

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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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. 2025, § 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 jurisdiction² 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

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. This adjustment helps control for differences in assessment practices between jurisdictions.

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 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 is subject to the fiscal disparities areawide rate. 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)

When a municipality creates a TIF district, it must elect one of two possible options for how the district will interact with fiscal disparities.⁴ 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.

⁴ 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.

Fiscal Disparities Calculations for a Hypothetical City (Payable 2026)

Assumptions for City of Pleasantville	
2024 Population	20,000
2024 Equalized Market Value	\$500,000,000
2024 Fiscal Capacity*	\$25,000
2024 Areawide Average Fiscal Capacity**	\$30,000
Payable 2026 Certified Levy	\$8,000,000
1971 Commercial-Industrial Net Tax Capacity***	\$2,500,000
Payable 2025 Net Tax Capacity	
Commercial-Industrial***	\$8,000,000
Residential	10,000,000
All Other	+ 1,000,000
	Total
	\$19,000,000
Payable 2026 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 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 2025 Commercial-Industrial Net Tax Capacity ⁵	\$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	+
	<u>\$297,800,000</u>
Total Areawide Tax Base	\$300,000,000

Step 3: Distribution Index for City of Pleasantville

$$\begin{array}{rcccl}
 \text{Population of} & & & & \\
 \text{City/Town} & \times & \frac{\text{Average Fiscal Capacity}}{\text{City/Town Fiscal Capacity}} & = & \text{Distribution} \\
 & & & & \text{Index} \\
 \\
 20,000 & \times & \frac{\$30,000}{\$25,000} & = & 24,000
 \end{array}$$

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	<u>1,976,000</u>	<u>98.8%</u>
	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.

⁵ [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.

$$1.2\% \times \$300,000,000 = \$3,600,000$$

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 2025 Total Net Tax Capacity for City of Pleasantville	\$22,200,000
Less Payable 2025 Contributions to the Areawide Tax Base (step 1)	<u>- 2,200,000</u>
Total Payable 2025 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 2025 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 Areas	<u>+ 398,740,000</u>
Total Areawide Levy	\$400,000,000

Step 9: Determine the Areawide Tax Rate

The administrative auditor computes the areawide tax rate as follows:

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

The areawide tax rate is a composite 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 2026 Total Certified Levy	\$8,000,000
Less Portion Attributable Receivable from Areawide Tax Base (step 7)	<u>- 1,260,000</u>
Payable 2026 Adjusted Levy for the City (local portion)	6,740,000
<u>Payable 2026 Adjusted Levy</u>	<u>\$6,740,000</u> = 0.337
Taxable Net Tax Capacity (step 6)	\$20,000,000
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* for the fiscal disparities portion of the 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 2026 C/I next 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 2026 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.

Areawide Portion of Tax (Contribution Tax)	Local Portion of Tax
<p>25% of \$5,250 net tax capacity of the C/I parcel is taxed at the areawide rate of 1.333.</p> <p>$0.25 \times \\$5,250 \times 1.333 = \\$1,750$</p>	<p>Remaining 75% of net tax capacity of the C/I parcel is subject to the local tax rates of all jurisdictions where the parcel of property is located.</p> <p style="text-align: center;"><u>Local Tax Rates</u></p> <p style="text-align: right;">City of Pleasantville 0.337 School District 0.256 County 0.433 Special Taxing District <u>0.074</u></p> <p style="text-align: right;">Total Local Tax Rate 1.100</p> <p style="text-align: right;">$0.75 \times \\$5,250 \times 1.100 = \\$4,331$</p>

Total Payable 2026 Tax of C/I Parcel

Areawide Portion of Tax	\$1,750
Local Portion of Tax	4,331
State General Levy	<u>1,538</u>
Total Tax	\$7,619

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 that 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.

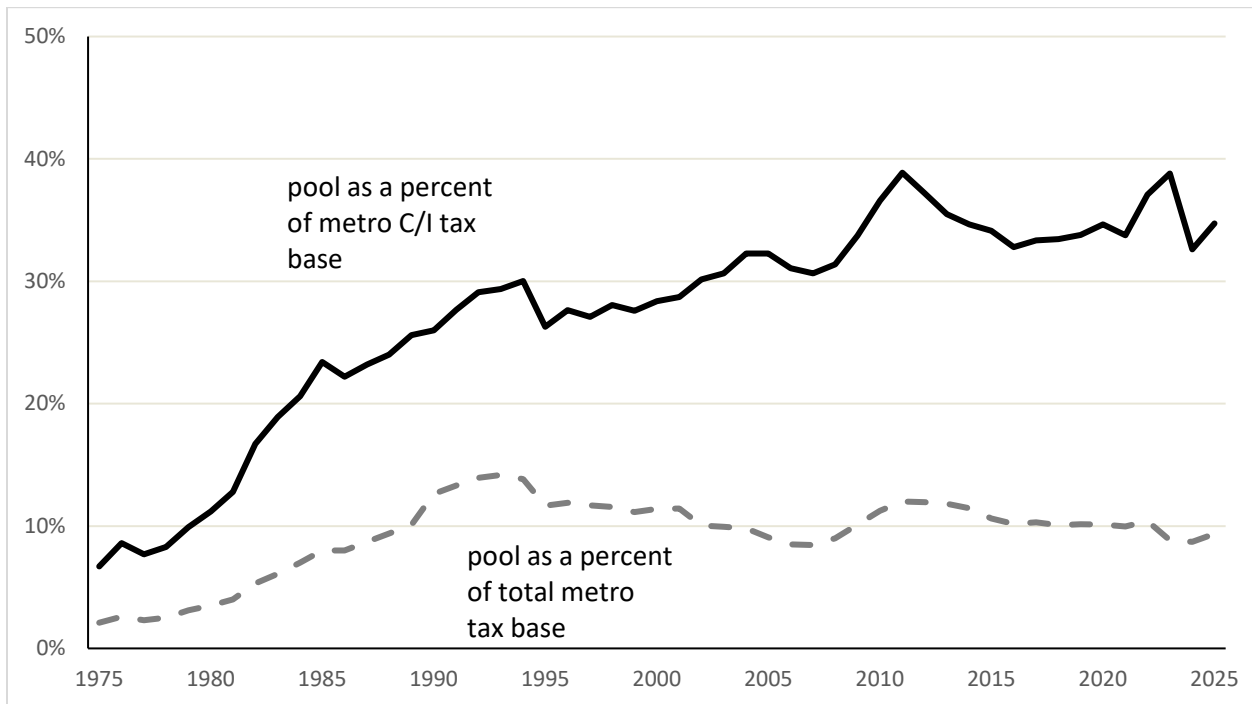
Growth in the Fiscal Disparities Program

