MEMORANDUM

To:	The Consensus Commission, Syracuse
From:	Jinsol Park, Sonia Rangel
Subject:	Tax Base Sharing System in the Syracuse and Onondaga Community
Date:	May 5, 2017

Introduction

A tax base sharing program could benefit the Syracuse and Onondaga community. Recently, a commission at Syracuse evaluated local government modernization to address the public services needs of the Syracuse - Onondaga Community to bring high quality standards at an affordable price. One of the issues on the Consensus report addresses is strengthening economic development through the implementation of a tax base sharing program based on the Minnesota Fiscal Disparities program. Currently the tax base varies depending on the location in the community, which creates competition for resources between each other and exacerbates its economic development issues. A program like the Minnesota Fiscal Disparities Program has the potential to spur economic development by redistributing a portion of the tax base throughout the region. This memo will provide a background on current economic development for Syracuse, an analysis on the Minnesota Fiscal Disparities Program and how it could impact Onondaga county. We will also provide recommendations on a successful tax base sharing system in Syracuse to deter competition, promote equity and support economic development.

Economic Development Background in Syracuse and Onondaga County

The commission addresses economic development issues and provides recommendations to strengthen fiscal growth capacity. According to the report[1], the city's labor force and population growth have declined, leading to weak economic development. In the 2017 Brookings Institution's Metro Monitor rankings[2], Syracuse overall rank on growth rate is dead last in the nation's largest metropolitan areas from 2010 – 2015. To address these weaknesses, the Consensus Report has assessed what drives poor economic development in the area. One factor is due to the different revenue growth capacity from the variation of property tax bases rate in the county. Because every local government has to deliver the equal amount of public services, this creates competition between the towns and city for the same investment. It also creates a zero-sum revenue growth environment and exacerbates economic investments coming only to one region over another instead of a beneficial new investment for the entire community. To create revenue growth in the municipalities and the city, the Economic Development Committee has recommended the creation of a framework like the Minnesota Fiscal Disparities Program.

Tax Base Disparity in Syracuse and Onondaga County

In the Syracuse-Onondaga community, the effective property tax rates vary depending on property location. Based on the Empire Center's annual Benchmarking NY report[3], the residents in the city of Syracuse paid $30.35 for every $1,000 of property value in 2013. On the other hand, properties in

[1] https://www.cgr.org/consensuscny/docs/FinalReport-COMMISSION-FORMAT.pdf
[2] https://www.brookings.edu/interactives/metro-monitor-2017-dashboard/
[3] https://www.empirecenter.org/wp-content/uploads/2015/03/PropertyTax2013.pdf

Solvay located in the town of Geddes have a median house value of $102,300 and paid $56.18 for every $1,000 of property value. Properties in the town of Skaneateles have a median house value of $274,500 yet only paid $24.57 for every $1,000 of property value. Even though the median house value in the town of Skaneateles was almost 2.7 times higher than that in Solvay, the tax owed on the median home was only $1,000 higher than that of the tax owed on a median home in Solvay.

The deviation of the property tax rates is high because the communities with a lower property value and few commercial and industrial properties should raise the property tax rates to offset the cost to deliver the same amount and quality of public services. That is, because the tax base is smaller, the community should increase the tax rates to generate the tax revenue needed to provide the same basic government services such as police, fire station, and roads.

Consequences of Tax Base Disparities

Although the gap of the property tax base across districts is not confined only to Syracuse, it has been pointed to as a reason that the balanced economic growth in Syracuse is hampered. Because many believe that commercial and industrial properties generate the most tax revenue, the communities often compete with one another to induce the investment of business, leading to sprawl and ineffective economic development.

In addition, because the district that is already developed fully usually has lower tax rates compared to other districts that are less developed, commercial and industrial properties are likely to be concentrated in the developed area, accelerating uneven economic development across regions.

Lastly, different property tax rates caused by uneven tax bases are capitalized into housing prices and affect the decisions of homebuyers. Because households and future homeowners care about local taxes and local public services, they would compete for entry into the communities with lower tax rates, given the same public services (Tiebout 1956).

