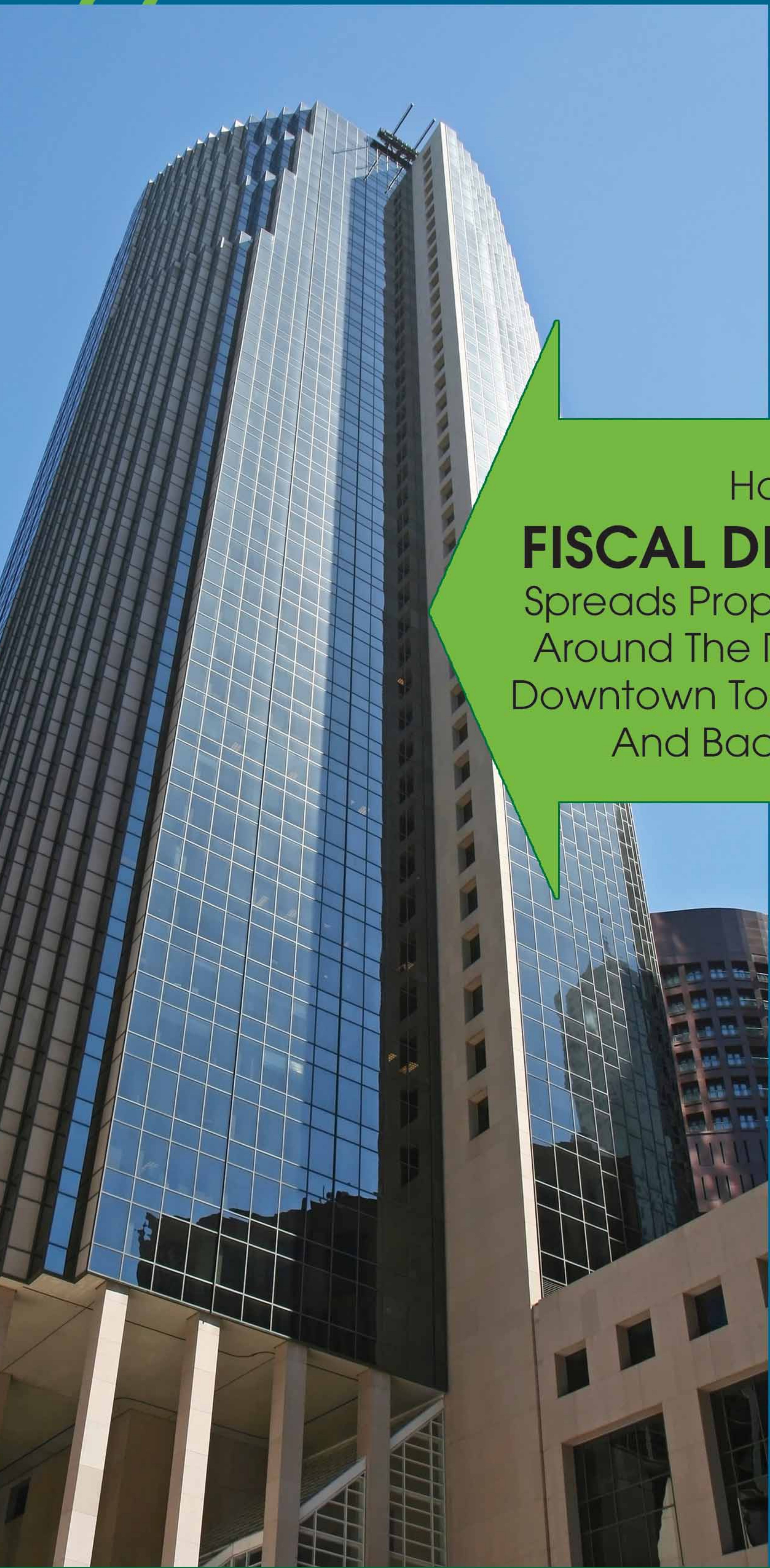
SHARING THE WEALTH



How

FISCAL DISPARITIES

Spreads Property Tax Base Around The Region, From Downtown To Main Street… And Back Again!