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 increased somewhat steadily over the first 30 years of the program 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, meaning about one-third of the overall tax paid by C/I properties participating in the fiscal disparities program is the same regardless of where the property is located. 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, 1975-2025

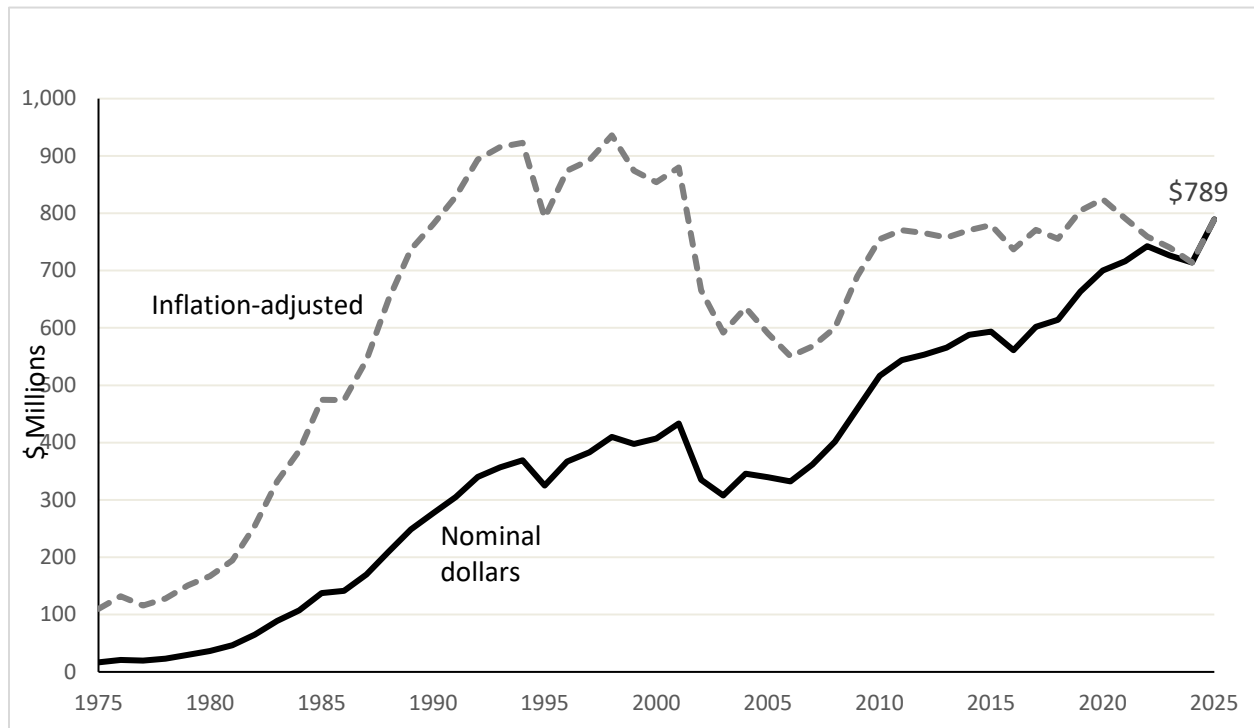


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Growth in Distribution Tax

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 the 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, 1975-2025**



