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Minnesota's Fiscal Disparities Programs

About this Publication

This publication provides an overview of the state's two tax-base sharing programs, providing information on their backgrounds, policy rationales, program mechanics, redistributive effects, and tax burden impacts.

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Figures and Tables

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Overview

In 1971, the state of Minnesota instituted a program of commercial-industrial tax-base sharing within the Twin Cities metropolitan area. Although the program is usually referred to as "fiscal disparities," its name in Chapter 473F of Minnesota Statutes is the Charles R. Weaver Metropolitan Revenue Distribution Act, named for the original legislative sponsor of the program. Although the concept of tax-base sharing has been discussed in policy and academic circles for many years, Minnesota's implementation is unique within the United States and may be unique worldwide in terms of the geographic area covered and the amount of tax base that is shared. In 1995, a parallel program was established on the Iron Range of northeastern Minnesota.

This report is a primer on Minnesota's two tax-base sharing programs. It is intended for use by at least two different groups: those affected by the programs who would like a better understanding of how the programs work, and those in other parts of the state, elsewhere in the United States, or other places in the world who have heard about Minnesota's tax-base sharing program and would like to learn more about it.

In trying to provide some background to these two diverse audiences, the report briefly covers many topics. The report:

- discusses the policy rationale(s) for the program(s), and even more briefly, aspects of the program recently or currently under discussion in the policy arena;
- describes in some detail the mechanics of the program;
- provides historical and current data on the redistribution that actually takes place under the program (i.e., the "winners" and the "losers"); and
- looks at the impact of the program on tax burdens by simulating the property tax system in the absence of fiscal disparities.

Although the report describes the two programs separately, because the Iron Range program is patterned so closely after the metro program, those portions on how the program works are included only in the section describing the Twin Cities metropolitan program, but are applicable to both.

The Twin Cities Metropolitan Area Fiscal Disparities Program

The Twin Cities area fiscal disparities program was enacted in 1971, but court challenges prevented the program's implementation until 1975. Since 1971, the program has shared 40 percent of the growth in commercial-industrial (C/I) property tax base within Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties.

Purpose of the Fiscal Disparities Program

As originally enacted, the fiscal disparities statute identifies six objectives that the program seeks to accomplish:[1]

- To provide a way for local governments to share in the resources generated by the growth of the area, without removing any resources that local governments already have
- To increase the likelihood of orderly urban development by reducing the impact of fiscal considerations on the location of business and residential growth and of highways, transit facilities, and airports
- To establish incentives for all parts of the area to work for the growth of the area as a whole
- To provide a way whereby the area's resources can be made available within and through the existing system of local governments and local decision making
- To help communities in different stages of development by making resources increasingly available to communities at those early stages of development and redevelopment when financial pressures on them are the greatest
- To encourage protection of the environment by reducing the impact of fiscal considerations so that flood plains can be protected and land for parks and open space can be preserved

Modern-day proponents of the fiscal disparities program have come to focus on two broad goals:

- Promoting more orderly regional development
- Improving equity in the distribution of fiscal resources

[1] Minn. Stat. 2018, § 473F.01, subd. 1. The original language included a seventh objective that was eventually repealed because it related to a component of the program that was never enacted.

The following aspects of the fiscal disparities program contribute toward one or both of these goals:

- Tax-base sharing spreads the fiscal benefit of business development attracted by regional facilities, such as large shopping centers, airports, and freeway interchanges, or recreational facilities, such as sports stadiums and arenas.
- 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 of C/I tax base can reduce this effect.
- Communities generally believe that commercial and industrial 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 special services. Tax-base sharing may reduce this competition, thereby discouraging urban sprawl and reducing the cost of providing regional services, such as sewage treatment and transportation.
- Tax-base sharing equalizes the imbalance between some local governments' public service needs and financial resources. The uneven distribution of property tax base, particularly commercial and industrial property, is a major cause of this imbalance.
- Communities may be more willing to accept low-tax yield regional facilities, such as parks, to preserve environmental amenities because they know they will share the benefits of other communities' commercial development.
- Tax-base sharing can provide additional resources to older areas to finance urban redevelopment.

How the Fiscal Disparities Program Works

This section describes how the fiscal disparities program works as part of the property tax system. A simplified pictorial illustration of the fiscal disparities process is shown in Appendix A.

Contributions to Areawide Tax Base

The fiscal disparities law requires each taxing jurisdiction[2] to contribute 40 percent of the growth in its C/I property tax base since the 1971 assessment to an areawide pool. Even though the first year of implementation was 1975, the 1971 assessment remains the benchmark year.

[2] In this report, some references are to "municipalities" (cities or towns) and others are to "governmental units or taxing jurisdictions" (counties, cities, towns, school districts, and special taxing districts). All property is located in a municipality, but pays taxes to all taxing jurisdictions encompassing the property.

C/I property includes all businesses, offices, stores, warehouses, factories, gas stations, parking ramps, and so forth. It also includes public utility property and vacant land that is zoned commercial or industrial. Although both C/I real and personal property are included in the program, most personal property is exempt from taxation.

Operationally, the growth in value since the 1971 assessment is measured by taking each jurisdiction's current net tax capacity of C/I property and subtracting the 1971 C/I net tax capacity. Growth includes the effects of new construction, inflation, demolition, revaluation, appreciation, and depreciation. There is no need to identify growth since 1971 for individual properties—all calculations are based on aggregate values.

Distribution from Areawide Tax Base

The distribution of the net tax capacity from the areawide tax base is determined by a distribution index based upon relative fiscal capacity.[3]

For a given municipality, the index is the municipality's population multiplied by a ratio measuring relative fiscal capacity, defined as equalized market value per capita. The ratio is the proportion that the average fiscal capacity of all municipalities for the previous year bears to the fiscal capacity of that particular municipality for the previous year.

The equation for the distribution index is as follows:

$$\text{Population of City/Town} \times \frac{\text{Metro Average Fiscal Capacity}}{\text{City/Town Fiscal Capacity}} = \text{Distribution Index}$$

The formula is based wholly on fiscal capacity. There is no measure of spending need in the distribution formula other than population. This means that:

- If the municipality's fiscal capacity is the same as the metropolitan average, its percentage share of the areawide tax base will be the same as its share of the area's population;
- If its fiscal capacity is above the metro average, its per capita share will be smaller;
- If its fiscal capacity is below the metro average, its per capita share will be larger.

Taxing Jurisdiction Levies vs. Tax Burdens

Tax-base sharing takes place before local jurisdictions levy taxes. The jurisdiction determines what amount it must levy to provide local services. In the absence of tax-base sharing, the levy would simply be spread on the tax base within the jurisdiction. With fiscal disparities, however, the tax burden on taxpayers within the jurisdiction may be more or less than the jurisdiction's levy. The jurisdiction still receives the full amount that is levied. However, if the jurisdiction is a net contributor (i.e., contributes more than it gets back), the properties within the jurisdiction

[3] Fiscal capacity is defined as equalized market value per capita. Equalized market value is market value adjusted by each municipality's sales ratio, which is a measure of the assessment level within the municipality.

will pay more tax than the jurisdiction's levy. If the jurisdiction is a net recipient (of tax base), the jurisdiction's taxpayers will pay less than the amount levied.

Impact on Individual Parcels

All properties other than commercial/industrial pay a property tax determined by the local tax rate.

For C/I property, a ratio is computed for each municipality by dividing the municipality's contribution net tax capacity by its total C/I net tax capacity. (Since only 40 percent of the growth over the base year is contributed, that rate will never exceed 40 percent.) This ratio represents the portion of each C/I parcel's net tax capacity that pays into fiscal disparities. The rest of the parcel's net tax capacity pays local taxes determined by local tax rates. Because a portion of each C/I parcel is taxed at the areawide rate, tax burdens on C/I properties of the same value will vary less from jurisdiction to jurisdiction than they would without fiscal disparities.

Relationship between Fiscal Disparities and Tax Increment Financing (TIF)

Originally, C/I property within a TIF district did not contribute to fiscal disparities, and host municipalities did not need to contribute on behalf of the property within TIF districts. In 1979, this contribution exemption was eliminated for all future TIF districts. However, most TIF districts created prior to 1979 continued to benefit from this exemption until the districts expired, which in some cases was not until 2009. Currently, when a municipality creates a TIF district, it must elect one of two possible options for how the district will interact with fiscal disparities. The options are prescribed in Minnesota Statutes, section 469.177, subdivision 3. Either way, the municipality must include the value of any C/I property in the TIF district in determining its contribution to fiscal disparities. Under option (a), the TIF district is allowed to keep all of the property value and tax revenue resulting from growth in property value within the district. The municipality must contribute a higher percentage of its C/I value outside the TIF district to make up for the fact that the C/I value in the TIF district is not contributing. Under option (b), C/I property in the TIF district is contributed to fiscal disparities in the same percentage as C/I property outside the district, so the contributed portion is not available as tax increment to the district. Electing option (a) allows for greater tax increment revenues, but causes property taxes on other properties in the municipality to be higher than under option (b).

Step-by-step Calculations

The step-by-step calculations under fiscal disparities for a hypothetical city are shown on the following pages. An alternative version of the calculations is shown in appendix B. The basic mechanics are easier to understand in the alternative version, which leaves out the one-year lag that was instituted to facilitate administration of the program in light of the complexity of Minnesota's property tax system.

Fiscal Disparities Calculations for a Hypothetical City (Payable 2019)

Assumptions for City of Pleasantville

2017 Population		20,000
2017 Equalized Market Value		$500,000,000
2017 Fiscal Capacity*		$25,000
2017 Areawide Average Fiscal Capacity**		$30,000
Payable 2019 Certified Levy		$8,000,000
1971 Commercial-Industrial Net Tax Capacity***		$2,500,000
Payable 2018 Net Tax Capacity		
Commercial-Industrial***		$8,000,000
Residential		10,000,000
All Other		+1,000,000
	Total	$19,000,000
Payable 2019 Net Tax Capacity		
Commercial-Industrial***		$8,800,000
Residential		12,000,000
All Other		+1,400,000
	Total	$22,200,000

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

$$\text{** Average Fiscal Capacity} = \frac{\text{Total equalized market value of all property in all municipalities}}{\text{Total population of the metropolitan area}}$$

*** Commercial-industrial net tax capacity includes the tax capacity of public utility property. Since net tax capacity was not defined in the 1971 base year, it has been estimated using available market value records. The 1971 base value is adjusted each year that changes are made in C/I class rates.

Step 1: Determine the City's Contribution to Areawide Tax Base

Payable 2018 Commercial-Industrial Net Tax Capacity[4]	$8,000,000
Less 1971 Commercial-Industrial Net Tax Capacity	-2,500,000
Net Growth over 1971 Base Value	$5,500,000
Contribution Rate	x 40%
City's Contribution to Areawide Tax Base	$2,200,000

Step 2: Determine the Areawide Tax Base

Net Tax Capacity Contributed from City of Pleasantville	$2,200,000
Net Tax Capacity Contributed from All Other Cities and Towns in the Metro Area	+ $297,800,000
Total Areawide Tax Base	$300,000,000

Step 3: Distribution Index for City of Pleasantville

$$\text{Population of City/Town} \times \frac{\text{Average Fiscal Capacity}}{\text{City/Town Fiscal Capacity}} = \text{Distribution Index}$$

$$20{,}000 \times \frac{\$30{,}000}{\$25{,}000} = 24{,}000$$

Step 4: Sum of Distribution Indices for All Municipalities

	Index	Percent
City of Pleasantville (step 3)	24,000	1.2%
All Other Metropolitan Cities and Towns	1,976,000	98.8%
	2,000,000	100.00%

The city of Pleasantville's final distribution index is 1.2 percent of 2,000,000; therefore, it receives 1.2 percent of the areawide tax base.