Evidence that Tax Base Sharing Leads to Economic Development

By conducting surveys of 140 Minnesota metropolitan area municipalities in 1991, Goetz and Kayser in the Twin Cities Metropolitan Council's Economic Research Program and the University of Minnesota presented some evidence that a tax base sharing system has a positive impact on regional economic development (Goetz and Kayser 1993).

During development negotiations, information asymmetry exists between the municipal government and the private enterprise. That is, when the local officials offer subsidies to private sectors to encourage investment, the private enterprise knows the exact margin of subsidies to encourage their investment while public officials could only guess it at best. The competition between cities, however, makes the position of public officials worse. The survey results showed that the public officials who felt more strongly that there is a great deal of competition for development between cities felt that competition negatively affected their bargaining position.

When the authors asked the public officials whether they felt the Minnesota Fiscal Disparities Program was a disincentive to development, most officials in the Twin Cities metropolitan area did not feel that the regional tax base sharing system significantly hampers economic development. In other words, they did not view the program as an impediment to the economic development of individual cities. Further, most of the respondents agreed that there is a spillover effect of the economic development. This finding suggests that the reduced competition among municipalities leads to balanced economic development, and the benefits redound to other districts.

In addition, there are other variations of tax base sharing cases in Hackensack and Meadowlands area in New Jersey and Charlottesville and Albemarle County, Virginia. A study on these programs including the Minnesota program concludes that other regions also implement fiscal equalization programs for economic development to "reduce counterproductive interurban competition for economic development opportunities."[4] During the assessment of the other similar programs, the study can draw the strengths and weaknesses of each to help implement future successful tax base sharing proposals. Another study noted, "fiscal disparity is reduced to a 4-to-1 ratio of highest to lowest per capita tax base; without the program, it would be 22-to-1."[5] Reduced disparity results in greater opportunities for collaborative economic growth.

Minnesota's Fiscal Disparities Programs

Overview of the Program

In 1971, the Minnesota state legislature enacted a commercial-industrial tax base sharing program within the Twin Cities metropolitan area and it implemented the program since 1975. According to state law, the Twin Cities Area Fiscal Disparities Program collects 40 percent of its growth since 1971 from the commercial-industrial property tax base in seven counties (See Figure 1) to a regional shared pool for redistribution. The remaining 60 percent stays in the host community. For example, if the current commercial-industry property tax base of a city has increased by $6 million since 1971, the city should contribute $2.4 million (40% of $6 million) to the areawide tax base pool.

Commercial-industry property includes all businesses, offices, stores, warehouses, factories, gas stations, parking ramps, public utility property, vacant land (which is zoned commercial or industrial), and so forth.[6] The growth in value is the total net change in net tax capacity since 1971, including the effects of new construction, inflation, demolition, revaluation, appreciation, and depreciation.[7]

The distribution of the areawide tax base is determined by a ratio of a municipality's distribution index to the sum of distribution indices of all municipalities. The distribution index is the municipality's population multiplied by a ratio measuring relative fiscal capacity. The ratio is equal to the average fiscal capacity of all municipalities for the previous year to the fiscal capacity of that municipality for the previous year (See Figure 3).[8]

For example, if a city in Minnesota's distribution index is two percent of the sum of all distribution indices of all municipalities then, two percent of the areawide tax base is distributed to that city in the region.

The fiscal disparities areawide tax base in Minnesota has increased steadily and significantly (See Figure 2), representing 33% of total commercial, industrial, and public utility property tax base and 10% of total tax base in the seven-county metro area in 2016, which is quite a high number considering that 40% is the maximum amount of commercial-industry tax base that could be distributed in the shared pool.[9]

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[4] Metropolitan Fiscal Equalization: Distilling Lessons from Four US programs.
[5] Ibid.
[6] http://www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf
[7] Ibid.
[8] Ibid.
[9] https://metrocouncil.org/About-Us/Facts/CommunitiesF/Fiscal-Disparities.aspx

Program Impacts on Tax Burdens

Due to its redistributional nature, the Fiscal Disparities Program inherently creates winners and losers in sharing tax burdens. In 2004, Hinze and Baker performed a simulation to measure the impact of Minnesota's Fiscal Disparities Program[10]. Based on the simulation results, it is possible to predict the net contributors and net recipients in the Syracuse-Onondaga community by the type of properties.