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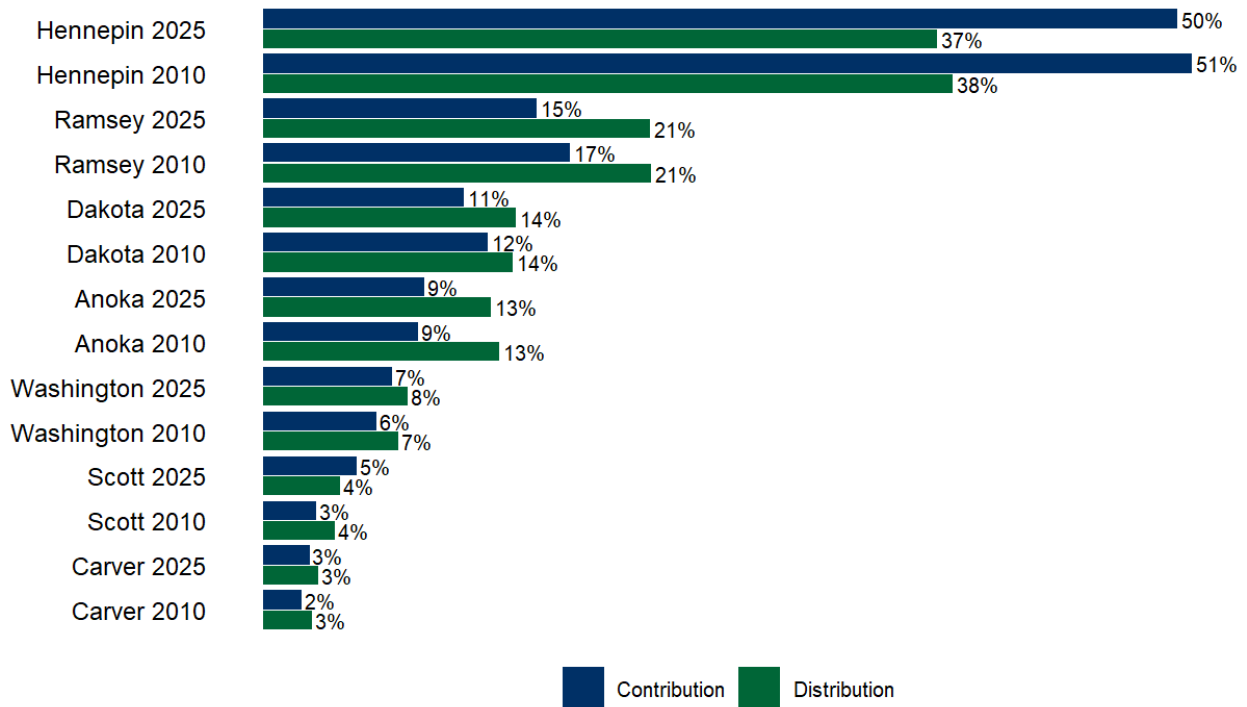
Changes in Contribution and Distribution Tax Capacities Over Time

The following charts show the redistributive effect of the fiscal disparities program by county at two “snapshots” in time, taxes payable in 2010 and 2025. There is nothing particularly significant about 2010; it is just used as an historical reference point.

Figure C shows that in 2025, Hennepin County and Scott County are the only net contributors, with Hennepin County contributing 50 percent of the net tax capacity in the areawide pool, and receiving about 37 percent back, and Scott County contributing 5 percent of the net tax capacity in the areawide pool, and receiving 4 percent back. By contrast, Anoka County contributes 9 percent and gets back 13 percent; Ramsey County contributes 15 percent and gets back 21 percent.

The percentages for 2010 and 2025 are similar. Ramsey County’s net gain increased slightly over the period, while Hennepin County’s net loss was relatively unchanged. Dakota County experienced a slight increase in net gain and Scott County experienced a slight increase in net loss. The percentages for the remaining counties remained relatively stable.

**Figure C:
Payable 2010 and 2025 Metro Contribution and Distribution Values by County**



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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.⁶

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 2025.

The local government aid (LGA) formula was modeled for aids payable in 2025 under two scenarios. The first scenario used the actual tax capacity measures employed in determining 2025 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 50 percent of the aid change being offset by a corresponding levy change.⁷ County program aid (CPA) was 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 (\$11.5 million, or 0.1 percent) if the fiscal disparities program was eliminated (see Table 1). This impact is primarily the result of two different effects, one of which partially offsets the 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

⁶ See [House Research Department, Simulation #25B3, Actual Pay 2025 vs. Actual Pay 2025: Fiscal Disparities Eliminated](#).

⁷ For example, a \$100,000 decrease in LGA would be offset by a \$50,000 increase in levy. A \$100,000 increase in LGA would be offset by a \$50,000 reduction in levy.

to have the TIF district make its own fiscal disparities contribution. Approximately \$10.4 million of the \$629 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 \$12 million higher if the fiscal disparities program did not exist.

Another effect is that state aid to school districts increases by \$2.3 million, causing school levies to be \$2.3 million lower without fiscal disparities. Other miscellaneous impacts cause the overall statewide change to net out to an increase of just over \$11.5 million.

Regional Impacts

The TIF effect, along with the tax base changes that would occur if fiscal disparities program was eliminated, causes LGA and CPA to shift toward jurisdictions that lose tax base under the scenario. In the metro area, 63 out of 185 cities received an increase in LGA. However, overall LGA in the metro area was slightly lower, primarily the result of the city of Fridley losing about 35 percent of its LGA. About \$0.19 million in LGA is shifted out of the metro area, increasing levies by about \$0.09 million. About \$0.79 million in CPA is shifted to metro counties under this scenario, reducing levies in those counties by about \$0.39 million.

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

	Metro	Greater Minnesota	Statewide
TIF effect	\$12.0	\$0	\$12.0
School levy effect due to equalization changes	-2.0	-0.3	-2.3
LGA effect	0.09	-0.09	0
County aid/levy effect	-0.39	0.39	0
Miscellaneous effects	2.0	-0.2	1.8
Total tax change	\$11.7	\$-0.2	\$11.5

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 \$88.2 million, or 3.3 percent. Average tax burdens on other property types increased from 1 percent to 3 percent; the average increase for residential homesteads was 1.8 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. Under the fiscal disparities program, 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 in the metro area, homestead taxes increase from 1.5 percent to 5.8 percent in all counties except Hennepin County, the largest net contributor, where homestead taxes decreased 1.0 percent (see Table 2). C/I taxes, on the other hand, would be reduced from 3.9 percent to 10.7 percent in every county except Ramsey County, where C/I taxes would increase 5.8 percent. For example, Anoka County sees an average tax rate increase of 5.3 percentage points and an average homestead tax increase of 4.8 percent, yet sees a 5.0 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 6 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 nearly 12 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 2025)**

County	Average Total Local Tax Rate ⁸			Average Tax Change if Fiscal Disparities Eliminated	
	With Fiscal Disparities	Without Fiscal Disparities	Percentage Point Change	Residential Homestead	Commercial/Industrial
Anoka	109.1%	114.4%	5.3%	4.8%	(5.0)%
Carver	110.7	113.6	3.0	2.5	(6.0)

⁸ 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.

