To: Senator Elena Parent
Chairwoman SR609 Senate Study Committee on Incorporation and Annexation

From: Laura Wheeler
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RE: Mechanisms used in other states to mitigate the financial impact of municipal annexations and incorporations

Date: October 19, 2015

This memo is written in response to your inquiry concerning approaches used in other states to mitigate the financial impact to the county or other jurisdictions from new annexations and/or incorporations. While our research is not exhaustive, we have identified several states, including Florida, California, and Minnesota that have some mechanism to compensate a jurisdiction for the loss of financial resources associated with an annexation or incorporation. In addition, our research has found that many states acknowledge the potential negative impact that annexation may have to a county or other jurisdictions, but we did not find that these other states require any form of compensation. Most states involved in our research did require a feasibility study for a proposed boundary change, and these studies are often required to consider the implications to the county or other municipal jurisdictions but most stop short of requiring a transfer or sharing of resources.

Florida and California

In the past Florida has required that incorporating areas make mitigation payments to the county in cases where incorporation would adversely affect the county. For example, the incorporation of Fontainebleau, Florida was estimated to result in an annual net loss to Miami-Dade County of $2.7 million.[1] The calculation included an analysis of revenues associated with the proposed jurisdiction. The revenues included various taxes such as property, sales, franchise and alcohol and occupational licenses and other miscellaneous revenues. The calculation of expenses included the cost of providing policing services based on number and cost of calls, parks and recreational services, and the public work services based on the cost per lane miles. Based on this calculation, estimated revenues lost to the county from the incorporation equaled $5.4 million, while there would be an estimated reduction in expenses of $2.7 million, leaving a net effect to the county of $2.7 million if the area incorporated.

While there is an agreed upon method for computing the cost and revenues associated with a given area, the calculations are not without controversy since several assumptions are usually involved in determining the overall financial effect. In Florida, the payments have become so

[1] See estimates included in the appendix.

controversial that the latest Miami-Dade municipal incorporation task force recommended the payments be eliminated. As an alternative solution, the task force recommended requiring revenue neutral boundaries for all future incorporations and annexations or adjusting service levels to offset the revenue loss to the county. The mitigation payments for the latest round of new municipalities were negotiated to expire after seven years as a result of pressure from the newly incorporated areas.[2]

A procedure similar to Florida is used in California where these payments are met with somewhat less opposition but are still subject to significant debate and criticism. In the California procedure, the negative impact may be addressed with one-time lump sum payments, ongoing payments, or a tax sharing plan between jurisdictions. Separate mitigation payments may be required between the city and the county and between the city and other affected jurisdictions. Lastly, if it is determined that the incorporation results in a financial benefit to the county, the county is obligated to make payments to the city.

Minnesota

The Minnesota Fiscal Disparities program was first enacted in 1971 for the Twin Cities region. In 1995 a second program was enacted for the northeastern section of the state. The program involves sharing an amount of the growth in the commercial, industrial, and public utility tax base among all jurisdictions associated with the program. The Twin Cities program is made up of seven counties, while the second program involves some portion of six counties. The stated goals of the program are six-fold: (1) provide a way for local governments to share resources generated by regional growth, (2) encourage orderly urban development by reducing competition for commercial and industrial resources, (3) establish incentives for regional cooperation, (4) provide a way for regional resources to be available through the existing system of local governments, (5) make resources available to communities at the beginning stages of development and redevelopment, and (6) encourage environmental protection.

Under the program, each jurisdiction contributes 40 percent of the growth in their commercial, industrial, and public utility tax base annually to a common pool. The initial year of the program establishes the year from which the growth is measured. Annual distributions of the common tax base are made from the pool to each of the contributing jurisdictions according to a formula based on jurisdiction's population and per-capita property tax values. Based on the formula, high-valued areas are donor areas and low-valued areas are recipient areas. The jurisdictions are then able to tax the distributed base at their standard millage rates. A 2012 study found that, on average, the benefit received by the recipient areas was greater than the cost to the donor areas.

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[2] Incorporation and Annexation Task Force Report, September 17, 2013 for Miami-Dade County.

Other approaches

For several years, the King County government in Washington State offered a financial incentive to cities to encourage the annexation of unincorporated areas that were contiguous to their boundaries. The program had some success but large areas of the county remain unincorporated. In Florida, newly incorporated areas are required to remain in the county fire and library district and must contract with the county police department for at least three year years after incorporation. In addition, all revenue from electric franchise fees and utility taxes must remain with the county in the event of an incorporation or annexation.

Appendix. Estimated Net Cost of Incorporation of Fontainebleau, Florida

Fontainebleau MAC
Estimated Impact on UMSA Budget Revenues and Expenses

Fontainebleau Based on FY 02-03 Budget	Assumptions	
2002 Taxable Property Rolls		$506,193,761
2000 Census Population		25,448
2002-03 UMSA Millage		2.447
Police Calls for Service for 2002		9,599
Cost per Police Call		$200
Cost per Lane Mile		$1,380
Number of Lane Miles		29.44
Per Capita Taxable Value		$19,891
Gross Revenue Loss to UMSA		
Property Tax Revenue	Allocation based on tax roll & millage	$1,177,000
Franchise Fees	Allocation based on tax roll/population	$434,000
Sales Tax	Allocation based on $59 per person	$1,493,000
Utility Taxes	Allocattion based on tax roll/population	$1,111,000
Communications Tax	Allocated based on tax roll/population	$906,000
Alcoholic Beverage License	Allocation based on $0.21 per person	$5,000
Occupational License	Allocation based on $3.17 per person	$81,000
Fines and Forfeitures	Allocation based on $6.57 per person	$167,000
Interest	Allocation based on .53% of all revenues	$29,000
Miscellaneous Revenues	Allocation based on $0.80 per person	$20,000
Gross Revenue to UMSA		$5,423,000
Cost of Providing UMSA Services		
Police Department	Based on police calls	
	Local Patrol	$1,401,912
	Specialized & Other	$515,888
Parks and Recreation Dept	Based on cost of parks	$180,371
Public Works		
Lane Road Miles	Lane miles times cost per lane mile	$40,627
Planning, Team Metro and others	Direct cost times 9.3%	$198,908
QNIP (Debt and pay-as you-go)	Direct cost times 11.7%	$250,239
Policy Formulation/Internal Support	Direct cost times 5.3%	$113,356
Cost of Providing UMSA Services		$2,701,302
Net Budget Loss to UMSA		$2,721,698
Revised: August 7, 2003		

Assumptions:

1. Does not include gas tax funded projects
2. Does not include canal maintenance revenues or expenses
3. Does not include proprietary activities: Building, Zoning, Solid Waste
4. Does not include Fire and Library Districts
5. Revenues are based on allocations not actuals

UMSA Policy Analysis and Services Planning Unit
August 7, 2003