To begin with, on a countywide level, it is predicted that residential homestead properties would gain and commercial-industry properties would lose overall. The simulation executed in Minnesota shows that the average tax rate would increase in most residential homestead properties (except for one county with a negligible decrease) if the program were eliminated. On the other hand, the simulation shows the average tax rate would decrease in commercial industrial properties in all seven counties if the program were eliminated (See Table 1).

Citywide, winners and losers are mixed for residential homestead properties depending on whether a city is a net recipient or a net contributor. For example, in the case of the Twin City region, the simulation shows there would be a major increase in tax rates for the residential homestead properties located in a net recipient city and vice versa for the residential homestead properties if the program were eliminated (See Table 2). In contrast, most tax rates for commercial and industrial properties would decrease if the program were eliminated.

In sum, if the conditions in Syracuse are like the Twin City region then we can make a few predictions. First, enacting a fiscal equalization program in the Syracuse-Onondaga community could mean that most commercial and industrial properties would experience higher tax rates. However, the tax rates would vary by residential homestead properties. That is, the residential homestead properties in the county and the recipient towns and cities are likely to experience lower tax rates and the residential homestead properties in the contributor towns and cities are likely to experience higher tax rates under the program.

Benefits

The Minnesota Fiscal Disparities Program has benefited from a tax base sharing system. It has decreased competition between cities and towns for a commercial and industrial tax base. To provide the public services to its citizens, local officials are compelled to attract more commercial and industrial tax base and compete for it with other areas in the region. The program diminishes those efforts and allows the region to collaborate in smarter local planning. In addition, one of the major objectives of this program is to equalize resources in the region. It has been successful in accomplishing this goal. Usually communities with a lower tax base are obligated to impose high tax rate to generate revenue for public service and thus, it is difficult for these communities to attract business. By distributing the fiscal resources in the areawide tax base to the communities with a lower tax base, the local government can improve equity by spreading the benefits of business development to low income communities. Moreover, the burden for these communities to attract businesses is reduced and their efforts to develop low tax-yield regional facilities has increased. If a community prefers to keep green spaces instead of using the land for to raise a commercial industrial tax base, it can do so. This discourages urban sprawl and increases economic development.

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[10] http://www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf

Drawbacks

The program is not without its drawbacks. One of its major challenges is that it is controversial and divisive. It is one of the reasons why it has not been widely implemented in other regions in the U.S. In addition, it has been challenged by affluent suburbs and in court. However, it has been upheld and has been in place for over 40 years. Another drawback is the appearance of winners and losers. For example, in some years in Minneapolis, the net contributor was low income communities. Despite that, the analysis demonstrates that winners are more likely to outnumber losers. Finally, the Minnesota Fiscal Disparities Act which was through state legislature encountered a series of troubles in voting to implement the Act. It took four years from the Act passing to be eventually implemented. The delay is a drawback because serious opposition for future tax sharing problems may affect its chances of ever been implemented.

Recommendations

After thorough investigation on the Minnesota Fiscal Disparities Program and current economic development issues in Syracuse, we believe that the region should implement a tax base sharing program. A collaborative approach by reducing inter regional competition could lead to growth. Below we provide our recommendations on a fiscal disparities program in Syracuse.

Reassess properties in Syracuse-Onondaga County before implementing a tax base sharing program.

If the Syracuse-Onondaga community decides to adopt a tax base sharing program, property assessments in the community are required to guarantee fairness. Because the program is supposed to distribute a certain percent of the change in net tax capacity from the base year, base property values matter. If the property assessments are not up to date and the true market value is not reflected in assessed property values at the time of program inception, the growth of the tax base could be distorted. Thus, we recommend reassessing properties in Syracuse-Onondaga County before implementing the program.

Account for the exemptions of the Fiscal Disparities Programs for certain districts.