County	Average Total Local Tax Rate ⁸			Average Tax Change if Fiscal Disparities Eliminated	
	With Fiscal Disparities	Without Fiscal Disparities	Percentage Point Change	Residential Homestead	Commercial/Industrial
Dakota	109.5	114.0	4.5	4.5	(7.1)
Hennepin	129.5	128.3	(1.1)	(1.0)	(3.9)
Ramsey	150.8	159.7	8.9	5.8	5.8
Scott	100.8	101.9	1.1	1.5	(10.7)
Washington	110.3	113.0	2.7	2.2	(6.7)

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 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 8.3 percent and 23.8 percent; homeowners in cities that are major contributors would see reductions of 3.0 percent to 7.1 percent. C/I properties follow a similar pattern. C/I properties in cities that are major recipients would see increases in taxes, varying from 10.7 percent to 27.9 percent. In cities that are major contributors, C/I properties would see decreases in taxes, varying from 3.8 percent to 11.6 percent.

**Table 3:
Tax Impacts for Selected Cities if Fiscal Disparities were Eliminated
(Taxes Payable in 2025)**

City	Average Total Local Tax Rate			Average Tax Change if Fiscal Disparities Eliminated	
	With Fiscal Disparities	Without Fiscal Disparities	Percentage Point Change	Residential Homestead	Commercial/Industrial
Minneapolis	146.4%	144.9%	(1.5)%	(1.0)%	0.6%
St. Paul	163.2	177.9	14.6	9.0	11.6
Six largest rate increases:					
Hamburg	160.4	198.6	38.2	23.8	27.9
Columbia Heights	144.6	166.5	21.8	15.2	13.0
South St. Paul	137.4	156.4	19.0	14.0	8.4
New Germany	146.9	162.4	15.5	10.5	10.1

City	Average Total Local Tax Rate			Average Tax Change if Fiscal Disparities Eliminated	
	With Fiscal Disparities	Without Fiscal Disparities	Percentage Point Change	Residential Homestead	Commercial/Industrial
Norwood Young America	150.1	163.4	13.4	8.9	10.7
Belle Plaine	152.6	165.2	12.7	8.3	11.4
Six largest rate reductions:					
Oak Park Heights	118.8	110.4	(8.5)	(7.1)	(11.6)
Rogers	130.8	124.3	(6.5)	(5.0)	(8.8)
Golden Valley	144.0	138.4	(5.5)	(3.4)	(3.8)
Maple Plain	133.5	127.9	(5.5)	(4.1)	(5.7)
St. Louis Park	138.1	133.9	(4.2)	(3.0)	(3.0)
Minnetonka	123.8	119.7	(4.1)	(3.2)	(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; that is, 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 2.3 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 2025)**

	Number of cities	Without Fiscal Disparities		With Fiscal Disparities (Current Law)	
		Mean	Standard deviation	Mean	Standard deviation
All cities*	141	121.8%	23.8%	118.3%	21.2%
Cities over 2,500 population	105	125.2	21.9	121.7	19.7
Cities over 5,000 population	85	127.2	21.6	123.4	19.4
Cities over 10,000 population	65	128.2	20.9	124.7	19.0

* 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 2025)**

	Without Fiscal Disparities	With Fiscal Disparities (Current Law)	Percentage Point Change due to Fiscal Disparities
Cities with lowest tax rates without fiscal disparities:			
Ham Lake	91.4%	87.0%	(4.4)%
East Bethel	93.0	87.8	(5.3)
Mendota Heights	95.6	97.2	1.5

	Without Fiscal Disparities	With Fiscal Disparities (Current Law)	Percentage Point Change due to Fiscal Disparities
Lake Elmo	97.2	96.2	(1.0)
Shakopee	100.2	102.5	2.2
Prior Lake	100.5	97.9	(2.6)
Chanhassen	104.0	103.2	(0.8)
Eagan	104.7	103.7	(1.1)
Cities with highest tax rates without fiscal disparities:			
St. Paul	177.9%	163.2%	(14.6)%
Brooklyn Center	167.3	154.8	(12.5)
Columbia Heights	166.5	144.6	(21.8)
North St. Paul	165.4	152.7	(12.6)
Maplewood	159.6	154.2	(5.4)
Robbinsdale	159.2	148.4	(10.8)
Crystal	158.4	149.6	(8.8)
New Hope	157.5	154.7	(2.7)

These results suggest that some communities that the fiscal disparities program benefits would have low tax rates even without fiscal disparities. For instance, East Bethel would have a relatively low tax rate of 93.0 percent without fiscal disparities; its rate with fiscal disparities is an even lower 87.8 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	\$(16,191)	\$133	\$(16,059)
Richfield	(1,485)	15	(1,469)
Columbia Heights	(3,233)	13	(3,220)
Blaine	(237)	0	(237)
Roseville	410	(12)	(398)
Stillwater	125	2	127

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 Roseville 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 gain tax revenue because it is a net contributor of fiscal disparities tax base, it would actually get more LGA if the program was eliminated because of some other factors at work in the LGA formula.⁹

Table 6 is based on taxes payable in 2025. While the LGA gains and losses 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.

⁹ It is the same reason that greater Minnesota cities that do not participate in fiscal disparities still lose LGA under this simulation. See page 16.

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 \$13.2 million in C/I net tax capacity would increase the pool by more than \$5 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.