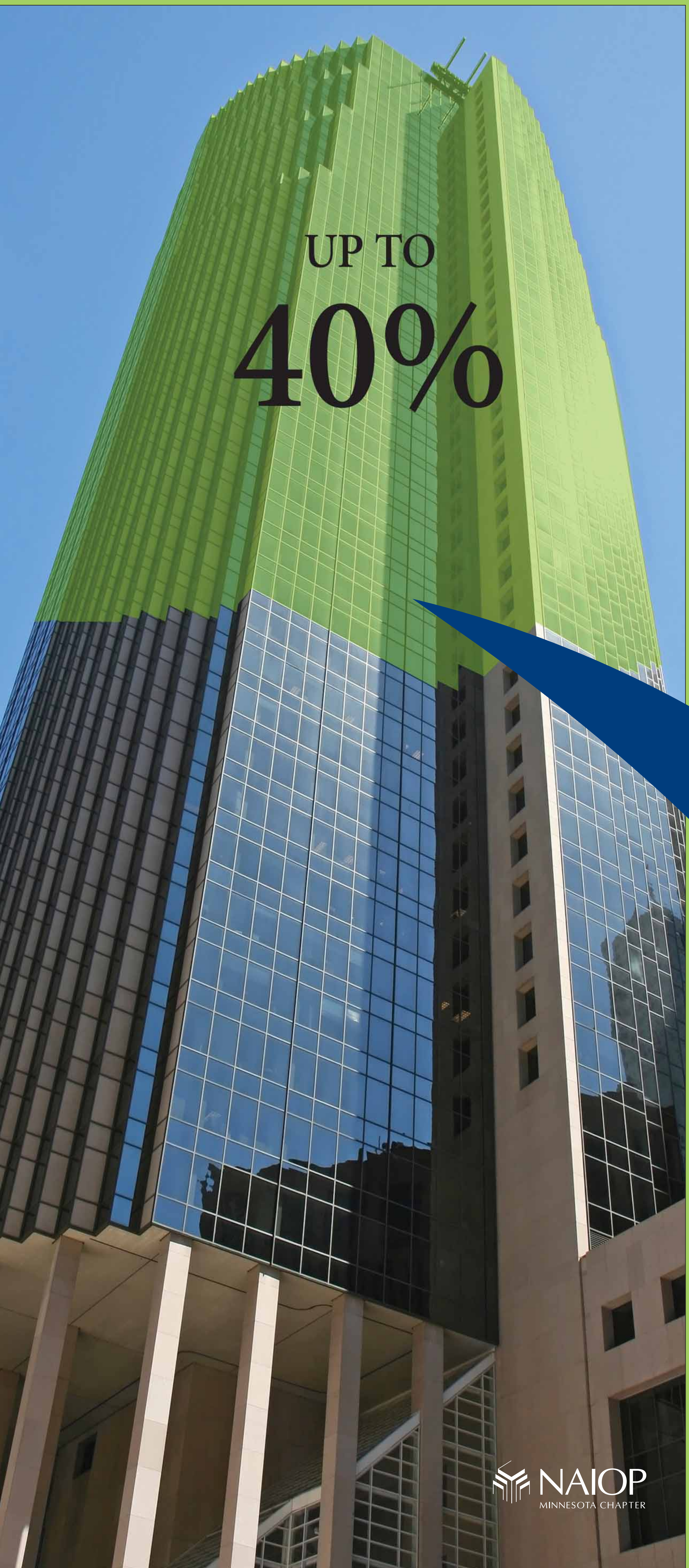
NAIOP

MINNESOTA CHAPTER

How does FISCAL DISPARITIES work

Here's how Fiscal Disparities' sharing of the growth in Commercial-Industrial (C-I) values impacts a specific property…

…step by step from the Assessor's office to your final tax bill!



WITHOUT FISCAL DISPARITIES

The full value of this office tower would be included in the tax base of the community in which it is located, anywhere in the metro area, and be taxed at the applicable local tax rates.

WITH FISCAL DISPARITIES

Up to 40% of the building's value travels through the process to become part of a new "Area-Wide Tax Base," and is parceled out and shared with every metro area city, county, school district and other local taxing units.

1 UP TO 40% OF VALUE SENT TO POOL

County Assessor sets property value. Up to 40% of that value is sent off to the Fiscal Disparities pool, where it is joined by similar pieces of value from every C-I property in the seven-county metro area. This piece is now EXCLUDED from the local tax base. The remaining 60% of C-I property value is RETAINED by the local taxing unit.

2 AREA-WIDE TAX BASE IS SET

All contributions to the pool are aggregated by the Auditor's office, creating a new area-wide tax base.

3 AREA-WIDE POOL OF VALUE IS DISTRIBUTED

The new tax base pool is divided and distributed among all local taxing units using a formula based mainly on population, adjusted for whether the unit's tax base per capita is higher or lower than the metro area average.

6 LOCAL TAX RATE IS SET

The County Auditor determines each local unit's tax rate as a percentage of its new total tax base. For purposes of determining the amount of money it must raise to cover local spending, the same rate is applied equally on the C-I property value it received from the area-wide pool and on the 60% of C-I property value it retained, as well as on all residential, cabins, agricultural and other taxable properties.

