

REGIONAL TAX BASE SHARING AND PROPERTY TAX REFORM

Presentation to MORE Subcommittee
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PART ONE:

REGIONAL TAX BASE SHARING

- ✘ Fiscalization of land use
- ✘ Tax base sharing – fiscal disparities example
- ✘ Many tools work together such as education finance system, Metropolitan Livable Communities Act, income adjusted circuit breaker for property taxes etc.

FISCALIZATION OF LAND USE

- ✘ The fiscalization of land use is the use of land use planning and development to encourage revenue production
- ✘ In many states commercial and industrial land of various types are taxed at different rates (higher) than residential
- ✘ In many states education relies heavily on local property taxes -- property tax 39% of all revenue in Connecticut; most education funds

FISCALIZATION OF LAND USE: IMPACTS

- ✘ Zoning out affordable housing (2012: MN 15,200 housing starts, CT 5,200)
- ✘ Zoning out children
- ✘ Zoning out starter family homes
- ✘ Zoning in retail
- ✘ Zoning in commercial and industrial

FISCAL DISPARITIES LAW

- ✘ Reduce “fiscalization of land use” pressure and encourage appropriate protection of agricultural and other designated preservation lands
- ✘ Reduce tax rates on communities with lower valued property to provide a basic level of services (i.e. redevelopment and low income areas)

RESPONSES TO FISCALIZATION OF LAND USE

- ✘ State assumption of most of local education funding (examples: Minnesota and Michigan at 78%)
- ✘ Commercial tax base sharing – “fiscal disparities” law
- ✘ Reduces tax rate pressure in developed, low income and brownfield areas
- ✘ Local government aid formulas on a “need capacity gap” model (Helen Ladd, et al.)

FISCAL DISPARITIES LAW

- ✘ **Passed in 1971 by the Minnesota State Legislature**
- ✘ **Formula for adding to and removing from the commercial and industrial property value pool**
- ✘ **Implemented after court challenge (including U.S. Supreme Court) in 1975**

FISCAL DISPARITIES LAW

- ✘ Minnesota's seven metropolitan counties
- ✘ Population base of 3.6 million
- ✘ Relatively geographically isolated metro
- ✘ History of progressive social and business sectors
- ✘ 1960s and 1970s strong innovation: regional government, local government aid, tax base sharing
- ✘ Tax base sharing administered locally with no state involvement!

FISCAL DISPARITIES

- ✘ Reduces tax rates on communities with lower valued property to allow them to provide a basic level of services
- ✘ Not dependent on vagaries of state aid and tied to a very stable funding source

CORE PROVISIONS

- ✘ Since 1970 **40% of all new commercial and industrial tax base** in the seven metropolitan counties is put into a “fiscal disparities pool” and distributed based on population
- ✘ The tax base put into the pool is taxed at a rate equal to the average metropolitan tax rate and the revenue is sent to each community according to the amount of tax base awarded to it
- ✘ This is done by the local governments – no state government involvement

HOW IT WORKS

- ✘ Fiscal disparities pool. In Twin Cities metropolitan area, 40% of new commercial and industrial tax base since 1971 is added to a region-wide pool
- ✘ Tax base is redistributed based on a formula that takes into account a city's population and the market value of all property in the jurisdiction

WHAT ARE THE IMPACTS?

- ✘ Net difference between contribution to the pool and distribution results in a net gain or a net loss
- ✘ Winners and losers vary over time
- ✘ Sample Gainers: Saint Paul gained almost \$19 million and Minneapolis \$3.3 million
- ✘ Sample Losers: Bloomington lost \$14.5 million or 13.3 percent of the city's overall tax base

WHAT ARE THE IMPACTS?

- ✘ Primary goal: reducing the disparities in tax base resources among cities
- ✘ Before fiscal disparities, commercial and industrial tax base per capita ranged between \$40 to \$672 or ratio of **16.8 to 1**
- ✘ After fiscal disparities, the range was from \$109 to \$501 or a ratio of **4.6 to 1**

FISCAL DISPARITIES

- ✘ Fiscal disparities joined by other intergovernmental transfers and programs
- ✘ Local government aid and education aid transfer payments to local governments and schools are almost half of the state budget
- ✘ Fiscal disparities works with four or five other key mechanisms to provide a floor under a package of basic public services