[4] Laws 1976, chapter 191, provided that the fiscal disparities contribution and distribution values and tax rates would be based on data from the previous year. This was done for administrative reasons. Appendix B contains an example of how the program works without the one-year lag (i.e., based on current values and rates).

Step 5: City of Pleasantville's Distribution Net Tax Capacity

The city of Pleasantville's distribution net tax capacity is equal to the share determined in step 4 multiplied by the areawide tax base determined in step 2.

1.2% x $300,000,000 = $3,600,000

This distribution net tax capacity is also taxable by other taxing jurisdictions (i.e., county, school district, special taxing districts) overlapping the city.

Step 6: Determine the City of Pleasantville's Tax Base

Payable 2018 Total Net Tax Capacity for City of Pleasantville	$22,200,000
Less Payable 2018 Contribution to the Areawide Tax Base (step 1)	-2,200,000
Total Payable 2018 Taxable Net Tax Capacity for City of Pleasantville	$20,000,000

Step 7: Determine Areawide Portion of City of Pleasantville's Levy (also called the city's distribution levy)

Distribution Tax Capacity (step 5)	x	Payable 2018 City Tax Rate	=	Areawide Portion of Levy
$3,600,000	x	0.35 (35% of net tax capacity)	=	$1,260,000

Step 8: Determine the Areawide Tax Levy

The auditor of the county in which the city of Pleasantville is located certifies to the administrative auditor an amount of $1,260,000 as the areawide portion of the city's levy. This is also done for all other governmental units located within the area.

City of Pleasantville's Distribution Levy (step 7)	$1,260,000
Distribution Levies from All Other Governmental Units in the Metro Area	+398,740,000
Total Areawide Levy	$400,000,000

Step 9: Determine the Areawide Tax Rate

The administrative auditor computes the areawide tax rate as follows:

$$\frac{\text{Total Areawide Levy (step 8)}}{\text{Total Areawide Tax Base (step 2)}} = \frac{\$400,000,000}{\$300,000,000} = \text{1.333 (133.3\% of net tax capacity)}$$

This tax rate is applied to the contribution net tax capacity of all municipalities in the metro area.

The areawide tax rate is a composite rate that provides revenues for municipalities, school districts, county governments, and special taxing districts.

Step 10: County Auditor Calculates the City of Pleasantville's Tax Rate

Payable 2019 Total Certified Levy	$8,000,000
Less Portion Attributable Receivable from Areawide Tax Base (step 7)	-1,260,000
Payable 2019 Adjusted Levy for the City (local portion)	6,740,000

$$\frac{\text{Payable 2019 Adjusted Levy}}{\text{Taxable Net Tax Capacity (step 6)}} \quad \frac{\$6,740,000}{\$20,000,000} = 0.337$$

City Tax Rate	0.337 (33.7% of tax capacity)

The city's tax rate of 0.337 is added to the tax rates for the appropriate county, school district, and special taxing districts. That total rate is applied to all taxable property in the city of Pleasantville except the fiscal disparities portion of C/I property (see step 11).

Step 11: Property Tax Computation on C/I Parcel

The fiscal disparities contribution net tax capacity of $2,200,000 is equal to 25 percent of the total assessment district's payable 2019 C/I net tax capacity of $8,800,000. Therefore, 25 percent of the net tax capacity of each parcel of C/I property in the city is subject to the areawide tax. The remaining 75 percent of the net tax capacity of each C/I parcel is subject to the local tax rate.

The payable 2019 property tax computation for a parcel of C/I property located in the city of Pleasantville with a market value of $300,000 (net tax capacity of $5,250) is shown on the following page.

<table>
<tr><th>Areawide Portion of Tax (Contribution Tax)</th><th>Local Portion of Tax</th></tr>
<tr><td>25% of $5,250 net tax capacity of the C/I parcel is taxed at the areawide rate of 1.333.

0.25 x $5,250 x 1.333 = $1,750</td><td>Remaining 75% of net tax capacity of the C/I parcel is subject to local tax rates of all jurisdictions where the parcel of property is located.
Local Tax Rates
City of Pleasantville 0.337
School District 0.256
County 0.433
Special Taxing District 0.074

Total Local Tax Rate 1.100

0.75 x $5,250 x 1.100 = $4,331</td></tr>
<tr><td colspan="2">Total Payable 2019 Tax of C/I Parcel
Areawide Portion of Tax $1,750
Local Portion of Tax 4,331
State General Levy 1,538
Total Tax $7,619</td></tr>
</table>

Step 12: Property Tax Settlement of the Areawide Levy

The county treasurer collects the $7,619 from the taxpayer of the C/I parcel in step 11 and the C/I tax from all other taxpayers with C/I property within the county.

The treasurer compares the sum of the total amount of the contribution levies (e.g., areawide portions of the tax) from all C/I parcels within the county to the sum of the total amount of the distribution levies which all of the taxing districts within the county are entitled to receive from the areawide pool.

If the total contribution levy exceeds the total distribution levy, the county treasurer will remit a check to the administrative auditor for the difference (i.e., amount owed). If the total contribution levy is less than the distribution levy, the county treasurer will receive a check from the administrative auditor.

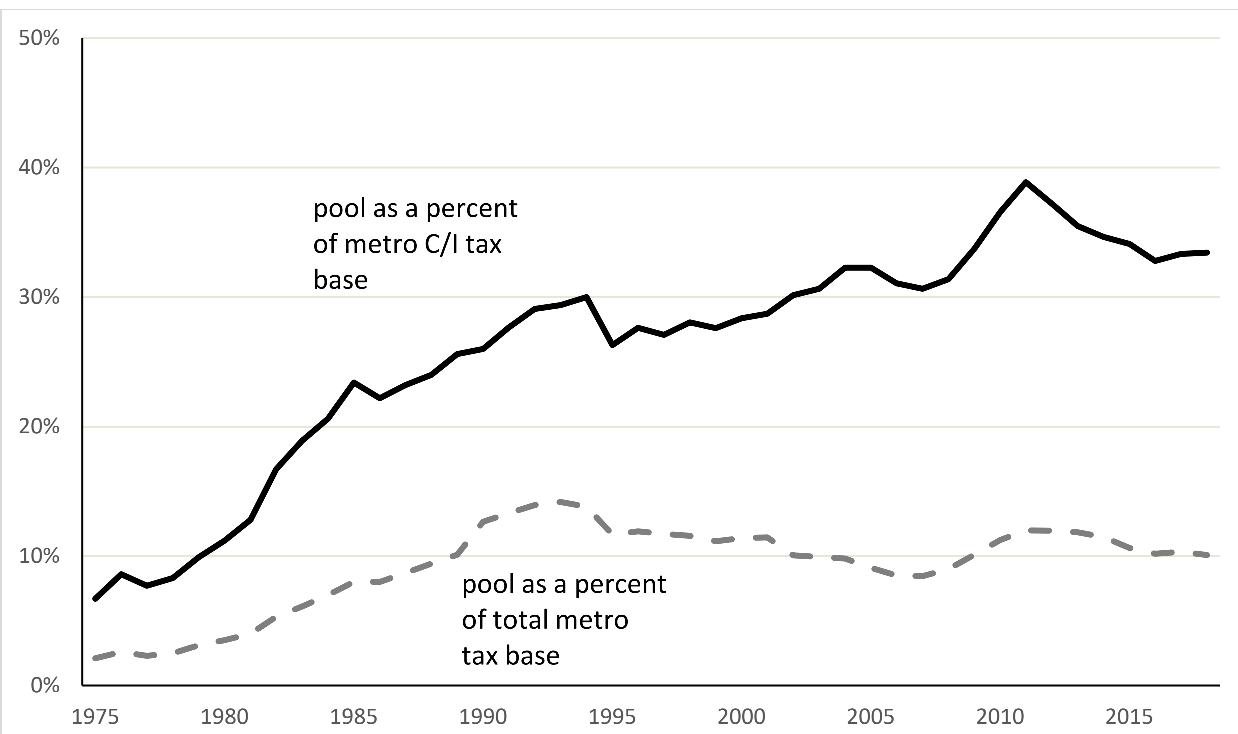
Growth in the Fiscal Disparities Program

Areawide Tax Base Growth

Figure A shows that the fiscal disparities areawide tax base has increased steadily and significantly relative to the total metro C/I tax base and the total metro tax base over the life of the program. Keeping in mind that 40 percent is the theoretical maximum amount of C/I tax base that could be in the pool, the percentage of C/I property in the areawide pool has increased somewhat steadily over the years to its present level in the mid-30s. There is year-to-year fluctuation in this amount due to effects such as valuation reductions and the one-year lag in data matching.

Translating this to the tax burden for a typical parcel of C/I property, on average 30 percent to 35 percent of the local tax is based on the areawide rate. In addition, a significant portion of a C/I property's tax is based on the state general tax rate. Because of these two factors, the variation in C/I taxes between municipalities is substantially less than it would be if taxes were based solely on local tax rates.

Figure A:
Percentage of Total Metro Tax Base and Total Metro C/I Tax Base Comprised by the Areawide Pool, 1975-2018



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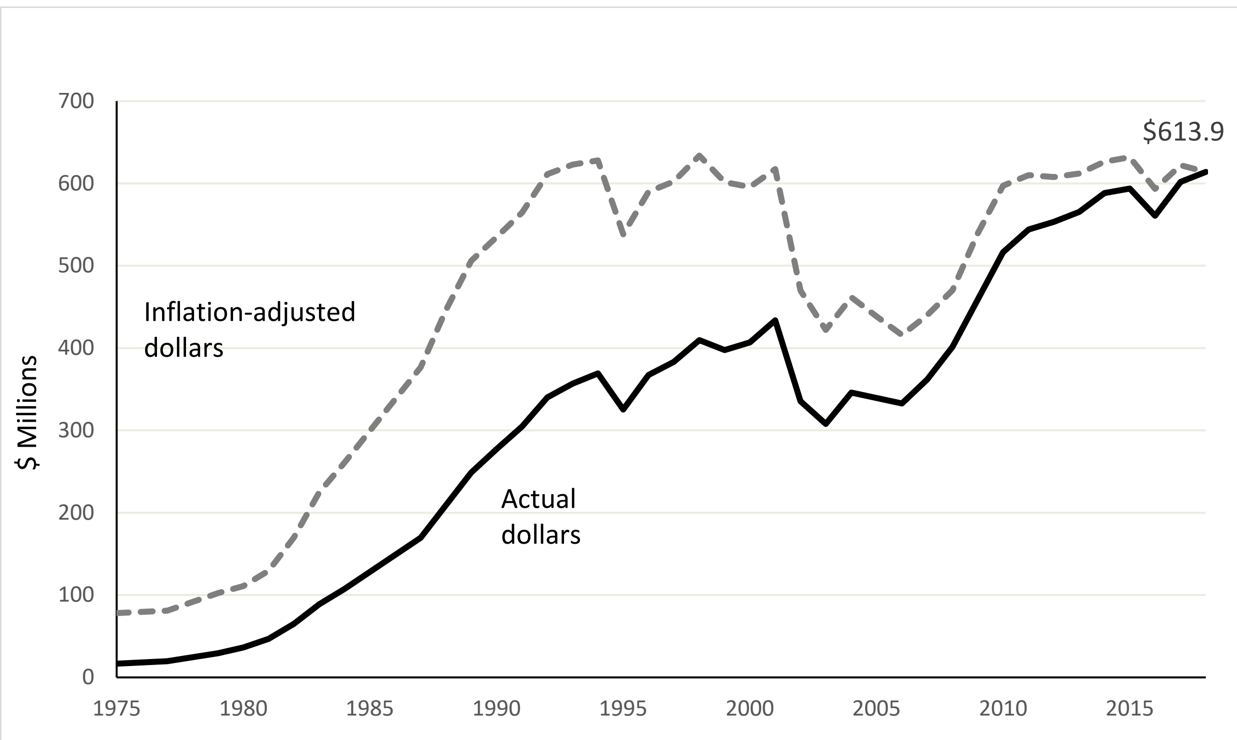
Growth in Distribution Tax