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 cities of Minneapolis and Champlin 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. Advocates of a need-based formula would need to convince policymakers that the current program does not do enough to account for need, and additionally must reach a consensus on the best way to measure need.

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.

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.¹⁰ 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.

¹⁰ 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.

A provision was enacted excluding municipalities from participating in fiscal disparities if their 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 have been excluded each year based on this criterion. In 2025, these cities were Sunfish Lake, Birchwood Village, St. Mary’s Point, and Woodland.

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.

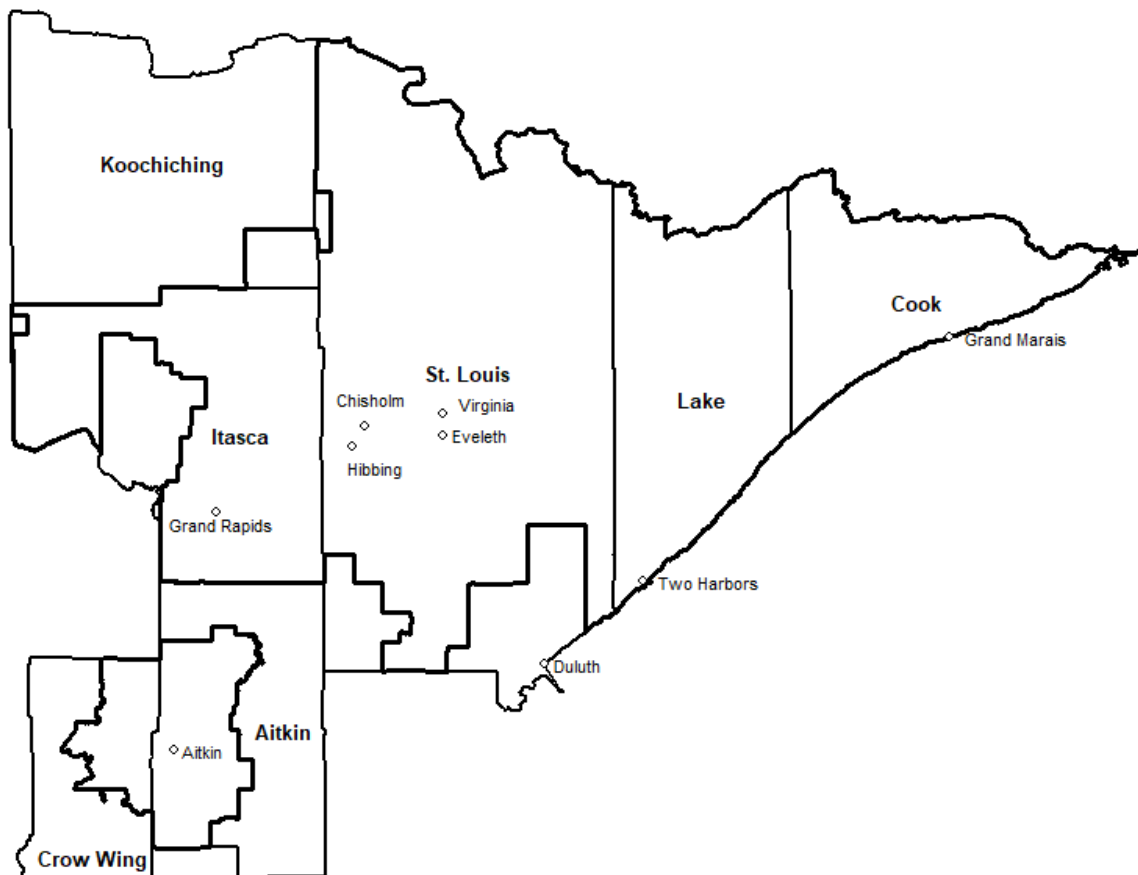
Underserved Municipalities Provision (2017)

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 2024, the cities of Coates, Louisville, and Rogers were affected, and the state revenue loss was \$867,487.

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 assistance 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 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.

Similarities Between Metropolitan Area and Iron Range

Some of the purposes underlying the metro area program described beginning on page 3 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	2.7%	\$100,694	0.9%
2005	2,248	23,136	9.7	132,969	1.4
2010	5,351	29,613	18.1	229,341	2.3
2015	8,535	39,190	21.8	207,683	4.1
2020	12,189	44,273	27.5	226,783	5.4
2021	10,996	50,595	21.7	225,980	4.9
2022	12,764	42,821	27.5	235,512	5.4
2023	10,091	46,881	21.5	295,011	3.4
2024	13,124	53,288	24.6	329,433	4.0
2025	13,900	56,054	24.8	347,147	4.0

