Citizens League
84 S. 6th St., Room 530
Minneapolis, MN 55402

August 8, 1985

MEMORANDUM

TO: Members, Community Information Committee

FROM: Paul Gilje

SUBJECT: Property tax/fiscal disparities options for financing Triple Five project in Bloomington

This memorandum is a modification of a similar memo dated July 30, 1985. This memo deals exclusively with property tax/fiscal disparities options, however.

As we noted in our first memo, these issues divide broadly into two related, but separable, categories: A. Whether Bloomington should receive an exemption from fiscal disparities for Triple Five, and B. How the fiscal disparities law, or some other property tax option, should be used to provide some of the subsidy. We will discuss these two issues in that sequence.

A. Whether Bloomington should receive an exemption from fiscal disparities for Triple Five

1. Does Bloomington need new legislative authorization for an exemption?

Existing state law relating to tax-increment financing gives a city two options on fiscal disparities. A city can choose to exempt a tax-increment district from making a direct contribution to fiscal disparities, in which case other property in the city makes a contribution to the fiscal disparities pool, on behalf of the tax-increment district. Or the city can choose not to exempt the district from disparities, in which case the district makes the contribution. The advantage of exempting a tax-increment district from disparities is that more tax dollars are made available to pay public expenses in the district than if no exemption were granted.

Bloomington, therefore, could exempt the project while not exempting the city. This is the option usually chosen by other cities using tax-increment financing.

It would appear that Bloomington can satisfy its annual needs for subsidy whether it exempts the project or not. A conservative estimate of assessed valuation of Triple Five is $217 million, which, assuming a rate of 100 mills, could raise almost $22 million annually to meet expenses of the Triple Five project, if the project were fully exempt from fiscal disparities.

If, however, the Triple Five project made the fiscal disparities contribution, then about 60 percent of $22 million, or $13 million, would be available for project expenses yearly for up to 25 years, the legal limit for a tax-increment district, which represents a total of $325 million, an amount that vastly exceeds the total amount of subsidy sought by Bloomington for Triple Five, from all sources.

(When the fiscal disparities law was passed in 1971, cities were exempted from making a fiscal disparities contribution for growth within tax-increment districts—either by the district itself or by the city as a whole. Beginning in 1974 the exemption was removed for non-HRA tax-increment districts. In 1979 the Legislature prohibited an exemption for any type of district created after August 1, 1979.)

2. <u>If an additional exemption for Triple Five is sought—beyond that which Bloomington can allow under existing law—how large an exemption would be justified?</u>

Bloomington is seeking an additional exemption, beyond that which is allowed under existing law. It is asking that neither the tax-increment district nor the city be required to make a contribution to the fiscal disparities pool on behalf of the Triple Five project.

If this is to be given serious consideration, two questions need to be answered first:

a. How large a geographic area should be included? Bloomington is seeking an exemption for the entire Airport South area, which includes the 85 acres for Triple Five plus an additional 200 acres of developable land. Should the entire area be eligible, or only the Triple Five project?

b. What percentage of the project should be exempt? Bloomington is seeking a 100 percent exemption. Should the entire project be exempt or only that portion which represents the "special" nature of the investment? If market forces operated alone, without additional public subsidy, the land would be developed in some fashion, and Bloomington would make a normal contribution to the fiscal disparities pool on behalf of such market investment. Therefore, should any exemption which Bloomington receives apply to the incremental growth above that which normally would occur otherwise, or or should the exemption apply to growth of the entire project?

B. <u>How the fiscal disparities law, or some other property tax option, should be used to provide some of the subsidy</u>—One question is central to an evaluation of all options: <u>Which taxpayers should bear the burden of a property tax subsidy?</u> As will be seen in the discussion of options which follow, the key question isn't really whether fiscal disparities or some other option is chosen. It is who bears the burden. Once legislators decide question, a system can be designed to accomplish that objective.

An exemption from the fiscal disparities law, by itself, raises no dollars. It would make Bloomington's tax base larger than it would be without an exemption and make everyone else's tax base smaller. The property tax rate, therefore, on Bloomington property would be lower, and the rate on everyone else, higher.

