March 29, 2013

Dear Legislator:

On behalf of the Citizens League, we encourage you to advance legislation this year that increases economic productivity, supports prosperity and redesigns government to prepare Minnesota for success in the next generation.

Minnesota's current success can be attributed to two factors: We have been remarkably productive, attracting skilled workers nationwide, and leaders in all sectors know how to solve problems.

If trends continue, Minnesota will very soon face an unprecedented economic, social, and political strain. Workforce growth will drop to near zero, while health and human services costs skyrocket as the Baby Boomers reach their eighties.

Minnesota should focus today on strengthening these success factors through the following legislative opportunities:

- **Increasing economic productivity:** The Legislature can take steps this session to lay the foundation for a strong economy and workforce. The **Prosperity Act** (SF723/HF875) will allow businesses to tap into talent already in our state, which is why it has the support of business and labor, both rural and urban. Expanding **MnPASS free-flow pricing** (HF1162) and **telework opportunities** (SF1303/HF1516) build on Minnesota's position as a national leader in congestion reduction, an important attraction for both employers and employees.

- **Supporting prosperity:** Minnesota should support people who set goals and are accountable to build and sustain independence. SF1338/HF1443 would support a demonstration of a **new approach to public assistance focused on building capacity** rather than navigating the welfare system. Funding **Family Assets for Independence in Minnesota** (FAIM, SF450/HF538) at $500,000 per year would take full advantage of the federal match for this program with proven success in promoting home ownership, entrepreneurship, and education.

- **Redesigning government:** This year, we began a once-in-a-generation public discussion about tax and budget reform. Let's not squander this opportunity. **Tax expenditures** should be on the table in budget discussions, just like spending programs (SF53/HF507). Proposed exemptions from or misuses of the Iron Range and Twin Cities tax base sharing pools known as **fiscal disparities** run directly counter to its purpose: strengthening both regions by blunting the great disparities that can occur when communities compete for tax base (section 2 of SF207/HF208, SF1268/HF1525, SF1486/HF1601).

The enclosure describes in brief these proposals and others that can be achieved in the 2013 session. The Citizens League hopes to work together with you as the proposals advance.

Thank you for your consideration,

Sincerely,

Sean Kershaw
Executive Director

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Board Member
Co-Chair, Policy Advisory Committee

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Board Member
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Purpose and Function of Fiscal Disparities

Fiscal Disparities supports the economic health of the entire seven-county metro region. It is based on the premise that each community benefits from being part of the region. Fiscal Disparities supports communities as they develop and as they decline. Communities that are mature, stable and economically robust are generally the net contributors, but if any of them were to suffer significant decline, Fiscal Disparities would be there for them to soften the blow (without the need for legislation).

The Fiscal Disparities formula as envisioned in 1971 is not complex and largely operates in the same way today: 40 percent of the growth in commercial-industrial (C/I) tax base since 1971 is contributed into a tax base pool; the pool is then distributed based on how far above or below the regional average a community is, measured by the amount of tax base per person. That's it.

The formula is simple. What makes Fiscal Disparities seem complex are changes and exemptions to the formula, or a focus on how the tax base is distributed each year AS IF the distribution is an appropriations program to be managed. The formula should remain simple and should not be changed without careful consideration of the overall policy and the goals of the region.

The original goals of Fiscal Disparities were inspirational for a developing metro region. Fiscal Disparities is an attempt to:

- Reduce wide disparities in tax base wealth between communities (which it clearly does every year).
- Reduce the need for communities to compete for C/I tax base, and to promote more orderly development. (It reduces the need, but there are other forces and subsidies for development that have more powerful and direct effects on development patterns than Fiscal Disparities.)
- Encourage amenities that all need and enjoy but that don't provide tax base to local government, such as parks, universities, health care facilities, etc.

Fiscal Disparities has no programmatic activities, nor rules or regulations to limit development, fund regional parks, etc. It is not reasonable, therefore, to evaluate Fiscal Disparities as if it were the driving force behind local and regional decisions that are funded and governed by other structures.

Fiscal Disparities is not a subsidy tool. Subsidy tools and intergovernmental payments (TIF, abatement, bonding, LGA) often promote competition among communities rather than reduce it. Lumping Fiscal Disparities in with these other tools and programs is not an appropriate way to analyze its effect.

Fiscal Disparities is not a program of the Met Council and is not administered by the Met Council. The seven counties share tax base and choose one county to administer.

Most of the tax base in the Fiscal Disparities pool is school district and county tax base, and the pool should not be framed as if it is primarily city tax base. The city portion of the tax base is usually less than one-third. At a minimum, legislators should be thoroughly aware of the school district impacts of changes in Fiscal Disparities based on city boundaries.

By pooling only C/I tax base, Fiscal Disparities retains the accountability of residential taxpayers directly to their local governments, so they continue to have "skin in the game" for important and sometimes risky local decisions on how much C/I should be developed in their community, and how much it should be subsidized.

Proposed MOA exemption (HF208/SF207) asks existing businesses to subsidize their competition

Using the tax base in the Fiscal Disparities pool to actually subsidize competition sets a dangerous precedent. We should not violate the intended purpose of Fiscal Disparities and force similar metro area businesses to subsidize their competition with little accountability.

For more details on the Citizens League's concerns with this proposal, please refer to the letter we sent you on March 18, also available at http://bit.ly/17riIEp.

Proposed cap for Rogers (HF1601/SF1486) would reward local decisions to subsidize competition for tax base

Rogers is the highest net contributor to Fiscal Disparities on a per capita basis because of the local decisions it has made. The idea that Rogers and other communities need a cap for their Fiscal Disparities contributions is not a reflection of any unintended consequence of Fiscal Disparities.

Rogers is a small city that elected to develop a large amount of commercial-industrial property relative to its population, and to capture more than one-third of its tax base in tax increment financing (TIF) to do so. These local decisions were not related to Fiscal Disparities or to Met Council services. These decisions were made by Rogers over the decades with full knowledge that the community was not part of the regional wastewater system, and that it was part of the Fiscal Disparities pool. This dynamic may have created fiscal pressure on the city of Rogers but should not result in policy changes to Fiscal Disparities.

HF1601/SF1486 attempts to establish a relationship between regional wastewater service and Fiscal Disparities that does not currently exist. Rogers does not receive regional wastewater services, but also does not pay the fees to be part of the regional system. Legislators should look at the long-term trajectory of Rogers if they are going to seriously consider this cap. At a minimum they should know:

- Whether Rogers was a net recipient of Fiscal Disparities and for how long while they developed tax base and infrastructure.
- At what point Rogers became a net contributor and what decisions they made to develop and subsidize C/I tax base in light of that status.
- With this information in hand, determine whether the result was an unfair aberration that was not the expected impact of Fiscal Disparities.

Fiscal Disparities offered Rogers the opportunity to share in tax base developed by others in the region rather than subsidize development and provide infrastructure to compete for C/I tax base beyond their local needs.

The Citizens League respectfully opposes the aforementioned legislation and stands ready to engage in discussions that focus on the appropriate long-term role that Fiscal Disparities plays in the health of the Twin Cities metropolitan region.