The airport has been excluded from the fiscal disparities in Minnesota although an approximately $4.8 million in commercial-industrial property net tax capacity would increase the pool by nearly $2 million[11]. The Syracuse-Onondaga community would face a similar circumstance unless a particular rule is applied because unique circumstances make the airport too troublesome to apply the fiscal disparities program. This is because the airport is exempt from property taxes[12] and it has no population. Therefore, it is worthwhile for the community to ponder whether the Syracuse-Onondaga community would develop some alternative rule in such a case.

[11] http://www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf

[12] https://www.tax.ny.gov/research/property/assess/manuals/vol4/pt1/section2/sec2_01.htm

Set the distribution formula to include demographic factors.

To ensure equity in the distribution formula, the tax base formula should also include demographic factors like crime rate and poverty rate. In the Minnesota case, the formula is solely based on the municipality's fiscal capacity compared to the average fiscal capacity. It can be improved if the relative needs of the jurisdictions are taken into consideration in the formula. In Minnesota, cities like Minneapolis and Farmington have similar property value per capita but their spending is very different. To mitigate this issue, including demographic factors can provide equity by accounting for spending needs. A city with high crime rate has a similar property value but is compelled to spend more tax payer dollars on police and safety. Whereas a municipality with low crime rate and a similar property value per capita does not have to spend as much on safety and can provide better public services. A formula with demographic factors like crime rate could help level the playing field for the municipalities.

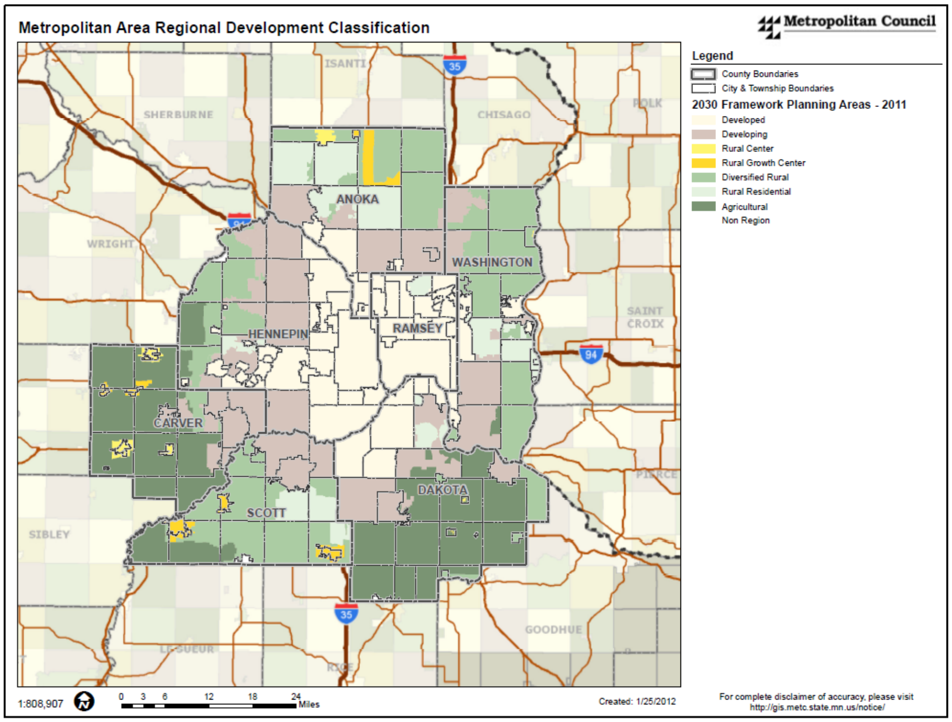
Include residential property taxes above $300,000 market value.

Under the current Minnesota Fiscal Disparities program only commercial and industrial properties are included in the tax base sharing program. But in order to expand the tax base to promote equity and support economic development, residential property over $300,000 should be included in the tax base. We recommend this as a long-term goal, since it could face opposition from wealthy suburbs. An issue that the Twin City region has faced is concentrated poverty, an issue relevant to Onondaga county. To mitigate this issue and encourage economic development, residential property tax in the tax base should be included. It would reinforce the goals of a tax base sharing program to create equity for public services in the region, decrease fiscal zoning and sprawl and reduce competition.