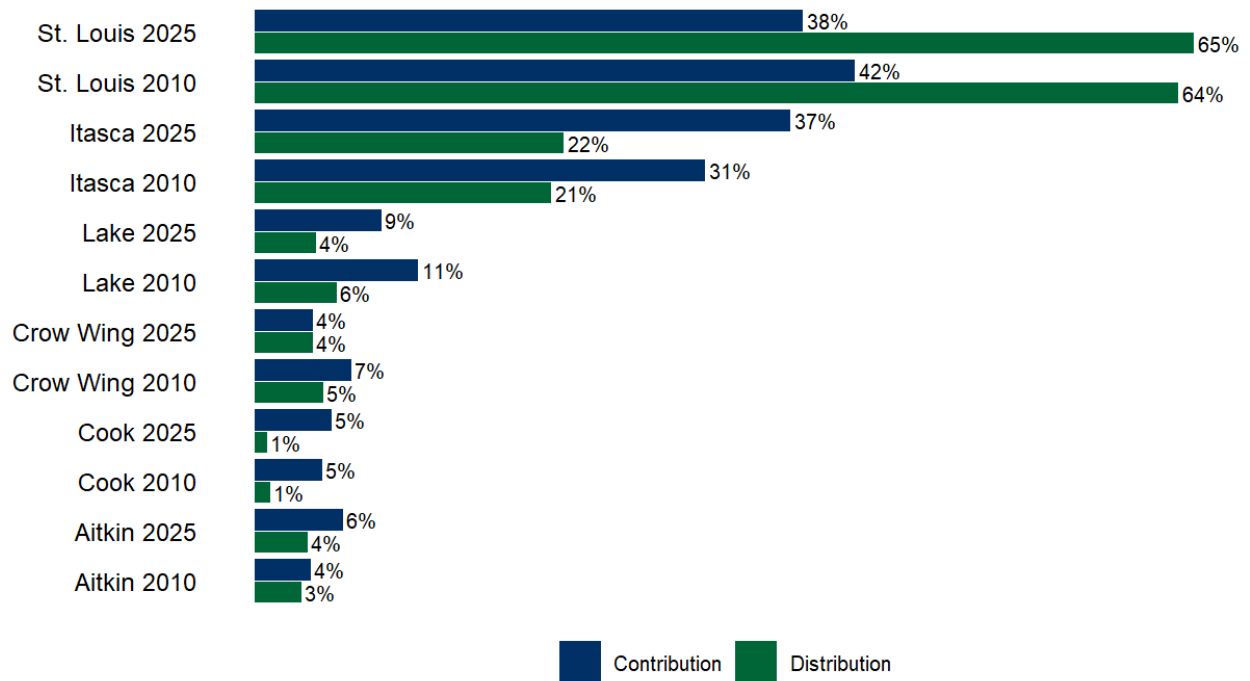
Table 8 shows the growth in the amount of tax revenue distributed through the program. Growth was quite erratic over the first 15 years, but since about 2015, it has settled into a pattern of fairly steady growth, as one would expect as the program matures.

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

Payable Year	Areawide Tax Rate	Total Areawide Tax	
		Amount (thousands)	% Annual Change
1998	143.258	\$631	*
2000	162.710	1,388	*
2005	154.036	3,462	*
2010	130.671	6,993	*
2015	157.958	13,481	*
2020	166.551	20,300	*
2021	172.285	18,953	-6.6%
2022	174.224	22,499	18.7
2023	169.967	17,151	-23.8
2024	159.509	20,936	22.0
2025	145.583	20,259	-3.2

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. In 2025, St. Louis County was the only net recipient of a significant amount of tax base from the program (Crow Wing County was also a net recipient but gained less than \$1,000 in net tax capacity). For reference, the same information is shown for 2010. The results were similar at that time with St. Louis County again being the only net recipient.

**Figure E:
Iron Range Contribution and Distribution Net Tax Capacity
by County¹¹ for Pay 2025 and 2010**

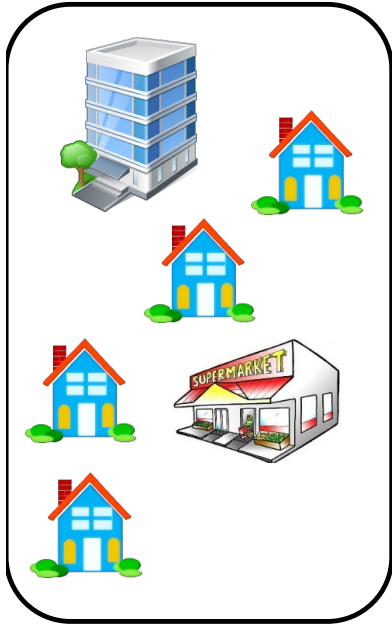


¹¹ Koochiching County contribution and distribution NTCs are less than 0.1 percent of the total.

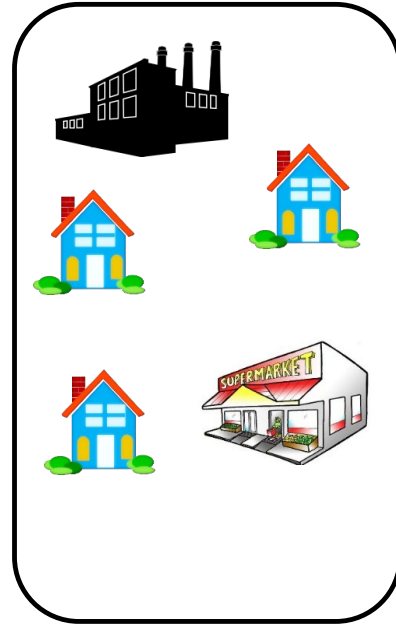
Appendix A: Pictorial Illustration of Fiscal Disparities