5 LOCAL LEVY SET

The local taxing unit determines how much money it must raise in tax revenues from its local base and its pooled base–its levy–to pay for the delivery of local services.

LOCAL TAX RATE

4 NEW LOCAL TAX BASES ARE ESTABLISHED

Each city, county or school district now has a new local tax base. It includes its original total tax base (or tax capacity) minus the value contributed to the area-wide pool, plus its share from the area-wide pool.

LOCAL LEVY

IT'S AUTOMATIC...

Fiscal Disparities' success is due in part to the automatic nature of its operations.

It is not dependent upon a metropolitan government to succeed, but operates automatically, on a purely structural level. The seven county auditors elect one of their number to serve as Administrative Auditor, who collects the growth figures, aggregates them, and then tells every local taxing authority what the new tax base and rate will be.

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AREA-WIDE LEVY

METRO ADMINISTRATIVE AUDITOR

AREA-WIDE TAX RATE

AREA-WIDE TAX RATE

STATEWIDE GENERAL TAX RATE (ON 100% OF VALUE)

EACH COUNTY AUDITOR

LOCAL TAX RATE

7 AREA-WIDE TAX RATE IS SET

The Administrative Auditor determines the amount of tax revenue to be distributed to each local taxing unit from the area-wide tax base pool. The Auditor then totals these distributions to determine an area-wide levy, the amount of money to be raised, which in turn determines the area-wide tax rate.

8 COUNTIES APPLY APPROPRIATE RATES TO DETERMINE FINAL TAX

The new area-wide tax rate is applied only to the portion of C-I tax base value it contributed to the area-wide tax base pool...up to 40%.

The 60% of C-I value it retained, as well as all other property, is taxed using the local unit's previously set local tax rate.

In a separate calculation, the full value of the C-I property (up to 40% in excluded value as well as 60% of retained value) is taxed at the statewide general tax rate, a special state tax paid only by business property owners and cabin owners.

9 THE RESULT: YOUR TAX BILL!

Your final tax statement combines the amounts determined by the three different rates to arrive at a total property tax for this C-I building or land.

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WHOSE NET CONTRIBUTION IS THE LARGEST?

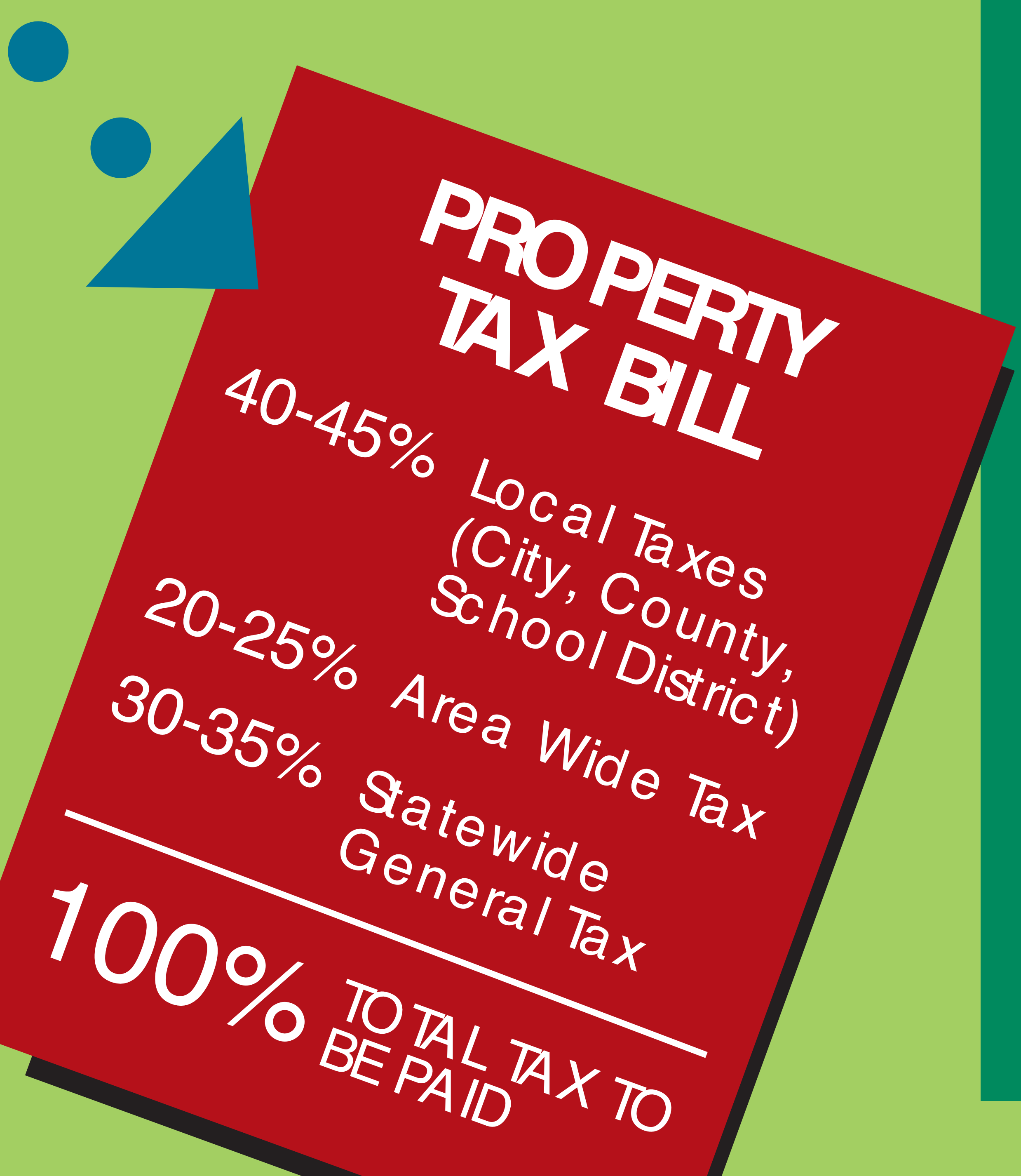
Among the seven counties covered by the Fiscal Disparities law, Hennepin County– the economic center of the region– is the only net contributor of tax base to the area-wide pool. With a net contribution of 2.7 percent of its total tax base to the area-wide pool in 2007, the county provides the metro area with a measure of fiscal stability that no other region enjoys. Anoka County is the largest net recipient among all of the counties.