Figure B shows that the total areawide tax has grown significantly since the program began. The program's growth from 1982 through 1994 was noteworthy; in most years annual increases were greater than 10 percent. A slump in C/I real estate values in the early to mid-1990s put a stop to the rapid growth. In the late 1990s the legislature embarked on a program of "class rate compression" to reduce the disparity in effective tax rates between C/I property and other types of property, which dampened growth in that period. Then, in 2001 the legislature initiated a major overhaul of the property tax system. The most significant elements of the overhaul were the state takeover of financial responsibility for basic educational expenses, transit, and a portion of voter-approved school levies, a substantial reduction in the class rates of C/I property, and the institution of a new state general tax on C/I property. These changes greatly impacted fiscal disparities contribution net tax capacities and local tax rates, which in turn impacted the distribution tax. Since these changes, the program has resumed relatively steady growth.

Figure B:
Metro Fiscal Disparities Distribution Tax, 1975-2018



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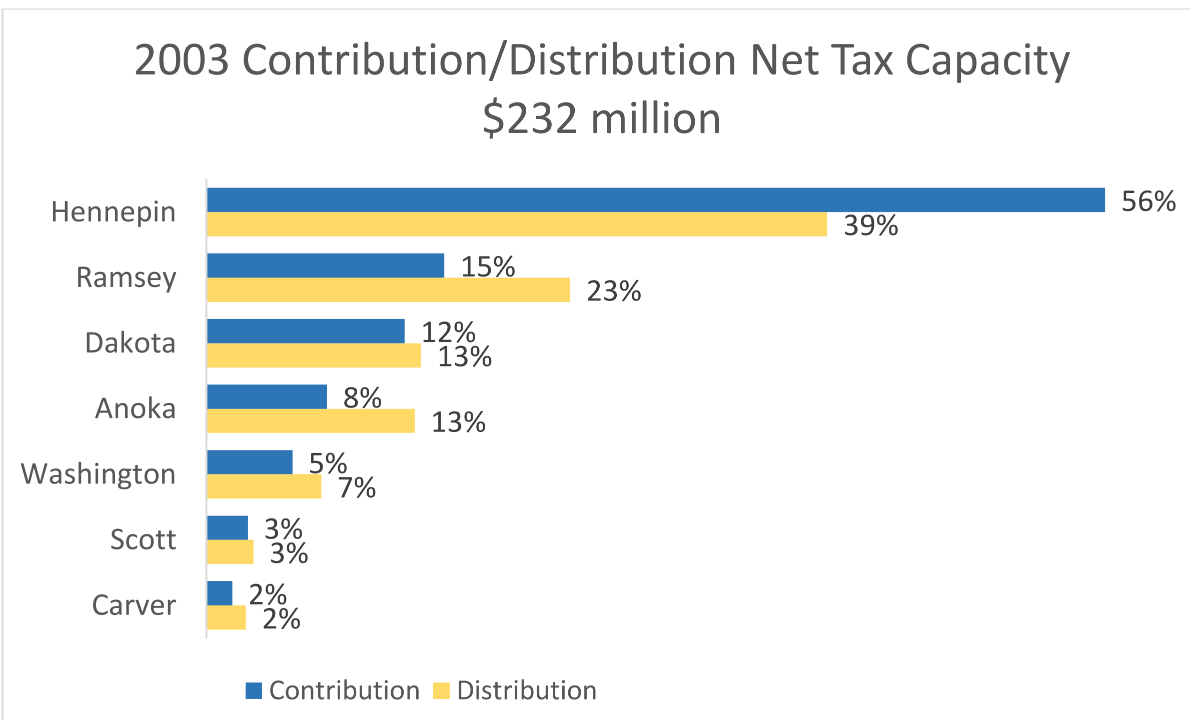
Changes in Contribution and Distribution Tax Capacities Over Time

The charts on the following pages show the redistributive effect of the fiscal disparities program by county at two "snapshots" in time, taxes payable in 2003 and 2018. There is nothing particularly significant about 2003; it is just used as an historical reference point.

Figure C shows that in 2018, Hennepin County is the only net contributor, contributing 52 percent of the net tax capacity in the areawide pool, and receiving about 36 percent back. By contrast, Anoka County contributes 8 percent and gets back 14 percent; Ramsey County contributes 15 percent and gets back 22 percent.

The percentages for 2003 and 2018 are somewhat similar. Ramsey County's net gain decreased slightly over the period, while Hennepin County's net loss also decreased slightly. Dakota County and Anoka County each experienced increases in net gains. The other three counties both contribute and receive higher percentages of the pool in 2018, reflecting growth in their commercial/industrial tax base and population over the period. The state contribution shown in 2018 was part of a law change which relieved the city of Bloomington of repayments of a loan it received from the areawide pool in 1988-1999. The state made payments to the pool for Bloomington over the last four years of the repayment schedule (2015-2018). For more information, see Bloomington Highway Bond Interest Surcharge (1986) on page 22.

Figure C:
Payable 2013 and 2018 Metro Contribution and Distribution Values by County



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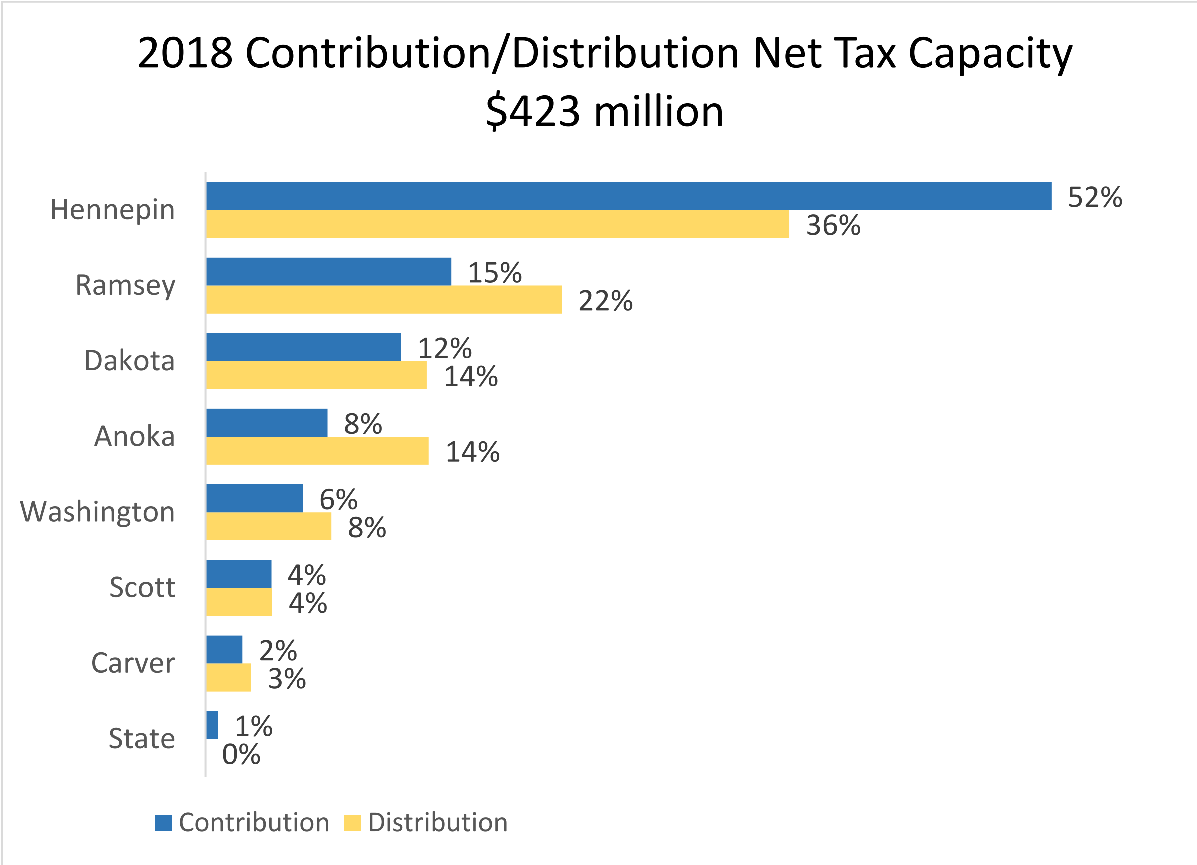

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Impact of Fiscal Disparities on Tax Burdens

Most fiscal disparities discussions focus on tax base—on how much is being redistributed and how much tax base equalization is achieved. However, it is possible to go one step further and analyze the actual impact on tax burdens using property tax simulation.

The Simulation

There is always much interest in the question of how tax burdens would be different if the fiscal disparities program had never been enacted. That question is impossible to answer because even though the fiscal disparities calculations can be "undone," there is no way to measure, or undo, the effect the fiscal disparities program has had on business location decisions, property values, and local government spending and levy decisions. Setting those issues aside, the premise of the simulation for this exercise is not that the fiscal disparities program never existed, but rather that it is suddenly eliminated. The simulation is based on taxes payable in 2018.

The local government aid (LGA) formula was modeled for aids payable in 2018 under two scenarios. The first scenario used the actual tax capacity measures employed in determining 2018 aid distributions, but the LGA formula was run in its "pure" form, ignoring any phase-in components designed to minimize LGA changes for a given city from one year to the next. The second scenario used tax capacities as they would be without fiscal disparities, also using a pure formula with no phase-in components. The LGA change between the two scenarios was used for the simulation, with aid reductions offset by levy increases and vice-versa. County program aids were modeled in the same way. School aids were modeled under the "no fiscal disparities" alternative as well. The relatively small change in school aid reflects the relatively low levels of equalization on net tax capacity-based levies in the K-12 finance system. An "equalized" levy means that the levy is tied to the size of a district's per pupil tax base. There is more equalization on the referendum market value based levies, but there is no redistribution of this tax base under the fiscal disparities program.