FISCAL DISPARITIES

- ✘ Fiscal disparities is dwarfed by other intergovernmental transfers
- ✘ Local government aid and education aid transfer payments to local governments and schools are almost half of the state budget
- ✘ Fiscal disparities works with four or five other key mechanisms to provide a floor under a package of basic public services

FISCAL DISPARITIES

- ✘ Underlying values drove this innovation
- ✘ A relatively revenue neutral way to address equalization
- ✘ Very difficult to make intergovernmental transfers “fiscally neutral” – drives higher spending levels
- ✘ One of a toolkit of items: other formulas and intergovernmental aid systems needed
- ✘ Other communities have tried this or are trying it but highly controversial

FISCAL DISPARITIES RESOURCES

- ✘ www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf
- ✘ <http://www.citizensleague.org/what/projects/tax/fd/2007/>

PART 2: PROPERTY TAX REFORM

1. **Goals:** What are the desired set of outcomes?
2. **Framework:** What conceptual framework will be used?
3. **Policy support:** data and analysis to support policy decisions
4. **Transition plan and funding the transition :** Getting to the desired outcome and Greasing the skids

CONTEXT

- ✘ First Wave: 1971 Minnesota Miracle
- ✘ Second Wave 2002: Property Tax Reform and Education Finance
- ✘ Circuit breaker: income adjusted property tax relief for home owners and
- ✘ Homestead program for home owners
- ✘ Local government ability to raise non property taxes with local action (e.g. rapid transit)

GOALS

- ✘ Appropriate balance among income, sales and property taxes
- ✘ Considered state and local taxes as a single system
- ✘ Adjust property taxes by income on a systematic basis
- ✘ Assumption of major state funding role in K-12 education funding

FRAMEWORK

- ✘ School aid and Local government aid separate formulas
- ✘ Local government aid formulas based on a “**need capacity gap**” model (Helen Ladd and others Duke University) See: Federal Reserve report:
<http://www.bostonfed.org/commdev/c&b/2012/spring/making-cuts-in-state-aid-more-equitable.htm>
and Minnesota
http://www.revenue.state.mn.us/local_gov/prop_tax_admin/aclb/lga_11_summary.pdf

A POSSIBLE FRAMEWORK?

In our judgment, a complete foundation plan, that is, 'a foundation plan that requires a minimum tax rate, accounts for costs, and sets a relatively high minimum service level, is appropriate for elementary and secondary education.

For police, fire, and other local services, grants based on the need capacity gap provide a flexible way to focus aid on the jurisdictions that, through no fault of their own, need help the most.

Ladd, H.F. & Yinger, J. (1994) Symposium on equalization. National Tax Journal March Vol. 47 Issue 1

POLICY SUPPORT

- ✘ **Rich applied policy center environment** worked on this issue for decades (Citizens League, University of Minnesota, 1986 Latimer Tax Commission http://archive.leg.state.mn.us/docs/NonMNpub/olc13174037_v1.pdf and Professor Helen Ladd and more)
- ✘ **Strong state policy capacity** in revenue services policy. See sample for 2013 on tax incidence http://www.revenue.state.mn.us/research_stats/research_reports/2013_tax_incidence_study_links.pdf

TRANSITION PLAN

- × **Plan** for staging and phasing of changes
- × **Additional revenues** to make the transition work: in 1970s was addition of sales tax; in 2002 was statewide property tax and other measures (\$600 million recently)

http://www.house.leg.state.mn.us/fiscal/files/iBStatewideGeneralPropertytax_Jan12.pdf

RESULTS

- ✘ State assumed on average 78% of local education funding (another example Michigan)
- ✘ Better balance in system among income, sales and property taxes
- ✘ \$2664 versus \$7757 property taxes

METROPOLITAN LIVABLE COMMUNITIES ACT 1995

- ✘ **Tax Base Revitalization** - Clean up brownfields for redevelopment, job creation and affordable housing in areas already served by transit.
- ✘ **Livable Communities Demonstration** - Support development and redevelopment that demonstrates efficient and cost-effective use of land and infrastructure, and achieves connected development patterns linking housing, jobs and services.
- ✘ **Local Housing Incentives** - Produce and preserve affordable housing choices for households with low to moderate incomes.
- ✘ <http://metro council.org/Communities/Services/Livable-Communities-Grants.aspx>

QUESTIONS AND ANSWERS

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