HOW IS GROWTH IN VALUE COMPUTED?

The total commercial-industrial valuation in the current year is compared to the total in the base year, 1971. If there is no net growth, or if there has been a decline, the municipality makes no contribution to the area-wide pool. Declines in valuation can offset increases due to new construction or inflation. In effect, the law shares the benefits of growth and the burdens of decline.

FISCAL DISPARITIES APPLIES TO EVERY LOCAL TAXING UNIT

Everyone contributes, everyone shares…cities, townships, school districts, counties, special taxing districts…every local assessment unit with taxing authority.



WHO WINS? *WHO LOSES?*

The City of St. Paul is the largest net recipient of Fiscal Disparities tax base among large taxing units. Minneapolis is also a significant recipient, as is every city in Anoka County except Fridley. The largest net contributors among cities are all located in the south and west suburbs of Minneapolis, with the City of Bloomington being the largest net contributor.

HOW DOES FISCAL DISPARITIES AFFECT OWNERS OF BUSINESS PROPERTY?

It is true that it LEVELS business property taxes across the seven-county area…

For owners of business property, Fiscal Disparities each year effectively levels a significant portion of their property tax bills, reducing the differences between the taxes paid in a high tax area vs. a lower tax area.

No matter where a business may be located in the seven county area, the portion of its tax bill included in Fiscal Disparities will be based on a uniform weighted average of all property tax rates across the metro. In effect, as much as 40 percent of the business property's total value is sheltered from the annual taxing and spending decisions made by the city, county or school district in which it is located.

…but Fiscal Disparities also INCREASES business property taxes above what they might be if the law did not exist.

In the aggregate, the C-I tax base is redistributed from municipalities where tax rates are lower to those where the rates are higher, so that the average tax levied against C-I property would decrease if Fiscal Disparities did not exist.

Adding to the load is the specific $5 million levy for the Metropolitan Council's tax base revitalization account, passed in 1995, and borne exclusively by C-I property through the area-wide pool. This levy would not exist in the absence of the Fiscal Disparities law.

CHANGING THE LAW?

Fiscal Disparities has worked quietly, under taxpayers' radar, because it was designed to operate on a structural level. Based on just a few basic principles, it has been shielded from political maneuvering and the annual legislative battles over taxing and spending. Over the years, bills have been introduced to change Fiscal Disparities, usually by large net contributors to the tax-base sharing pool. Recent proposals to use Fiscal Disparities tax base to fund public and private development or to exempt specific projects from tax-base sharing would potentially increase property taxes on all commercial-industrial properties throughout the metro area.