Results

The simulation shows that property taxes would increase slightly in aggregate throughout the state ($21.7 million, or 0.2 percent) if the fiscal disparities program was eliminated (see Table 1). This impact is primarily the result of three different effects, some of which offset each other.

First, some of the tax base in the fiscal disparities pool would be captured by tax increment financing (TIF) in the absence of fiscal disparities. Tax revenues from that tax base would not be available to pay the general government levy, so other property taxpayers would have to pay more. This is the case for any TIF district containing C/I property, if the municipality had elected to have the TIF district make its own fiscal disparities contribution. Approximately $14.6 million of the $430 million of net tax capacity in the fiscal disparities pool would be captured by TIF districts. This would cause TIF levies, as well as overall property taxes, to be $21 million higher if the fiscal disparities program did not exist.

The second effect contributing to the change in the overall tax burden is the elimination of the state contribution to fiscal disparities. This $4.6 million impact is described on page 23. Note that this feature of the property tax system expired for taxes payable in 2019 and thereafter.

Finally, state aid to school districts increases by $4.8 million, causing school levies to be $4.8 million lower without fiscal disparities.

Regional Impacts

The TIF phenomenon also leads to another unlikely result, namely that because the metro area as a whole essentially "loses" tax base when the fiscal disparities program is eliminated, metro area cities are in the aggregate slightly needier, as measured by the LGA formula. This result causes LGA to be higher by $0.9 million in the metro area and $0.9 million lower in greater Minnesota, with corresponding effects on levies. This phenomenon also occurs within the county program aid formula. Here the impact moves about $500,000 in aid from greater Minnesota to the metro area.

Table 1:
Factors Contributing to Tax Impacts if Fiscal Disparities were Eliminated
(in millions)

	Metro	Greater Minnesota	Statewide
TIF effect	$20.6	$0.2	$20.8
State contribution to fiscal disparities levy	4.7	0	4.7
School levy effect due to equalization changes	-4.9	0.1	-4.8
LGA effect	-0.9	0.9	0
County aid/levy effect	-0.5	0.5	0
Miscellaneous effects	0.9	0	0.9
Total tax change	**$19.9**	**$1.7**	**$21.7**

Overall Impact by Type of Property

Probably the most interesting result for the metro area as a whole is that taxes on C/I property (including public utilities) were reduced by $92.4 million, or 4.2 percent. Average tax burdens on other property types increased from 2 percent to 4 percent; the average increase for residential homesteads was 2.9 percent. In the abstract, this result would not be expected because "moving" C/I tax base around from one jurisdiction to another would not be expected to lower the tax on C/I property in the aggregate, nor would it increase taxes on other classes in the aggregate. There are two factors that contribute to the reduced overall tax burden on C/I property:

- The first factor is that in the aggregate, the C/I tax base is redistributed from municipalities where tax rates are lower to municipalities where tax rates are higher, so that the average rate of tax levied against C/I property would decrease without fiscal disparities.

- The second factor arises from how the market value tax enters into the equation. For the most part, the market value tax exists outside the realm of fiscal disparities—it is paid by the property physically located in the district levying the tax. However, the tax rates used in fiscal disparities calculations include the market value tax. This increases the burden on C/I property, since C/I property pays its full share of the market value tax in the jurisdiction where the property is located, but then essentially pays a little more when the levies are also imposed on the fiscal disparities pool.

Countywide Average Impacts

On a countywide average basis, homestead taxes increase from 3 percent to 9 percent in the counties that are net recipients of fiscal disparities, and are reduced by only 0.3 percent in Hennepin County, the only net contributor (see Table 2). C/I taxes, on the other hand, would be reduced from 2 percent to 9 percent in every county except Ramsey County. For example, Anoka County sees an average tax rate increase of 11.8 percent and an average homestead tax increase of 9.4 percent, yet sees a 2.1 percent overall reduction in C/I taxes. This occurs because even though city and county tax rates are increased due to the lost tax base, the areawide tax rate is considerably higher than the local rate, and the areawide rate accounts for roughly one-third of the local portion of the C/I tax. Within Ramsey County, C/I taxes would increase about 3 percent if fiscal disparities were eliminated. But this net effect for Ramey County is concentrated in the city of St. Paul, where the C/I increase would be over 7 percent; in the remaining portion of the county, C/I taxes would be reduced by about 1 percent.

Table 2:
Countywide Tax Impacts if Fiscal Disparities were Eliminated
(Taxes Payable in 2018)

	Average Total Local Tax Rate[5]			Average Tax Change if Fiscal Disparities Eliminated	
County	With Fiscal Disparities	Without Fiscal Disparities	Tax Rate Change	Residential Homestead	Commercial/ Industrial
Anoka	128.3	140.1	11.8	9.4 %	(2.1)%
Carver	130.1	134.4	4.3	3.4	(5.6)
Dakota	125.3	130.4	5.1	4.7	(8.2)
Hennepin	140.2	139.7	(0.5)	(0.3)	(5.4)
Ramsey	154.1	164.7	10.6	6.9	3.2
Scott	142.4	145.1	2.7	2.5	(4.2)
Washington	126.7	132.5	5.8	4.7	(4.9)

The results for residential rental properties are similar to those for homesteads, but a little smaller in magnitude.

Effects on Individual Cities

Effects are more pronounced when smaller geographic areas are considered. Table 3 shows what the impact would be in Minneapolis and St. Paul, and in the six cities (over 10,000

[5] In this table and in other tables throughout the report portraying total tax rates, the market value tax rate has been converted and added to the net tax capacity tax rate to arrive at a single tax rate for each municipality. The conversion is accurate for residential property valued under $500,000. For other types of property, a different conversion rate would be more accurate.

population) with the greatest tax rate impact, in either direction. Homeowners in cities that are major recipients under fiscal disparities would face tax increases between 11 percent and 22 percent; homeowners in cities that are major contributors would see reductions of 2.3 percent to 4.4 percent. C/I properties follow a similar pattern. In the six largest net recipient cities, C/I properties would see increases in taxes, varying from 0.3 percent to 15.3 percent. In the six largest net contributor cities, C/I properties would see decreases in taxes, varying from 5.6 percent to 11.0 percent.

Table 3:
Tax Impacts for Selected Cities if Fiscal Disparities were Eliminated
(Taxes Payable in 2018)

City	Average Total Local Tax Rate			Average Tax Change if Fiscal Disparities Eliminated	
	With Fiscal Disparities	Without Fiscal Disparities	Tax Rate Change	Residential Homestead	Commercial/ Industrial
Minneapolis	146.9	146.7	(0.2)	(0.1)%	(3.2)%
St. Paul	162.1	178.1	16.0	10.0	7.8
Six largest net recipients:					
Columbia Heights	151.6	184.6	33.0	22.0	15.3
South St. Paul	150.6	176.6	26.0	17.5	10.4
Brooklyn Center	172.7	195.5	22.8	12.9	11.3
North St. Paul	163.4	181.3	17.9	11.0	7.3
Robbinsdale	156.2	173.4	17.2	11.1	5.9
East Bethel	121.1	135.6	14.5	12.0	0.3
Six largest net contributors:					
Rogers	141.4	135.2	(6.2)	(4.4)	(7.9)
Minnetonka	136.3	131.2	(5.1)	(3.6)	(9.4)
Golden Valley	155.3	150.3	(5.0)	(2.3)	(5.6)
Bloomington	134.1	129.5	(4.6)	(3.3)	(8.9)
Eden Prairie	130.0	125.7	(4.3)	(3.2)	(11.0)
Edina	132.1	128.9	(3.2)	(2.6)	(8.0)

It is common to assume that a municipality's net fiscal disparities distribution tax capacity (distribution minus contribution) determines whether or not it is a "winner" or "loser" under fiscal disparities, and by how much. Looking at those net tax capacity changes alone can be misleading. Some cities that lose tax base through fiscal disparities still benefit when total property taxes are considered, and vice-versa. This effect occurs when a city is located in a county whose net tax base impact is opposite that of the city, i.e., the city is a winner and the county is a loser or vice-versa. (Occasionally the school district effect can cause this result as well.) The county effect is just as important as the city effect in terms of tax burdens on individual property owners. An example of this phenomenon is the city of Fridley (not shown in table), which is a net contributor, yet its homeowners' tax burdens would be 6.4 percent higher, on average, without fiscal disparities.

Tax Rate Equalization

One interesting question to ask is whether the fiscal disparities program narrows the range of tax rates between communities in the metro area. Using the standard deviation as a measure of the range of distribution, the table below shows how the range of tax rates is impacted by fiscal disparities. When looking at all cities there is a lower standard deviation with fiscal disparities. This difference decreases slightly as the universe is limited to larger cities, but even when looking only at cities with a population greater than 10,000, the standard deviation decreases with fiscal disparities. This shows that the range of tax rates is in fact narrower with the fiscal disparities program in place.

[**Note:** The tables in this tax base equalization section of the report show data for the "without fiscal disparities" scenario first, while data for the "with fiscal disparities" scenario (current law) is shown second. This is opposite from the way the two scenarios are depicted in the other sections of the report. The results are shown this way to more clearly show the direct impact that the fiscal disparities program has on the property tax system absent the program.]

Table 4:
Total Tax Rate Comparison under Fiscal Disparities
(Taxes Payable in 2018)

		Without Fiscal Disparities		With Fiscal Disparities (Current Law)	
	Number of cities	Mean	Standard deviation	Mean	Standard deviation
All cities*	139	141.10%	24.93%	134.54%	20.31%
Cities over 2,500 population	102	143.77	21.35	137.40	17.91
Cities over 5,000 population	82	144.68	20.87	137.97	17.38
Cities over 10,000 population	61	144.97	18.91	138.42	15.48

* Excluding the cities of Hilltop and Landfall, whose tax rates are well outside of the normal range due to high concentrations of manufactured homes in their respective tax bases.

Table 5 shows the eight cities (over 10,000 population) with the highest and lowest tax rates without fiscal disparities, and what happens to their tax rates when the fiscal disparities program enters the picture. Somewhat surprisingly, the fiscal disparities program actually causes tax rates to be lower than they otherwise would be in six of the eight low-tax-rate cities shown in Table 5. Things are more as one would expect at the high end of the range, where all of the eight high-tax-rate cities have lower tax rates with fiscal disparities than they would without.

Table 5:
Tax Rate Impacts for Selected Cities under Fiscal Disparities
(Taxes Payable in 2018)

	Without Fiscal Disparities	With Fiscal Disparities (Current Law)	Rate Change due to Fiscal Disparities
Cities with lowest tax rates without fiscal disparities:			
Mendota Heights	105.3	107.2	1.9
Eagan	116.2	114.2	(2.0)
Ham Lake	119.3	109.3	(10.0)
Hugo	121.1	116.2	(4.9)
Forest Lake	124.3	118.3	(6.0)
Chanhassen	124.8	123.0	(1.8)
Rosemount	125.1	119.8	(5.3)
Eden Prairie	125.7	130.0	4.3
Cities with highest tax rates without fiscal disparities:			
Brooklyn Center	195.5	172.7	(22.8)
Columbia Heights	184.6	151.6	(33.0)
North St. Paul	181.3	163.4	(17.9)
St. Paul	178.1	162.1	(16.0)
South St. Paul	176.6	150.6	(26.0)
New Hope	174.0	164.3	(9.7)
Robbinsdale	173.4	156.2	(17.2)
Crystal	171.2	156.9	(14.3)

These results suggest that some communities that the fiscal disparities program benefits would have low tax rates even without fiscal disparities. For instance, Ham Lake would have a relatively low tax rate of 119.3 percent without fiscal disparities; its rate with fiscal disparities is an even lower 109.3 percent. That may call into question whether redistribution of tax base is necessary to keep tax rates from climbing in low-tax-base areas, and from dropping ever lower in high-tax-base places.

