Phil Jenni.

In the late ’70s Kansas City broke the pattern of multi-purpose stadiums, building separate facilities for professional football and professional baseball, side by side. Now look: Single-purpose stadiums, often co-located, are popping up across the country. In Seattle a new stadium for the Seahawks is going up right next to Safeco Field where the Mariners play baseball. Denver, where the baseball team now has its own Coors Field, is building a new stadium for the Broncos. In Pittsburgh a new football stadium for the Steelers, replacing the 1970s Three Rivers stadium, is under construction right next to the new stadium for the Pirates.—T.K.

“Take Note” contributors include Minnesota Journal and Citizens League staff members and Janet Dudrow, policy analyst at Dorsey & Whitney.
Thirty years of tax-base sharing in the Twin Cities
Landmark law passed in 1971, three years after League report

This year marks the 30th anniversary of the passage by the Minnesota Legislature of the landmark fiscal disparities law. As noted in the articles in this month's Minnesota Journal, the idea for the law was generated in 1967 by a Citizens League study committee.

The committee, which produced the report “Breaking the Tyranny of the Local Property Tax” was chaired by Minneapolis attorney Earl F. Colborn, Jr. with Citizens League research director Paul Gilje playing the key staff role.

The 29 members of the committee met 39 times, beginning in March of 1968 and ending in March of the following year. Most of the meetings were three-hour evening meetings.

As usual the committee met with many local resource guests, but it also had the good fortune of hearing from several national experts including the senior economist at the Federal Reserve in Chicago and several economic professors from around the country.

Fifty years of improving lives through community living

On February 7 Citizens League Executive Director Lyle Wray and Colleen Wieck of the Council on Developmental Disabilities presided over a special event celebrating the start of the first year in which no Minnesotans are in institutions because of developmental disabilities.

Public policy change often comes painfully slow, and that's especially true with this issue. In 1948 reporter Geri Joseph, with the approval of Governor Luther Youngdahl, did a ten part series on the deplorable conditions of Minnesota's mental institutions.

Parent activists, led by Reuben Lindl (who passed away this month at the age of 96), began a campaign for better treatment of people with developmental disabilities. While conditions improved, overcrowding continued to be a problem. In 1961 there were more than 6,000 people with developmental disabilities in state hospitals and a waiting list of 900.

In 1972 Richard Welsch, the father of a young girl at a state hospital, filed a suit alleging that conditions didn't meet the constitutional standards of due process. Judge Earl Larson agreed, which gave needed impetus to community placements. In 1980 the Welsch Consent Decree was signed with the goal of reducing the total population of state hospitals to 1,850 by 1987. A youthful Lyle Wray was appointed court monitor.

The Citizens League added its voice to de-institutionalization in 1982. A committee, chaired by Emily Anne Staples, met for nearly a year and a half and found that Minnesota had over-built and over-relied on state hospitals and had not developed an adequate system of community support. One of the resource speakers for the committee was Lyle Wray who was then for the Welsch Consent Decree. It was Wray's first contact with the Citizens League.

In July 2000 the last resident with developmental disabilities left the Fergus Falls Regional Treatment Center.

At the celebration the League was awarded a plaque that reads:

Let Freedom Ring In recognition of your efforts in creating community living for all Minnesotans with developmental disabilities
February 7, 2001 Citizens League
The explosion of information technology that has reshaped our economy also holds great potential to improve how citizens interact with government. Many governments are already using the Internet to inform citizens, provide access to services, and conduct some financial transactions.

How can we expect technology and government to interact in the years ahead? What steps should governments take to maximize the opportunity that technology holds to improve government services and citizen participation? How should we address issues of the “digital divide” to ensure that all citizens can take advantage of improved government services?

The next series of Mind Opener meetings will hear from three respected leaders in the burgeoning field of e-government.

All meetings in this series are lunches from 12:00 – 1:30 p.m. at the University Club, 420 Summit Avenue, St. Paul.