1. Actual location of properties

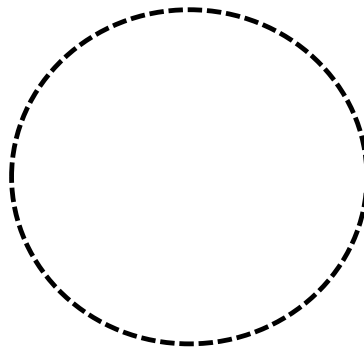
City A



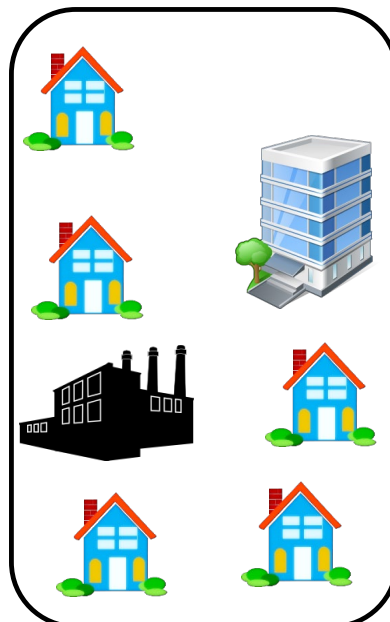
City B



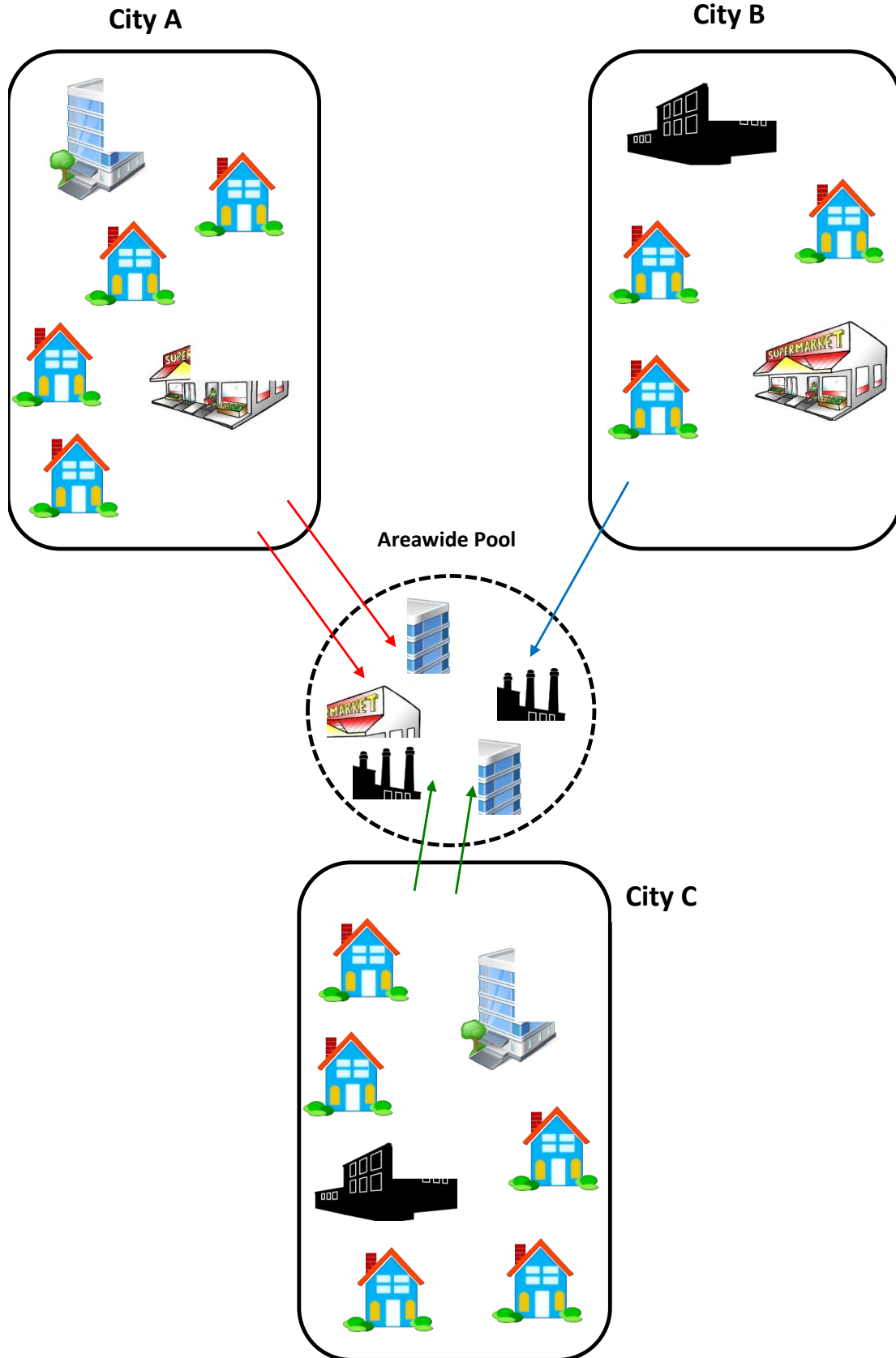
Areawide Pool



City C

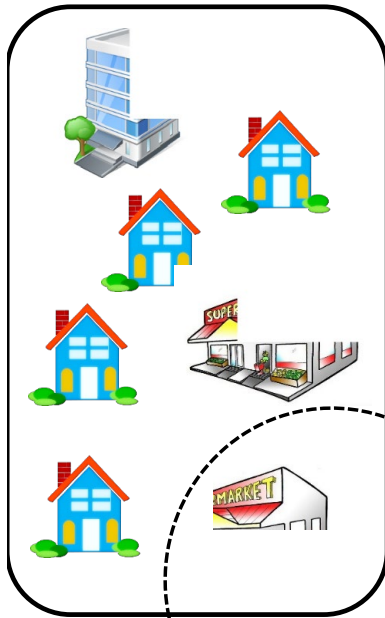


2. After fiscal disparities contributions

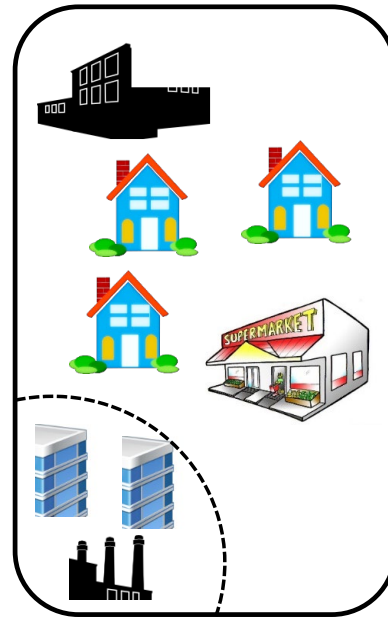


3. After fiscal disparities distributions

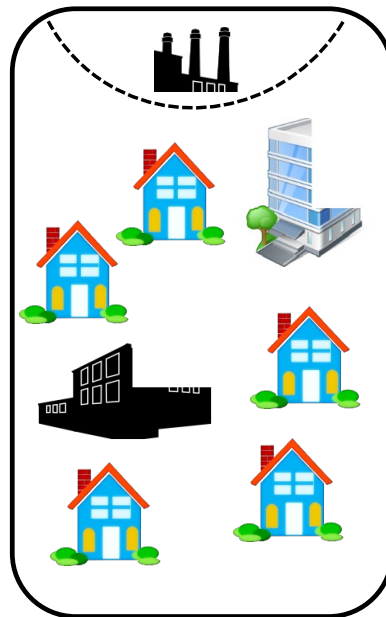
City A



City B



City C



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

Assumptions for City of Pleasantville (Payable 2026)	
2024 Population	20,000
2024 Equalized Market Value	\$500,000,000
2024 Fiscal Capacity*	\$25,000
2024 Areawide Average Fiscal Capacity**	\$30,000
Payable 2026 Certified Levy	\$8,000,000
1971 Commercial-Industrial Net Tax Capacity***	\$2,500,000
Payable 2025 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 2026 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	<u>x 40%</u>
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

Population of City/Town	x	Average Fiscal Capacity City/Town Fiscal Capacity	=	Distribution Index
20,000	x	<u>\$30,000</u> \$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	<u>+1,976,000</u>	<u>98.8%</u>
	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.

$$1.2\% \times \$300,000,000 = \$3,600,000$$

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 2026 Total Net Tax Capacity for City of Pleasantville	\$22,200,000
Plus Payable 2026 Distribution from the Areawide Tax Base (step 5)	+ 3,600,000
Less Payable 2026 Contributions to the Areawide Tax Base (step 1)	<u>- 2,520,000</u>
Total Taxable Net Tax Capacity of City	\$23,280,000

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 *except* for the fiscal disparities portion of C/I property (see step 11).

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

Payable 2026 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)

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

Distribution Tax Capacity	x	Payable 2026 City Tax Rate	=	Areawide Portion of Levy
\$3,600,000	x	0.3436 (35% 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 Areas	<u>+ 398,763,000</u>
Total Areawide Levy	\$400,000,000

Step 10: Determine the Areawide Tax Rate

The administrative auditor computes the areawide tax rate as follows:

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

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 2025 C/I next 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 2026 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 below.

Areawide Portion of Tax (Contribution Tax)	Local Portion of Tax												