Local Government Aid Effect

Under the current LGA formula, aid amounts are sensitive to the size of a city's tax base. So cities that would lose tax base if the fiscal disparities program was eliminated would likely receive more LGA. Conversely, cities that gain tax base would likely receive less LGA. The table below shows a few examples of this phenomenon.

Table 6:
LGA Offset of Fiscal Disparities Effect
(in thousands)

	Tax Revenue Gain/Loss if Fiscal Disparities Eliminated	LGA Gain/Loss if Fiscal Disparities Eliminated	Net Revenue Effect if Fiscal Disparities Eliminated
St. Paul	$(16,873)	$495	$(16,378)
Richfield	(1,778)	54	(1,724)
Columbia Heights	(3,538)	80	(3,458)
Blaine	(459)	0	(459)
Minneapolis	5,755	(128)	(5,627)
Stillwater	(132)	(9)	(141)

In the table, the second column is derived by multiplying the net fiscal disparities tax base gain or loss by the city tax rate. In the first three cities shown, the LGA gain offsets a small portion of the revenue loss. The fourth case, Blaine, has a revenue loss, yet there is no offsetting LGA increase because the city has enough tax base to meet its revenue "need," as measured by the LGA formula, even without fiscal disparities.

The city of Minneapolis demonstrates the general rule at work in the opposite situation—here the city gains tax base through the elimination of fiscal disparities and loses LGA, offsetting a portion of the revenue gain. It should be noted that most cities that gain tax base under fiscal disparities elimination do not lose enough LGA to offset a significant portion of the gain, because they receive little or no LGA under current law.

Finally, Stillwater demonstrates yet another outcome. Although the city would lose tax revenue because it is a net recipient of fiscal disparities tax base, it would actually get less LGA if the program was eliminated because of some other factors at work in the LGA formula.[6]

Table 6 is based on taxes payable in 2018. While the LGA gains and loses shown are relatively small in magnitude, tax base changes and changes to the overall LGA appropriation could result in larger LGA changes under the scenario presented in the table, even without changes to the LGA formula.

Modifications to the Fiscal Disparities Program

There have been few modifications to the fiscal disparities program since its implementation in 1975. This section summarizes the most significant changes that have been made to date.

Bloomington Highway Bond Interest Surcharge (1986)

The 1986 Legislature authorized the first deviation from the policy of only allowing fiscal disparities proceeds to be used for "normal" property tax purposes by allowing program revenues to be used for redevelopment of the Metropolitan Stadium site in Bloomington into what is now the Mall of America. Laws 1986, chapter 391, provided that for property taxes payable in 1988 through 1999, the city of Bloomington would annually receive a distribution from the pool, in addition to its "normal" fiscal disparities distribution, equal to the interest owed on bonds sold by the city to pay for highway improvements to the site.[7] The law initially required Bloomington to repay the supplemental distributions, which amounted to $48.6 million, over the ten-year period from 2000 to 2009, by artificially increasing Bloomington's contribution net tax capacity each year.

In 1995, the legislature delayed the start of the repayment program by six years, and then in 2005 it granted another three-year delay, so that the repayments actually began with taxes payable in 2009. However, in 2013 the legislature excused Bloomington from the last four years of its repayment obligation, and provided that the repayments would instead be made by the state general fund for 2015 through 2018.

Municipalities Excluding Commercial-Industrial Development (1991)

In 1991, the legislature became concerned that some municipalities were benefiting from commercial-industrial tax base growth through the fiscal disparities program while at the same time discouraging commercial-industrial development within their own municipal boundaries. A provision was enacted excluding municipalities from participating in fiscal disparities if their

[6] It is the same reason that greater Minnesota cities that do not participate in fiscal disparities still lose LGA under this simulation. See page 15.

[7] The bond proceeds were paid to MnDOT to make road improvements earlier than they were due to be made under MnDOT's long-term plans. Then, in the year that the improvements were originally due to be made, MnDOT repaid Bloomington, and the city used the proceeds to retire the bonds. The fiscal disparities proceeds were used for the interest payments, so that city taxpayers bore no added burden from the accelerated timing of the road improvements.

municipal comprehensive zoning and planning policies consciously exclude "most" commercial-industrial development, for reasons other than preserving an agricultural use. The Metropolitan Council and the commissioner of revenue were jointly tasked with the job of determining which municipalities met the criterion. A small number of cities (six to eight) have been excluded each year based on this criterion.

Livable Communities Fund Surcharge (1995)

The 1995 Legislature authorized the second deviation from the policy of only allowing fiscal disparities proceeds to be used for "normal" property tax purposes. Laws 1995, chapter 255, article 2, sections 11 to 13, provided that the Metropolitan Council would annually receive a $5 million special distribution from the fiscal disparities pool to finance the tax-base revitalization account within the metropolitan livable communities fund, which is available to municipalities that elect to participate in the local housing incentives program established under the law. This annual "surcharge" on the areawide pool was put into place because the additional distribution for Bloomington highway bond interest was no longer in effect.

Mall of America TIF Provision (2013)

In 2013, the legislature altered the fiscal disparities program to provide financing for phase II of the Mall of America development. The legislature extended the duration of the two TIF districts generally comprising the Mall of America and surrounding area, and provided that during the life of the extended TIF project the property would be exempt from contributing to fiscal disparities, and instead the portion of the net tax capacity that would otherwise have been contributed to the fiscal disparities pool would provide the tax increment for the project. The balance of the tax capacity would become part of the tax base for the city and other local taxing jurisdictions (as would be the case if the TIF districts had been allowed to expire upon completion of their original terms). The TIF extension and fiscal disparities treatment is in effect through 2034.

Underserved municipalities provision (2017)

In 2017, a law was passed diverting state general levy revenues from commercial-industrial taxpayers back to the municipality where the taxpayer was located based partly on the municipality's fiscal disparities status. Laws 2017, first special session, chapter 1, article 2, section 17, provided that a municipality (a) lying outside the metro transit district, and (b) having a net fiscal disparities contribution tax capacity in excess of 8 percent of its total tax capacity, is eligible to retain a portion of the state general levy on taxpayers in the municipality equal to the amount of tax base lost to fiscal disparities in excess of 8 percent. Note that this provision does not affect the fiscal disparities program per se, it just reduces state general fund revenues based on fiscal disparities impacts in a few cities. In 2018, five cities were affected and the state revenue loss was $580,991.

Policy Issues

Public debate over fiscal disparities covers many issues: should the program continue to exist; should the areawide tax base be used to fund other programs; should other types of property be added to the areawide tax base; and should the program be extended beyond the seven-county area?

There are several narrower issues—changes best described as fine-tuning—that some argue would make the program operate more as originally intended. This section discusses three of these ideas.

1. Eliminating the MSP International Airport and St. Paul Airport Exemptions

Property at the two airports is taxed by the Metropolitan Airports Commission (MAC), the respective county governments, and various special taxing districts. MSP Airport has always been excluded from participation in fiscal disparities; the St. Paul Airport was excluded in 1996. Some question the exclusions because their roughly $10.1 million in C/I net tax capacity would increase the pool by nearly $4 million.

While airport property would seem to be an appropriate tax base for regional sharing, the unique circumstances make inclusion in fiscal disparities problematic. First, airport tax rates are not comparable to those of other jurisdictions because they pay no school district or municipal taxes. Second, under current law, the airports would receive no distribution from the pool because they have no population. If the airports were required to contribute to the pool, they would not get anything back, unless some alternative formula for determining a distribution were established.

2. Eliminating the 1971 Base Value Subtraction

Some argue the subtraction of 1971 base C/I value before determining the fiscal disparities contribution itself constitutes an unfair exemption. The charge of unfairness stems from the notion that the fiscal disparities program discriminates against those areas that have experienced most of their development since 1971, compared to those largely developed before 1971. This subtraction was necessary in order to initially pass the legislation since it meant that no municipality would be giving up any of its current tax base, only future tax base growth. Forty-seven years after initial enactment, some ask if this feature of the program is still appropriate.

3. Need-based Distribution Formula

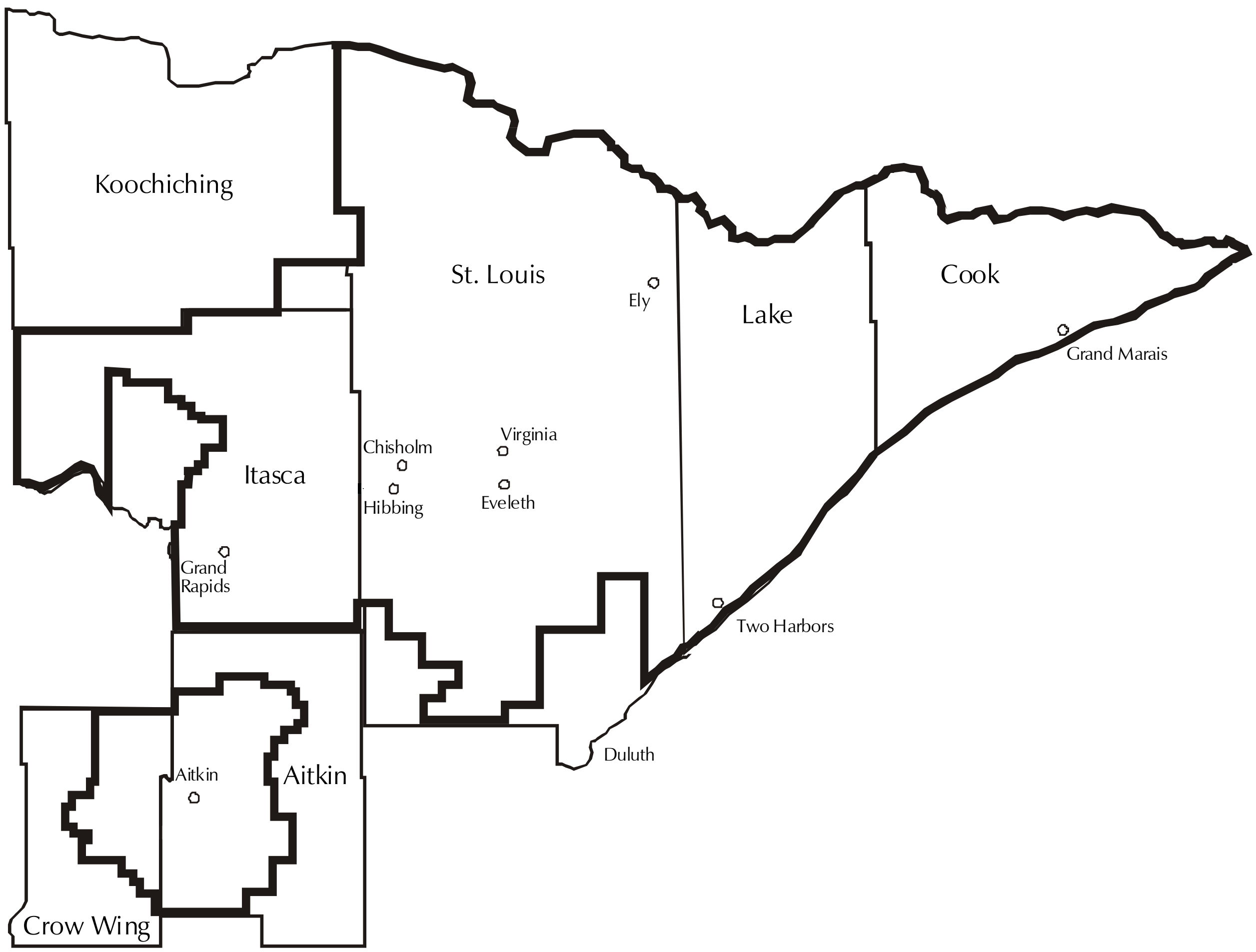
The fiscal disparities distribution formula is based on a single factor: each municipality's aggregate property value per capita compared to the areawide average property value per capita. Some people regard this formula as "need-based," since it looks at a municipality's relative need for tax base to make it more equal to that of other jurisdictions. Others have argued that the distribution formula should try to measure relative needs between jurisdictions more thoughtfully than simply looking at property wealth. For instance, they would argue that even though the cites of Minneapolis and Shoreview have similar property value per capita, their spending needs per capita are quite dissimilar. Some have argued for inclusion of demographic factors such as crime rates, poverty rates, age of a municipality's housing stock, and so forth, in the distribution formula. Proponents of adopting a need-based distribution formula face an uphill battle, since they must first persuade legislators that a need-based formula is a good idea, and then achieve consensus on what the formula should be.