Here are options for using the property tax/fiscal disparities for a subsidy:

1. <u>Direct metropolitan property tax</u>—Impose a levy on all property in the seven-county metropolitan area sufficient to raise the dollars needed for the subsidy. In 1985 a levy of one mill on all property in the area raises about $15.2 million, according to the Minnesota Department of Revenue.

PROPERTY TAX IMPACT: Shared proportionately by all property taxpayers in metropolitan area, residential as well as commercial. If the project is deemed to benefit all taxpayers in the metropolitan area, this option provides that those who benefit are bearing the burden.

VISIBILITY/ACCOUNTABILITY: Requires direct action by Legislature to levy the tax. Taxpayers know whom to hold accountable.

IMPACT OF BLOOMINGTON EXEMPTION: If Bloomington were granted an exemption from the fiscal disparities law, the share of the increase in taxes would be slightly more in other metropolitan area communities than in Bloomington.

2. Direct tax on Bloomington—Allow Bloomington to impose a property tax on its own taxpayers for the amount of the Triple Five subsidy. A one mill levy in Bloomington raises about $809,000 in 1985, according to the Minnesota Department of Revenue.

PROPERTY TAX IMPACT: The burden would be felt directly by Bloomington taxpayers in the form of a higher mill rate.

VISIBILITY/ACCOUNTABILITY: Requires direct action by Bloomington City Council to levy the tax. Taxpayers know whom to hold accountable.

IMPACT OF BLOOMINGTON EXEMPTION: If the Legislature granted a fiscal disparties exemption to Bloomington, some of the Bloomington burden would be passed on to other taxpayers in the metropolitan area in the form of higher mill rates because they would not be receiving any benefit from the increased tax base represented by the Triple Five proposal.

3. Divert a portion of the areawide tax base to Triple Five--A portion of the areawide tax base would be assigned to benefit Triple Five instead of being distributed to all governmental units in the metropolitan area. The areawide mill rate would then be applied to this base, with the resulting tax dollars used to pay for the Fantasyworld subsidy. (A person could imagine the same result if a new city called Triple Five were added to the metropolitan area and given a share of the areawide tax base.)

The areawide tax base is 40 percent of the growth in commercial-industrial valuation in the seven-county metropolitan area since January 1, 1971. For 1985 the areawide tax base totals $1.3 billion in assessed value of commercial-industrial property. For 1985 the areawide mill rate is 108.743 mills.

PROPERTY TAX IMPACT: The tax base in every unit of government in the metropolitan area is less than it would be because the fiscal disparities pool of valuations would be shared with one more "unit", Triple Five. Consequently, the property tax burden would fall on all taxpayers in the metropolitan area, residential as well as commercial-industrial. The burden would be greater in "have-not" communities, those that receive larger distributions from the pool. It is possible an adjustment in the way the base is distributed could be made to overcome that problem.

VISIBILITY/ACCOUNTABILITY: Requires direct action by Legislature to determine amount of tax base dedicated to Triple Five. Accountability is the same as forces which now keep areawide mill rate in line: city councils cannot tax the areawide base at any higher rate than they impose on their local resident voters.

IMPACT OF BLOOMINGTON EXEMPTION: If the Legislature granted a fiscal disparities exemption for Triple Five, the tax increase would be slightly more in other communities than in Bloomington.

4. Impose an additional levy on areawide tax base—Increase the dollar levy that is spread on the areawide tax base by the amount of the Triple Five subsidy. Under the fiscal disparities law, each unit of government imposes a dollar levy on its assigned share of the regional pool of tax base. If this option were chosen, an amount for the subsidy would be added to the levy on the areawide tax base. The areawide mill rate established pursuant to the law would be increased as a consequence.

PROPERTY TAX IMPACT: Shared proportionately by commercial-industrial property taxpayers in the metropolitan area, with no impact on residential property taxpayers. The impact would not fall uniformly on commercial-industrial property. It would fall disproportionately on commercial-industrial property in communities which have experienced a large amount of growth since 1971.