28.6% of \$5,250 net tax capacity of the C/I parcel is taxed at the areawide rate of 1.333. $\$5,250 \times .286 \times 1.333 = \$2,001$	Remaining 71.4% of net tax capacity of the C/I parcel is subject to the local tax rates of all jurisdictions where the parcel of property is located.												
	<p style="text-align: center;"><u>Local Tax Rates</u></p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td>City of Pleasantville</td> <td style="text-align: right;">0.3436</td> </tr> <tr> <td>School District A</td> <td style="text-align: right;">0.2562</td> </tr> <tr> <td>County A</td> <td style="text-align: right;">0.4332</td> </tr> <tr> <td>Special Taxing District</td> <td style="text-align: right;"><u>0.0740</u></td> </tr> <tr> <td> Total Local Tax Rate</td> <td style="text-align: right;"> 1.1070</td> </tr> <tr> <td colspan="2" style="text-align: center;"> $0.714 \times \\$5,250 \times 1.1070 = \\$4,150$</td> </tr> </table>	City of Pleasantville	0.3436	School District A	0.2562	County A	0.4332	Special Taxing District	<u>0.0740</u>	 Total Local Tax Rate	 1.1070	 $0.714 \times \$5,250 \times 1.1070 = \$4,150$	
City of Pleasantville	0.3436												
School District A	0.2562												
County A	0.4332												
Special Taxing District	<u>0.0740</u>												
 Total Local Tax Rate	 1.1070												
 $0.714 \times \$5,250 \times 1.1070 = \$4,150$													

Total Payable 2026 Tax of C/I Parcel

Areawide Portion of Tax	\$2,001
Local Portion of Tax	4,150
State General Levy	<u>1,578</u>
Total Tax	\$7,729

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 that 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

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)
1975-1985: 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
1990-2025: 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
2015	364	1,067	34.1	3,426	10.6
2020	485	1,400	34.6	4,791	10.1
2021	508	1,505	33.8	5,093	10.0
2022	550	1,483	37.1	5,288	10.4
2023	538	1,386	38.8	6,089	8.8
2024	571	1,751	32.6	6,559	8.7
2025	615	1,771	34.7	6,571	9.4
<p>* 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.</p> <p>** Because of property tax reform enacted in 2001, net tax capacity data for payable 2002 and thereafter is not necessarily comparable to 1990-2001.</p>					

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

Payable Year	Areawide Tax Rate*	Total Areawide	Tax
		Amount (in 000's)	% 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	**
2015	161.625	293,800	**
2020	142.454	679,757	**
2021	139.504	697,358	2.6
2022	132.596	719,854	3.2
2023	133.667	710,528	-1.3
2024	123.001	693,519	-2.4
2025	123.888	769,221	10.9

* 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 2020.