Since the fiscal disparities program affects all types of local taxing jurisdictions, from counties to cities to school districts, a further complication is that need might be defined differently for each type of jurisdiction. For instance, crime rates may be a relevant factor for municipal distributions, but are probably not relevant in the distribution of school district tax base. It actually is possible to design different distribution formulas for each level of taxing jurisdiction, but doing so would increase the complexity of the program.

The Iron Range Fiscal Disparities Program

In 1996, a fiscal disparities program was established on the Iron Range in northern Minnesota. The boundaries for the program are known as the "taconite relief area" (see map, below). Mechanically, the program was set up to work exactly the same way as the program in the metropolitan area, except using 1995 as a base year. The first year of implementation was for taxes payable in 1998. The program is codified in Minnesota Statutes, chapter 276A.

Figure D:
Boundaries of Iron Range Fiscal Disparities



House Research Graphics

Why Iron Range Tax-Base Sharing?

Unlike the metropolitan area program, there is no purpose section in the law governing the Iron Range program, nor was there a "blue ribbon commission" that spelled out the need for the program, so it is somewhat speculative to provide a rationale for sharing C/I tax base within this area. While some of the conditions are similar to those in the metropolitan area, there are more differences than similarities.

Differences Between Metropolitan Area and Iron Range Area

From a regional growth and development perspective, the situation on the Iron Range is immensely different from the metro area in two ways.

- First, the geographic area encompassed does not constitute an integrated regional economic sphere. In fact, the area is not even contiguous, meaning that there is territory between parts of the area that is not a part of the area. And the area excludes the city of Duluth, which is the regional economic center for northeast Minnesota.
- Second, there is no governing agency with authority to plan and implement regional systems such as sewers, transportation, and housing, as there is in the metropolitan area, making it harder to rationalize the program on a regional planning basis. The Arrowhead Regional Development Commission (ARDC) has some responsibility for regional planning, but its planning area encompasses some areas that are outside the taconite tax relief area (most notably, the city of Duluth and its suburbs), and the taconite area encompasses some area that is not within the ARDC's purview (Aitkin and Crow Wing counties).

Apparent Rationale

The clearest rationale for sharing tax base within the taconite tax relief area is that there is already some tax sharing occurring within this area in the distribution of taconite tax revenues. The taconite industry is not subject to ad valorem taxation. Rather, taconite mines and processing plants are subject to a production tax based on the tonnage produced. These revenues are then apportioned through a number of different taconite aid programs, each with its own distribution formula. There is little or no relationship between where the taconite facilities are located and where the revenues are distributed.

Because of the sharing of taconite revenues within the area, proponents of Iron Range tax-base sharing argued that it was also appropriate to share C/I property tax revenues. Underlying the proponents' advocacy was the feeling that C/I development was flourishing in some portions of the region that had little or no taconite activity, and it was fundamentally unfair that these areas got to share in taconite revenues but did not have to share their C/I "wealth." Conversely, many of the areas most heavily impacted by taconite mining had become fairly stagnant in terms of C/I growth, causing them to look enviously upon their neighbors getting both taconite and C/I revenues.

Similarities Between Metropolitan Area and Iron Range

Some of the purposes underlying the metro area program described beginning on page 2 also apply to the Iron Range. The possibility of low-tax base, high-tax rate areas having difficulty attracting C/I development, leading to ever higher local tax rates, applies to both programs. The generally desirable goal of tax-base sharing reducing competition between municipalities for C/I development also applies to both areas equally. The argument that tax-base sharing may make jurisdictions more willing to accept low-tax-yield regional facilities such as parks may also hold true on the Iron Range, even in the absence of strongly coordinated regional planning.

Growth in Program

The Iron Range program first took effect for taxes payable in 1998. Table 7 shows how the program has grown since inception to the point that now nearly 25 percent of the C/I tax base in the taconite area is being shared.

Table 7:
Growth of Areawide Iron Range Tax Base

Taxes Payable Year	Total Tax Base in Areawide Pool (thousands)	Total Taconite Area C/I Tax Base (thousands)	% of Total C/I Tax Base in Areawide Pool	Total Taconite Area Tax Base (thousands)	% of Total Tax Base in Pool
2000	$853	$32,023	2.66%	$100,694	0.85%
2005	2,248	23,136	9.72	132,969	1.36
2010	5,351	29,613	18.07	229,341	2.33
2011	5,542	31,913	17.37	229,219	2.42
2012	6,403	35,736	17.92	212,954	3.01
2013	7,960	37,274	21.36	209,055	3.81
2014	8,200	37,628	21.79	205,041	4.00
2015	8,535	39,190	21.78	207,683	4.11
2016	9,318	41,398	22.51	211,941	4.40
2017	10,221	44,255	23.10	216,464	4.72
2018	11,371	46,371	24.52	219,912	5.17

Table 8 shows the growth in the amount of tax revenue distributed through the program. Growth was quite erratic over the first 15 years, but since about 2015, it has settled into a pattern of fairly steady growth, as one would expect as the program matures.

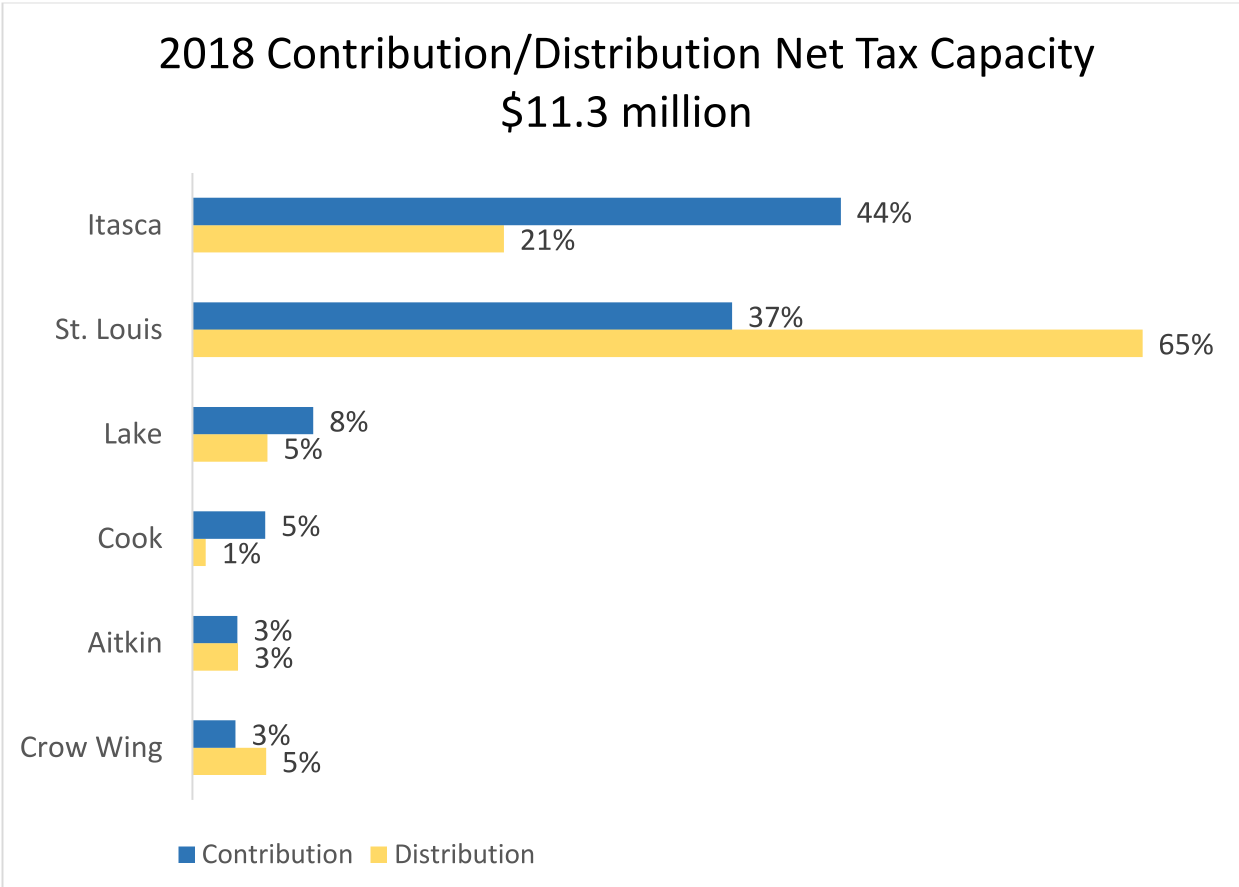
Table 8:
Iron Range Areawide Tax Rate and Growth in Areawide Tax

Payable Year	Areawide Tax Rate	Total Areawide Tax: Amount (thousands)	Total Areawide Tax: % Annual Change
1998	143.258	$631	*
2000	162.710	1,388	*
2005	154.036	3,462	*
2010	130.671	6,993	*
2011	138.317	7,666	*
2012	141.626	9,069	18.3
2013	169.553	13,495	48.8
2014	154.775	12,692	-5.9
2015	157.958	13,481	6.2
2016	160.736	14,979	11.1
2017	158.063	16,156	7.9
2018	161.654	18,382	13.8

* Not computed since the table contains multi-year time periods through 2010.