AN INSURANCE POLICY FOR LOCAL TAXING DISTRICTS AND GENERAL TAXPAYERS…

With Fiscal Disparities, business owners and local taxing districts know that the tax rate on as much as 40% of the taxable value, or tax capacity, of every parcel of business property will be identical. Whether it is a downtown office tower, suburban shopping center or vacant development land, no matter where in the metro area it is located, the rate on that portion of its value will be the same.

Consider it an insurance policy. Your premium is that you share up to 40% of the increased value of business property within your community. Your benefit is that you are guaranteed a portion of the revenue from all business property growth anywhere in the region, whether or not it is located in your community.

WHAT IS

Fiscal Disparities

Fiscal Disparities has been a part of the Twin Cities regional economy for more than 30 years. This "uniquely Minnesota" property tax-base sharing program, operating largely out of sight of the taxpaying public, grew out of the recommendations of a 1969 report by the Citizens League, "Breaking the Tyranny of the Local Property Tax." The report concluded that the existing property tax system was causing "fiscal fragmentation," with residents in metro area communities with differing tax base wealth paying differing levels of property taxes for roughly equal levels of service. In fact, some communities with low fiscal capacity were struggling to afford basic services.

To address the problem, The Charles R. Weaver Metropolitan Revenue Distribution Act, now commonly referred to as "Fiscal Disparities," established a seven-county program for sharing area-wide C-I tax base. Each metro community or local taxing unit–cities, counties and school districts–agreed to contribute up to 40 percent of the growth in its local commercial-industrial tax base each year, measured from the base year of 1971 when the law was enacted. This aggregated tax base "pool of value" would then be redistributed based on whether each community or taxing unit's fiscal capacity per capita was higher or lower than the metro area average.

An ingenious fiscal invention, with noble goals.

Widely recognized by tax authorities worldwide as a novel and creative fiscal tool, Fiscal Disparities is credited with improving equity and closing the gap between the lowest and highest communities in terms of tax-base wealth. From the beginning, it has also been focused on achieving other goals, including building a more cohesive region, promoting more orderly regional growth, and reducing competition between communities for investment and development.

As an equalizer, it has helped underpin the tax bases of those metro area communities who do not have a significant commercial-industrial tax base, or have limited prospects for future growth. The disparity between taxes paid on commercial-industrial property in high tax communities vs. low tax communities has been reduced, and taxes on all property types have been lowered in those areas with limited commercial-industrial growth.

From a purely revenue point of view, Fiscal Disparities has been an outstanding success. Continuing metro area economic expansion, particularly the development of more new commercial and industrial properties as well as inflationary increases in the market values of pre-existing C-I properties, will likely result in even larger distributions in the future.

NAIOP Minnesota thanks the Citizens League for assistance in the research and writing of this publication.

About the Citizens League

Founded in 1952, the independent, non-partisan Citizens League is one of the nation's premier citizen-based "good government" organizations. The organization is distinguished by its pioneering process that involves citizens in studying public issues and developing policy solutions.

Based in Saint Paul, the Citizens League focuses on public policy issues at the local, metropolitan and state levels. Over the years, the Citizens League has been one of the most effective agents of change in Minnesota public policy. The Citizens League's impact can be seen in areas such as public finance, regional government, education, transportation and health care.

The 1,800 members of the Citizens League contribute their time and money, not as agents of special interest groups or single-issue devotees, but as citizens who are concerned about the quality of life in Minnesota and the Twin Cities.

Citizens League

Common ground. Common good.

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About the National Association of Industrial and Office Properties

The Minnesota Chapter of NAIOP is one of 53 chapters nationwide making up the National Association of Industrial and Office Properties, a 12,000 member professional organization representing developers, owners and managers of business properties throughout North America.

The Minnesota Chapter, one of the largest and most active in the nation, has been a leader in increasing the vitality and efficiency of Minnesota businesses for more than 20 years. Together, NAIOP members and their firms invest in, build and manage modern facilities to house our state's most valuable economic resource–thousands of companies, large and small, employing hundreds of thousands of workers in communities across the state.

In the public policy arena, NAIOP members have devoted personal time, energy and resources in successfully fighting for comprehensive property tax reform and business-friendly legislation, for the benefit of all Minnesota businesses and their employees.

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Housing Minnesota's Businesses

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Fiscal Disparities' sharing of C-I tax capacity through its system of local contributions and distributions is determined by a complex formula and an even more complicated calculation process. This piece has been designed to educate the reader in a general way about how the Fiscal Disparities law works, and how it impacts commercial-industrial properties in the metro area. Due to the many variables involved, the actual impact of the Fiscal Disparities law and the tax bill that results may vary substantially from what is presented here when it is applied to an individual commercial-industrial property in a specific geographic location or local taxing jurisdiction.