VISIBILITY/ACCOUNTABILITY: Requires direct action by Legislature to determine amount of additional tax levy on areawide base. Accountability is focused on Legislature.

IMPACT OF BLOOMINGTON EXEMPTION: If the Legislature granted a fiscal disparities exemption to Bloomington for the Triple Five property, Bloomington's commercial-industrial property taxpayers would have a slightly smaller tax increase, and other commercial-industrial properties in the metropolitan area, slightly greater.

5. Divert a portion of dollars levied by local units on areawide tax base—This is similar to No. 4 except that, instead of an additional levy on commercial-industrial property, every unit of government would have a portion of its share of the dollar levy on the areawide tax base diverted to Triple Five. Assuming that units of government would increase their levies in anticipation of the shortfall, the effect of this option is to distribute the burden on all properties, including residential as well as commercial-industrial, in proportion to their shares of distribution from the base. (This apparently is the same option as that advanced by Bloomington officials, although they have used different language to express their suggestion. They have suggested that Bloomington be allowed to divert its net outflow of dollars from fiscal disparities to pay the convention subsidy.)

PROPERTY TAX IMPACT: Would fall on all taxpayers in metropolitan area, residential as well as commercial-industrial, with the burden being greater on "have-not" communities, those that receive larger distributions from the regional pool. As discussed in option No. 3 above, an adjustment in the way the levies are distributed could be made to overcome that problem.

VISIBILITY/ACCOUNTABILITY: Requires direct action by Legislature to determine number of tax dollars diverted to Triple Five. Accountability is the same as forces which now keep levies on areawide tax base in line: city councils cannot tax the areawide base at any higher rate than they impose on their local resident voters.

IMPACT OF BLOOMINGTON EXEMPTION: If the Legislature granted a fiscal disparities exemption for Triple Five, the tax increase would be slightly more in other communities than in Bloomington.

August 15, 1985

Citizens League
84 S. 6th St., Room 530
Minneapolis, MN 55402

MEMORANDUM

TO: Members, Community Information Committee

FROM: Paul Gilje

SUBJECT: Facts related to Bloomington fiscal disparities proposal

1. All property east of Cedar Ave. would be exempt from fiscal disparities. That is, the exemption would apply to Control Data Corporation, Appletree Square and all the hotels, motels, and other office space in that area, plus the Triple Five project.

2. The exemption would be retroactive. That is, it would go back to 1971. All growth east of Cedar since January 1, 1971, would be exempt. This would be as if the area never had been covered by tax-base sharing, because under the law grow is figured from that date.

Today the area in Bloomington that is east of Cedar Ave. makes a contributon of about $22 million in valuation to the fiscal disparities pool. That represents about 30 percent of the total contribution by the city of Bloomington to the pool.

3. The mechanics of the exemption, if granted, would work this way: 40 percent of the commercial-industrial growth in the area east of Cedar since 1971, including the growth in the Triple Five area, would be placed in a special pool of its own. This valuation would not be available for taxation by any unit of government. The areawide mill rate that is calculated pursuant to the fiscal disparities pool would be imposed upon this valuation, with the revenues dedicated to subsidies of the Triple Five project. Lyle Olson, finance officer for Blooomington, estimates the revenue would be about $12.5 million annually in aobut 1991.

4. The Triple Five project, specifically, would have an assessor's market value of $600 million, which would make its assessed value approximately $240 million. Of the $240 million, 40 percent, or about $96 million in value, would be placed in the special pool referred to in No. 3 above. The remaining 60 percent, or about $144 million would be captured for tax-increment purposes. The estimated yield on the tax-increment, assuming this amount of valuation, is about $15 milliion a year, according to Olson.

5. We have not yet learned how many years the fiscal disparities exemption or the tax-increment financing project would last. Under existing law, the tax-increment project could generate revenues for up to 25 years. An increment of $15 million a year would yield a total of $375 million over 25 years, without figuring in any increase in assessed valuation because of inflation or any other reason. Any such increase would represent additional dollars, assuming the mill rate does not decrease. If trends the last 25 years are any indication, the valuation over the next 25 years could increase several-fold.