Figure E shows that the Iron Range fiscal disparities program has had the effect of transferring tax base from the commercially successful areas of the North Shore (Cook County and Lake County) and the western end of the Iron Range (Itasca County) to the older established cities at the eastern end of the Iron Range (St. Louis County), whose economies have struggled in recent years.

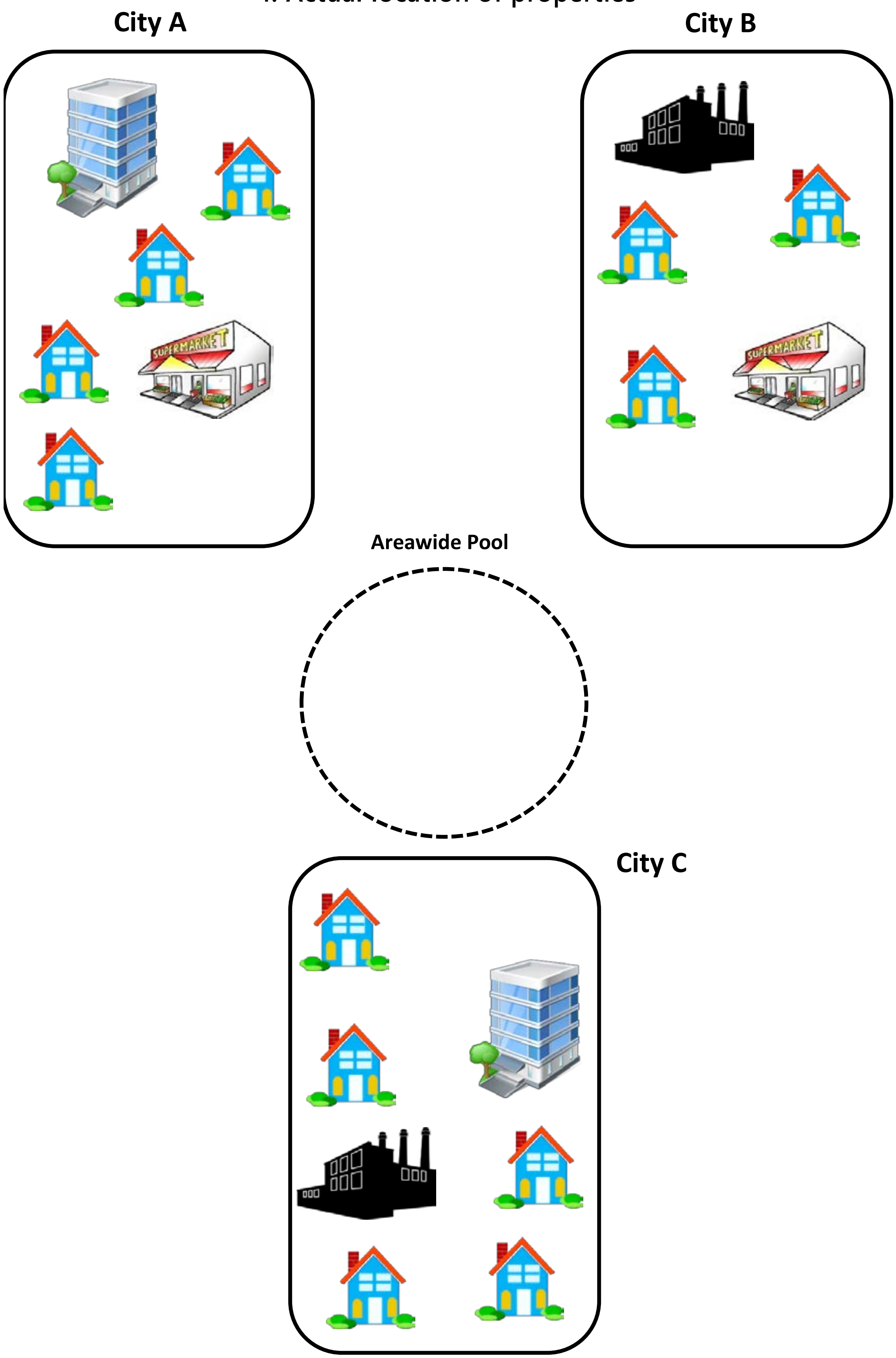
Figure E:
Iron Range Contribution and Distribution Net Tax Capacity by County[8] for Pay 2018

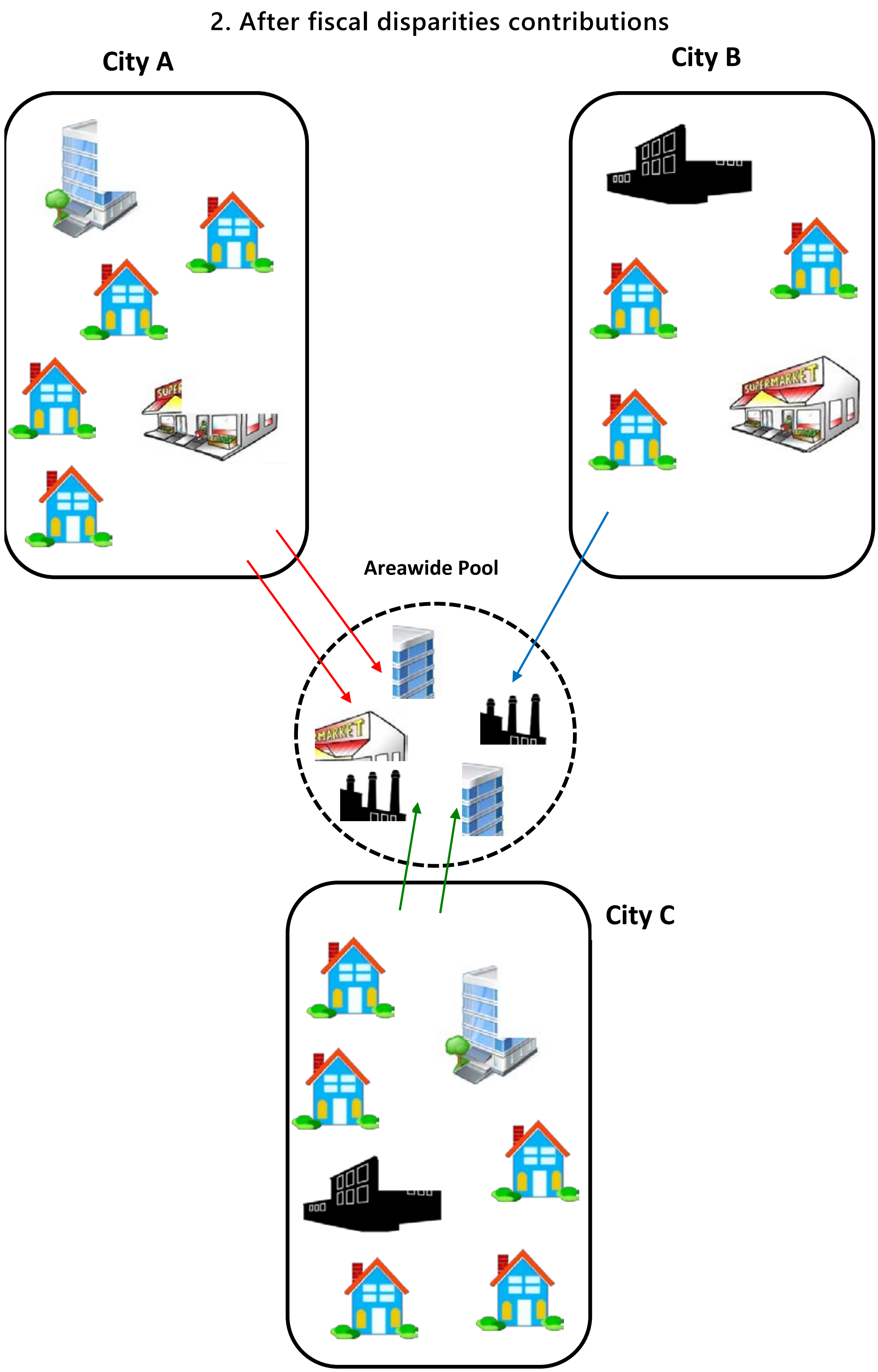


[8] Koochiching County contribution and distribution NTCs are less than 0.1 percent of the total.

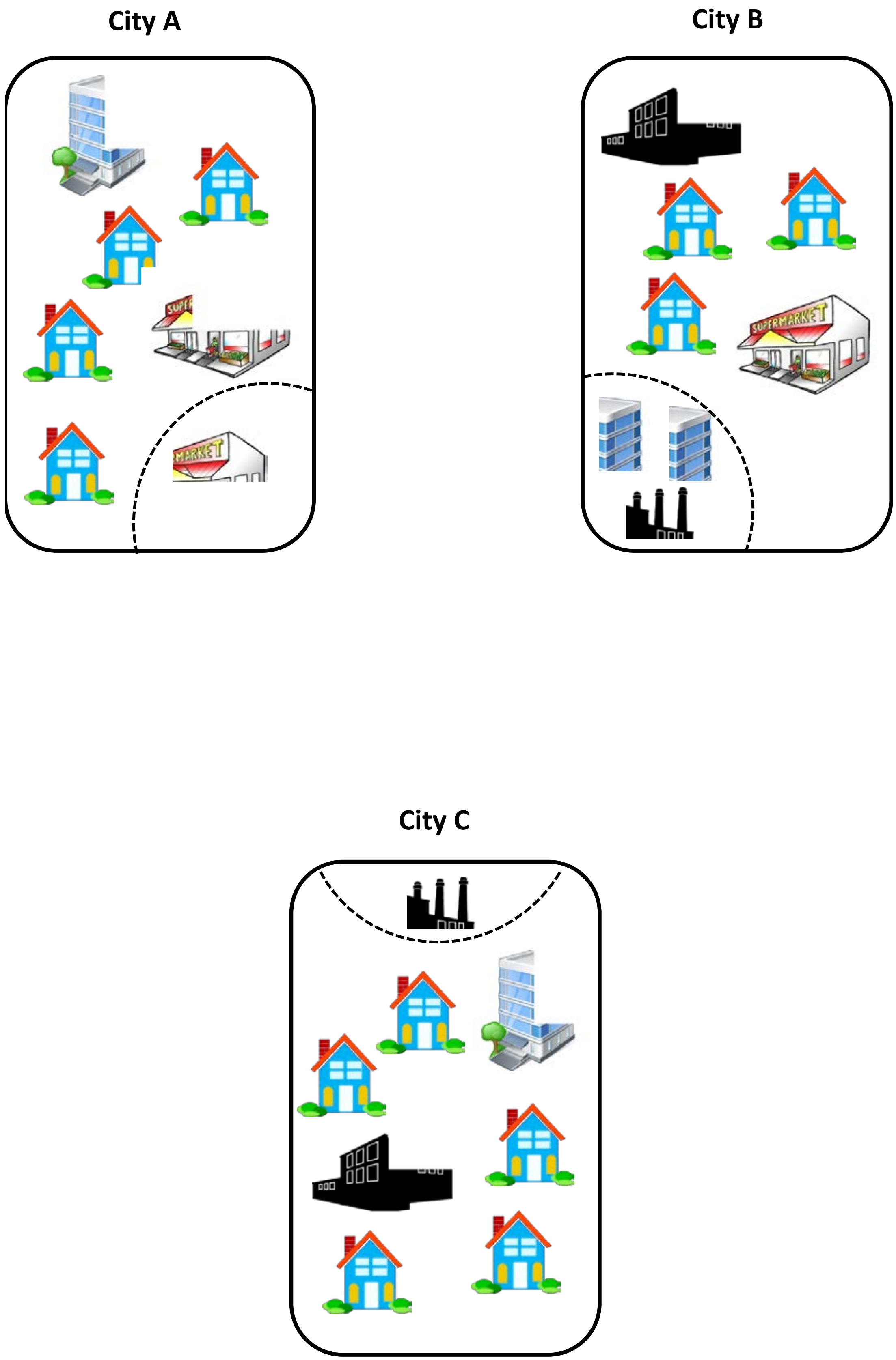
Appendix A: Pictorial Illustration of Fiscal Disparities