Create a public awareness campaign for all stakeholders (citizens, business, public officials) on the benefits of a tax base sharing program.

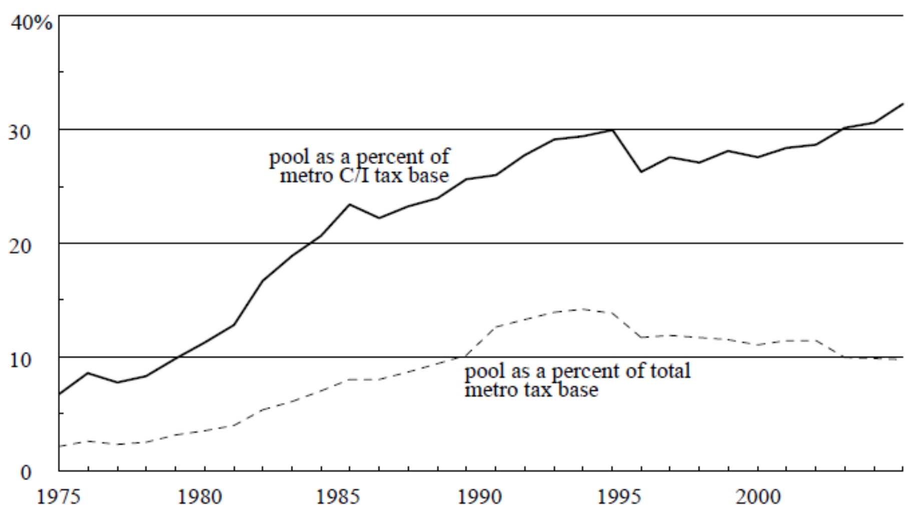
A tax base sharing program is usually met with opposition from citizens and even businesses. In Minnesota, some legislators called the Fiscal Disparities Act as "metropolitan socialism" and believe that giving "weaker" communities a share of the tax base would only encourage them to not work or help themselves. We expect a similar type of opposition rhetoric that could discourage communities from supporting a tax base sharing program. We recommend a public awareness campaign for all stakeholders including business, affluent suburbs residents, public officials and at risk communities through an appropriate organization channel. This channel could be a non-partisan organization that can work with several communities. In Minnesota, the Citizen's League took that role. Creating awareness on the benefits of a tax base sharing system that is evident in Minnesota and in the literature, could help mitigation issues of political feasibility. Finally, it could encourage Onondaga county to feel ownership and support for a tax base sharing program.

Figure 1
Fiscal Disparities Geographic Area: Seven-County Twin Cities Metropolitan Area



Source: Study of the Metropolitan Area Fiscal Disparities Program, TischlerBise, Feb 13 2012

Figure 2
Percentage of Total Metro Tax Base and Total Metro Commercial Industrial (C/I) Comprised by the Areawide Pool, 1974-2004



Source: Minnesota's Fiscal Disparities Programs, Twin Cities Metropolitan Area and Iron Range, Steve Hinze and Karen Baker, January 2005

Table 1
Minnesota Countywide Tax Impacts if Fiscal Disparities Programs were Eliminated
(Taxes Payable in 2004)

	Average Total Local Tax Rate			Average Tax Change if Fiscal Disparities Eliminated	
County	With Fiscal Disparities	Without Fiscal Disparities	Tax Rate Change	Residential Homestead	Commercial/ Industrial
Anoka	112.5	121.8	9.3	9.5%	-3.1%
Carver	132.2	136.8	4.6	3.6	-1.5
Dakota	111.5	114.5	3.0	3.4	-8.2
Hennepin	134.1	133.8	-0.3	-0.3	-3.7
Ramsey	127.6	133.6	6.0	5.2	-1.2
Scott	118.6	122.0	3.4	3.6	-6.3
Washington	112.4	117.4	5.0	4.5	-3.8

