Fiscal Disparities in the Twin Cities Supplemental Information for Presentation to Council Sept. 10, 2008

Contents

Fiscal Disparities in the Twin Cities
Historical List of Net Recipients and Net Contributors

Top 10 Net Recipients by Year Taxes Payable

Payable 1975	**Payable 1985**	**Payable 1995**	**Payable 2008**
St. Paul	St. Paul	St. Paul	St. Paul
Minneapolis	Coon Rapids	Minneapolis	Minneapolis
Richfield	Brooklyn Park	Coon Rapids	Coon Rapids
Crystal	Richfield	Richfield	Cottage Grove
South St. Paul	South St. Paul	South St. Paul	Andover
White Bear Lake	Blaine	Crystal	Brooklyn Park
Columbia Heights	Crystal	Champlin	Columbia Heights
Stillwater	Apple Valley	Cottage Grove	Crystal
St. Louis Park	White Bear Lake	Columbia Heights	Brooklyn Center
Hastings	Cottage Grove	Brooklyn Park	South St. Paul
Total Net Recipients Each Year			
137	140	141	119

Top 10 Net Contributors by Year Taxes Payable

Payable 1975	**Payable 1985**	**Payable 1995**	**Payable 2008**
Edina	Minnetonka	Bloomington	Bloomington
Bloomington	Bloomington	Eden Prairie	Eden Prairie
Inver Grove Heights	Eden Prairie	Eagan	Minnetonka
Shakopee	Edina	Burnsville	Edina
Plymouth	Roseville	Minnetonka	Plymouth
Golden Valley	Plymouth	Edina	Roseville
Fridley	Maplewood	Roseville	Eagan
Maplewood	Minneapolis	Plymouth	Maple Grove
Eagan	Golden Valley	Maplewood	Golden Valley
Burnsville	St. Louis Park	Fridley	Rogers
Total Net Contributors Each Year			
51	48	47	61

The Fiscal Disparities Program: Commercial-Industrial Tax Base Sharing

What is the fiscal disparities program?

The fiscal disparities program is a system for the partial sharing of commercial-industrial (C/I) property tax base among all jurisdictions within a geographic area. In Minnesota, two programs are used: the primary one was created in 1971 and operates in the seven counties of the Twin Cities metropolitan area; a smaller scaled version was created in 1995 for the Iron Range in northern Minnesota.

Why share commercial/ industrial tax base?

The main purposes and goals of the program are to:

- *Support a regional approach to development*. Tax-base sharing spreads the fiscal benefit of business development spawned by regional facilities, such as shopping centers, airports, freeway interchanges, and sports stadiums. It also may make communities more willing to accept low-tax-yield regional facilities, such as parks.
- *Equalize the distribution of fiscal resources*. Communities with low tax bases must impose higher tax rates to deliver the same services as communities with higher tax bases. These high tax rates make poor communities less attractive places for businesses to locate or expand in, exacerbating the problem. Sharing C/I tax base can reduce this effect.
- *Reduce competition for commercial-industrial development*. Communities generally believe that some kinds of C/I properties pay more in taxes than it costs to provide services to them. This encourages communities to compete for these properties by providing tax concessions or extra services, which can weaken their fiscal condition. Tax-base sharing reduces the incentive for this competition, thereby discouraging urban sprawl and reducing the cost of providing regional services such as sewage and transportation.

How does the fiscal disparities program work?

Contributions to the areawide tax base. Each taxing jurisdiction annually contributes 40 percent of the growth in its C/I tax base since the year of enactment to an abstract entity called the "areawide tax base." This contribution value is not available for taxation by the jurisdictions where the property is located.

Distributions from the areawide tax base. Each municipality receives a share of the areawide tax base through a formula based on its share of the area's population and its relative property tax wealth (tax base per capita). The municipality is allowed to tax this distribution value at the same rate as the tax rate paid by its residents. All taxing jurisdictions whose boundaries encompass the municipality are also allowed to tax the municipality's distribution value (i.e., counties, school districts, and special taxing districts).

Calculating the property tax for each commercial-industrial property. The property tax statement for each C/I property has a local portion and an areawide portion, based on the relative amount of the tax base that is contributed (areawide portion) versus the relative amount that is retained (local portion) for the municipality where the property is located.

How has the metropolitan area program grown?

In the first year of implementation (1975), the areawide tax base included 6.7 percent of the total metro C/I tax base and 2.1 percent of the total metro tax base. For 2004, the areawide tax base was 32.3 percent of the total metro C/I base and 9.8 percent of the total metro tax base.

How much do fiscal disparities affect tax burdens?

A House Research study based on taxes payable in 2004 found that the average homestead tax in St. Paul, which is one of the largest net beneficiaries of the program, was 8.8 percent lower because of fiscal disparities. The study also found that the average homestead tax in Bloomington, which is one of the largest net contributors, was 5.5 percent higher. Homestead effects throughout the area generally varied between these extremes.

For commercial-industrial properties, average taxes were 2.7 percent lower in St. Paul due to fiscal disparities and 9.7 percent higher in Plymouth, another suburban city that is a large net contributor. Commercial-industrial properties elsewhere in the metro area fall in line between these extremes.

The study looked only at the direct effect of fiscal disparities, i.e., the redistribution of tax base, and made no attempt to factor in alternative development patterns that might have occurred without fiscal disparities.

How did the 2001 property tax reform affect fiscal disparities?

The elimination of the general education levy, imposition of a state property tax levy, and reduction in commercial-industrial class rates caused the nominal amount of money redistributed by the fiscal disparities program to decrease. However, based on the aforementioned House Research study, the net effect of fiscal disparities on tax burdens is similar to what it was before the reform.

What about the Iron Range program?

Tax effects of the Iron Range fiscal disparities program are much smaller in magnitude since the percentage of tax base being contributed is so low due to the relative infancy of the program.

For more information: Contact legislative analyst Steve Hinze at 651-296-8956 or Karen Baker at 651-296-8959. Also see the House Research publication *Minnesota's Fiscal Disparities Programs: Twin Cities Area and Iron Range*.

January 2005

Return to Property Tax
Return to House Research home