1. Actual location of properties




2. After fiscal disparities contributions
City A
City B
Areawide Pool
City C

3. After fiscal disparities distributions



Appendix B: Fiscal Disparities Calculations for a Hypothetical City Without the One-Year Lag

(Payable 2019)	
Assumptions for City of Pleasantville	
2017 Population	20,000
2017 Equalized Market Value	$500,000,000
2017 Fiscal Capacity*	$25,000
2017 Areawide Average Fiscal Capacity**	$30,000
Payable 2019 Certified Levy	$8,000,000
1971 Commercial-Industrial Net Tax Capacity***	$2,500,000
Payable 2018 Net Tax Capacity	
Commercial-Industrial***	$8,800,000
Residential	12,000,000
All Other	+1,400,000
Total	$22,200,000

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

** Average Fiscal Capacity = $\frac{\text{Total equalized market value of all property in all municipalities}}{\text{Total population of the metropolitan area}}$

*** Commercial-industrial net tax capacity includes the tax capacity of public utility property. Since net tax capacity was not in use in the 1971 base year, it has been estimated using available market value records. The 1971 base value is adjusted each year that changes are made in C/I class rates.

Step 1: Determine the City's Contribution to Areawide Tax Base

Pay 2019 Commercial-Industrial Net Tax Capacity	$8,800,000
Less 1971 Commercial-Industrial Net Tax Capacity	-2,500,000
Net Growth over 1971 Base Value	$6,300,000
Contribution Rate	x 40%
City's Contribution to Areawide Tax Base	$2,520,000

Step 2: Determine the Areawide Tax Base

Net Tax Capacity Contributed from City of Pleasantville (step 1)	$2,520,000
Net Tax Capacity Contributed from All Other Cities and Towns in the Metro Area	+ 297,480,000
Total Areawide Tax Base	$300,000,000

Step 3: Distribution Index for City of Pleasantville

$$\text{Population of City/Town} \times \frac{\text{Average Fiscal Capacity}}{\text{City/Town Fiscal Capacity}} = \text{Distribution Index}$$

$$20{,}000 \times \frac{\$30{,}000}{\$25{,}000} = 24{,}000$$

Step 4: Sum of Distribution Indices for All Municipalities

	Index	Percent
City of Pleasantville (step 3)	24,000	1.2%
All other Metropolitan Cities and Towns	+1,976,000	98.8%
	2,000,000	100.00%

The city of Pleasantville's final distribution index is 1.2 percent of 2,000,000; therefore, it receives 1.2 percent of the areawide tax base.

Step 5: City of Pleasantville's Distribution Net Tax Capacity

The city of Pleasantville's distribution net tax capacity is equal to the share determined in step 4 multiplied by the areawide tax base determined in step 2.

1.2% x $300,000,000 = $3,600,000

This distribution net tax capacity is also taxable by other taxing jurisdictions (i.e., county, school district, special taxing districts) overlapping the city.

Step 6: Determine the City of Pleasantville's Tax Base

Payable 2019 Total Net Tax Capacity for City of Pleasantville	$22,200,000
Plus Payable 2019 Distribution from the Areawide Tax Base (step 5)	3,600,000
Less Payable 2019 Contribution to the Areawide Tax Base (step 1)	-2,520,000
Total Taxable Net Tax Capacity of City	$23,280,000

Step 7: County Auditor Calculates the City of Pleasantville's Tax Rate

Payable 2019 Certified Levy	$8,000,000
Total Taxable Net Tax Capacity (step 6)	$23,280,000
City Tax Rate	0.3436 (34.36% of tax capacity)

The city's tax rate of 0.3436 is added to the tax rates for the appropriate county, school district, and special taxing districts. The total tax rate is applied to all taxable property in the city of Pleasantville <u>except</u> the fiscal disparities portion of C/I property (see step 11).

Step 8: Determine Areawide Portion of City of Pleasantville's Levy

Distribution Tax Capacity	x	2003 Payable 2004 City Tax Rate	=	Areawide Portion of Levy
$3,600,000	x	0.3436 (34.36% of net tax capacity)	=	$1,237,000

Step 9: Determine the Areawide Tax Levy

The auditor of the county in which the city of Pleasantville is located certifies to the administrative auditor an amount of $1,237,000 as the areawide portion of the city's levy. This is also done for all other governmental units located within the area.

City of Pleasantville's Distribution Levy (step 8)	$1,237,000
Distribution Levies from All Other Governmental Units in the Metro Area	+ 398,763,000
Total Areawide Levy	$400,000,000

Step 10: Determine the Areawide Tax Rate

The administrative auditor computes the areawide tax rate as follows:

$$\frac{\text{Total Areawide Levy (step 9)}}{\text{Total Areawide Tax Base (step 2)}} = \frac{\$400{,}000{,}000}{\$300{,}000{,}000} = 1.333 \text{ (133.3\% of net tax capacity)}$$

This tax rate is applied to the contribution net tax capacity of all municipalities in the metro area.

The areawide tax rate is a composite rate that provides revenues for municipalities, school districts, county governments, and special taxing districts.

Step 11: Property Tax Computation on C/I Parcel

The fiscal disparities contribution net tax capacity of $2,520,000 is equal to 28.6 percent of the total assessment district's payable 2019 C/I net tax capacity of $8,800,000. Therefore, 28.6 percent of the net tax capacity of each parcel of C/I property in the city is subject to the areawide tax. The remaining 71.4 percent of the net tax capacity of each C/I parcel is subject to the local tax rate.

The payable 2019 property tax computation for a parcel of C/I property located in the city of Pleasantville with a market value of $300,000 (net tax capacity of $4,000) is shown on the following page.

<table>
<tr><th>Areawide Portion of Tax (Contribution Tax)</th><th>Local Portion of Tax</th></tr>
<tr><td>28.6% of $5,250 net tax capacity of the C/I parcel is taxed at the areawide rate of 1.333.

$5,250 x .286 x 1.333 = $2,001</td><td>Remaining 71.4% of net tax capacity of the C/I parcel is subject to local tax rates of all jurisdictions where the parcel of property is located.

Local Tax Rates
City of Pleasantville 0.3436
School District A 0.2562
County A 0.4332
Special Taxing District 0.0740

Total Local Tax Rate 1.1070

0.714 x $5,250 x 1.1070 = $4,150</td></tr>
<tr><td colspan="2">Total Payable 2019 Tax of C/I Parcel

Areawide Portion of Tax $2,001
Local Portion of Tax 4,150
State General Levy 1,578

Total Tax $7,729</td></tr>
</table>

Step 12: Property Tax Settlement of the Areawide Levy

The county treasurer collects the $8,991 from the taxpayer of the C/I parcel in step 11 and the C/I tax from all other taxpayers with C/I property within the county.

The treasurer compares the sum of the total amount of the contribution levies (e.g., areawide portions of the tax) from all C/I parcels within the county to the sum of the total amount of the distribution levies which all of the taxing districts within the county are entitled to receive from the areawide pool.

If the total contribution levy exceeds the total distribution levy, the county treasurer will remit a check to the administrative auditor for the difference (i.e., amount owed). If the total contribution levy is less than the distribution levy, the county treasurer will receive a check from the administrative auditor.

Appendix C: Growth of Metro Areawide Tax Base

Growth of Metro Areawide Tax Base

Taxes Payable Year	Total Tax Base in Areawide Pool (millions)	Total Metro C/I Tax Base (millions)	% of Total C/I Tax Base in Areawide Pool	Total Metro Tax Base (millions)	% of Total Tax Base in Pool
	(A)	(B)	(C) = (A)/(B)	(D)	(E) = (A)/(D)
1975-1988: Assessed Value*					
1975	$137	$2,044	6.7	$6,403	2.1
1980	328	2,930	11.2	9,363	3.5
1985	1,264	5,394	23.4	15,710	8.0
1990-2018: Net Tax Capacity					
1990	265	1,019	26.0	2,097	12.6
1995	241	917	26.3	2,065	11.7
2000	278	980	28.4	2,439	11.4
2002**	214	710	30.1	2,130	10.0
2005	261	809	32.3	2,875	9.1
2010	424	1,159	36.6	3,769	11.2
2011	421	1,083	38.9	3,511	12.0
2012	390	1,048	37.2	3,260	12.0
2013	368	1,037	35.5	3,112	11.8
2014	361	1,042	34.6	3,150	11.5
2015	364	1,067	34.1	3,426	10.6
2016	370	1,128	32.8	3,634	10.2
2017	398	1,194	33.3	3,858	10.3
2018	419	1,253	33.4	4,160	10.1

* The property tax system was restructured in 1988/1989. Under the old system, tax base was assessed value. Under the new system, tax base is net tax capacity. The fact that net tax capacities are significantly smaller than assessed values does not affect the overall level of tax burdens.

** Because of property tax reform enacted in 2001, net tax capacity data for payable 2002 and thereafter is not necessarily comparable to 1990-2001.

Appendix D: Metro Areawide Tax Rate and Growth in Areawide Tax

Metro Areawide Tax Rate and Growth in Areawide Tax

Payable Year	Areawide Tax Rate*	Total Areawide Tax Amount (in 000's)	Total Areawide Tax % Change
1975	121.490	$16,666	NA
1980	110.552	36,266	**
1985	108.743	137,396	**
1990	104.578	277,106	**
1995	134.799	325,284	**
2000	146.134	406,882	**
2002	156.497	335,327	**
2005	129.863	339,482	**
2010	121.732	516,528	**
2011	129.327	544,100	5.3
2012	141.945	553,300	1.7
2013	153.491	565,500	2.2
2014	163.121	588,200	4.0
2015	161.625	293,800	1.0
2016	150.262	560,922	-5.5
2017	150.049	601,717	7.3
2018	145.095	613,957	2.0

* Areawide tax rates prior to 1990 are expressed in mills. Beginning with 1990, tax rates are expressed as percentages of net tax capacity.
** Not computed since the table contains five-year time periods through 2010.

For more information about fiscal disparities, including a simulation that shows how property tax burdens would change if the fiscal disparities program was eliminated, visit the property taxes area of our website, https://www.house.leg.state.mn.us/hrd/topics.aspx?topic=21.