Source: Minnesota's Fiscal Disparities Programs, Twin Cities Metropolitan Area and Iron Range, Steve Hinze and Karen Baker, January 2005

Table 2
Tax Impacts for Selected Cities in Minnesota if Fiscal Disparities Programs were Eliminated
(Taxes Payable in 2004)

	Average Total Local Tax Rate			Average Tax Change if Fiscal Disparities Eliminated	
City	With Fiscal Disparities	Without Fiscal Disparities	Tax Rate Change	Residential Homestead	Commercial/ Industrial
Minneapolis	158.6	161.8	3.2	2.2%	2.6%
St. Paul	130.4	140.3	9.9	8.8	2.7
Six Largest Net Recipients:					
Andover	105.5	118.2	12.7	13.1	-2.1
South St. Paul	127.8	139.4	11.6	10.5	2.7
Coon Rapids	109.9	120.9	11.0	11.6	-2.9
East Bethel	100.3	110.8	10.5	12.0	-4.8
Ramsey	117.3	127.8	10.5	10.0	-2.0
Anoka	121.7	132.2	10.5	9.9	-0.8
Six Largest Net Contributors:					
Bloomington	122.4	116.2	-6.2	-5.5	-9.0
Golden alley	145.0	139.6	-5.4	-3.2	-5.3
Minnetonka	125.6	120.8	-4.8	-3.8	-9.5
Eden Prairie	121.1	116.5	-4.6	-4.0	-9.6
Plymouth	119.4	116.4	-3.0	-2.4	-9.7
Edina	113.3	110.9	-2.6	-2.7	-9.4

Source: Minnesota's Fiscal Disparities Programs, Twin Cities Metropolitan Area and Iron Range, Steve Hinze and Karen Baker, January 2005

Figure 3

The equation for the distribution index:

$$\text{Distribution Index} = \text{Municipality's Population} \times \frac{\text{Average Fiscal Capacity}* \text{ (previous year)}}{\text{Municipality's Fiscal Capacity (previous year)}}$$

$$^{*}\text{ Fiscal capacity} = \frac{\text{Equalized market value of all property in the municipality}}{\text{Population of municipality}}$$

The equation for the distribution of the areawide tax base:

$$\text{Distribution of Areawide Tax Base} = \text{Areawide Tax Base} \times \frac{\text{Distribution Index of a Municipality}}{\text{Sum of Distribution Indices of All Municipalities}}$$

Annotated Bibliography

Abalahin, Eric. "Metro Monitor 2017 Dashboard | Brookings Institution." *Brookings*. Brookings, 30 Mar. 2017. Web. 04 May 2017. <https://www.brookings.edu/interactives/metro-monitor-2017-dashboard/>.

The Metro Monitor Dashboard includes their methodology for growth, prosperity and inclusion. It is done at the Brookings Institution, a think tank in Washington D.C. that prides itself in quality and independent research. According to the website, it tracks the economic performance of 100 metropolitan area in the U.S. on the pillars of successful economic development. The indicators that it tracks measuring the rate of change over 3 time periods. The indicator analysis is compiled into scores and ranked on performance for each category.

Dornfeld, Steve. "Affluent suburbs challenge Twin Cities' unique tax-base sharing law." *Minn Post*. N.p., 22 Sept. 2011. Web. 4 May 2017. <https://www.minnpost.com/cityscape/2011/09/affluent-suburbs-challenge-twin-cities-unique-tax-base-sharing-law>.

This is a newspaper article that discusses the opposition the Minnesota Fiscal Disparities Program has faced. It gave me an insight on the challenges that a tax base sharing program might face from the lessons learned in Minnesota. I think the author has a bias towards the Disparities Program.

Empire Center. “Benchmarking New York” Web. 17 May 2015. <https://www.empirecenter.org/wp-content/uploads/2015/03/PropertyTax2013.pdf>.

This report provided us information on effective property taxes in the City of Syracuse and Onondaga County. The report includes a list of the top and bottom 20 property effective tax rates in nine regions in New York State.

Hinze, Steven, and Karen Baker. “Minnesota’s Fiscal Disparities Programs.” *Minnesota’s Fiscal Disparities Programs* (2005): n.pag. <http://www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf>.

