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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, the program operates in two areas: the first one was enacted in 1971 and operates in the seven counties of the Twin Cities metropolitan area; a second version was enacted in 1995 operating within the Iron Range in northeastern 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 and the amount that is retained by the municipality where the property is located.

How much tax base is redistributed through the programs?

In 2012, 37.6 percent of all local commercial-industrial property taxes are paid through fiscal disparities, and the areawide tax base accounts for 12 percent of the total tax base in the metropolitan area. In the Iron Range program, 17.8 percent of all local commercial-industrial property taxes are paid through fiscal disparities, and the areawide tax base constitutes 3 percent of the total tax base on the Iron Range.

How much does the fiscal disparities program affect taxes in the metro area?

A House Research Department study based on taxes payable in 2012 found that the average homestead tax in Columbia Heights, which is one of the largest net beneficiaries of the program, was 14.6 percent lower because of fiscal disparities. The study found that the average homestead tax in Bloomington, which is one of the largest net contributors, was 5.4 percent higher. Homestead effects throughout the area generally varied between these extremes.

For commercial-industrial properties, average taxes were 9.8 percent lower in Columbia Heights due to fiscal disparities and 13.7 percent higher in Eagan, another suburban city that is a large net contributor. Commercial-industrial property tax impacts elsewhere in the metro area generally fall 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.

What are the effects of the Iron Range program?

The same study found that the average homestead tax in Keewatin (Itasca County) was 24.8 percent lower because of fiscal disparities, while homestead taxes in Silver Bay were 5.5 percent higher, with other municipalities generally falling between those extremes.

For commercial-industrial properties, average taxes were 17 percent lower in Keewatin due to fiscal disparities and 20.4 percent higher in Farm Island township (Aitkin County). Commercial-industrial property tax impacts elsewhere on the Iron Range generally fall between these extremes.

For more information: Contact legislative analyst Steve Hinze (steve.hinze@house.mn). A report showing the impact of the fiscal disparities program by municipality can be viewed at: http://www.house.mn/hrd/issinfo/csim12E1.pdf.