This report was published in legislative analysts in the House Research Department. According to the report, “the publication provides an overview of tax base sharing program, with policy rational, effect and tax burden impact. It was very useful for our understanding of the program and to provide our recommendations.

Final Report of the Commission on Local Government Modernization. Rep. CGR, Feb. 2017. Web. 4 May 2017.

This is the Consensus Report, where we initially got the idea to research tax base sharing programs and especially the Minnesota Fiscal Disparities Program. The report recommends this program to be implemented in Syracuse.

"Fiscal Disparities Facts." *Fiscal Disparities Facts - Metropolitan Council*. N.p., n.d. Web. 04 May 2017. <https://metrocouncil.org/About-Us/Facts/CommunitiesF/Fiscal-Disparities.aspx>.

This website gave us supplemental information on how the Minnesota Fiscal Disparities Program works. The page gives us succinct information on the goals, objectives and results for the Program in the region. It is published from the Metropolitan Council in the Twin Cities region.

Goetz, Edward G., and Terrence Kayser. "Competition and Cooperation in Economic Development: A Study of the Twin Cities Metropolitan Area." Economic Development Quarterly 7.1 (1993): 63-78.

This literature provided evidence that a tax base sharing system could lead to economic development. This article supported our argument that Syracuse-Onondaga would benefit from implementing the tax base sharing system.

Orfield, Myron. "Metropolitics: Coalitions for Regional Reforms | Brookings Institution." Brookings. Brookings, 28 July 2016. Web. 04 May 2017. <https://www.brookings.edu/articles/metropolitics-coalitions-for-regional-reforms/>.

Myron Orfield is a proponent of the Minnesota Fiscal Disparities Program and a former Minnesota legislator. In this article, he proposes recommendations for regional reform. We thought that the proposal to include residential property tax was correct.

Nunn, Samuel, and Mark S. Rosentraub. "Metropolitan Fiscal Equalization: Distilling Lessons from Four U.S. Programs." *State & Local Government Review,* vol. 28, no. 2, 1996, pp. 90–102. <www.jstor.org/stable/4355148>.

This literature was insightful in explaining four different tax base sharing programs and provided recommendation on how to implement one on another region. We based some of our recommendations on this report. The authors were supportive of a tax base sharing programs.

Orfield, Myron and Wallace, Nicholas (2007) "The Minnesota Fiscal Disparities Act of 1971: The Twin Cities' Struggle and Blueprint for Regional Cooperation," *William Mitchell Law Review*: Vol. 33: Iss. 2, Article 4. <http://open.mitchellhamline.edu/wmlr/vol33/iss2/4>.

Both authors are lawyers and proponents of the Fiscal Disparities program. This report was insightful in learning about the benefits and the trajectory of the Fiscal Disparities Act in legislature during the 1970s. It included information on the opposition and the benefits it has brought to the region.

"Tax Base Sharing." *Tax Base Sharing*. ICMA, n.d. Web. 4 May 2017.

This source provided information on different tax base sharing programs like the New York Meadowlands Commission and on the City of Charlottesville and Albemarle County. We thought it was useful to have a source from ICMA, an association representing professionals in local government management. The short article supported tax base sharing programs and is only available to download as a PDF file.

Tiebout, Charles M. "A Pure Theory of Local Expenditures." Journal of Political Economy 64.5 (1956): 416-24

Based on the Tiebout model, households compete for entry into the communities with an optimal set of public services and low tax rates. The literature gave us an insight to predict the consequence of different property tax rates that were caused by the different tax bases in the regions.

TischlerBise. "*Study of the Metropolitan Area Fiscal Disparities Program"* (2012): n. pag. Web. 4 May 2017. <http://www.revenue.state.mn.us/propertytax/reports/fiscal-disparities-study-full-report.pdf>.

This study was done due to the opposition of affluent suburbs that wanted empirical evidence on the effects from the Program to the region. The study was done by a research analysis firm, TischlerBise in Bethesda to the Minnesota Department of Revenue.