Fiscal Disparities has been a part of the Twin Cities regional economy for more than 30 years. This "uniquely Minnesota" property tax-sharing program, operating largely out of sight of governing 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 an "inequitable fiscal fragmentation," with residents in metro area communities with differing tax base paying differing levels of property tax 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 commercial-industrial 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 is "pool of value" from which the program is distributed, based on whether each community or taxing unit’s fiscal capacity per capita was higher or lower than the metro area average.

About the Citizens League

Founded in 1952, the independent, non-partisan Citizens League is one of the nation’s pioneer citizen-based “good government” organizations. The organization is distinguished by its grassroots 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, as a group, to special interest groups or single-issue directors, but as citizens who are concerned about the quality of life in Minnesota and the Twin Cities.

About the National Association of Industrial and Office Properties

The Minnesota Chapter of NAIO can be found at www.citizensleague.org

WHAT IS FISCAL DISPARITIES

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 economic expansion, particularly the development of more new commercial and industrial properties

For more information contact
Bob DeBoer
Director of Public Policy
555 North Wabasha Street, Suite 240
Saint Paul, Minnesota 55102
Phone: 651-293-0575 | Fax: 651-293-0576
bob.deboer@citizensleague.org
www.citizensleague.org

Fiscal Disparities sharing of C-I tax capacity through its use of local contributions and distributions is determined by a complex formula and an even more complicated distribution process. This paper 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. The fact that there are numerous variables involved, the annual impact of the Fiscal Disparities law and the tax changes that result 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 jurisdiction.
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!

6. Local Levy

The County Auditor determines each local unit’s share based on the percentage of the new tax base each local unit contributed to the area-wide pool. The County Auditor then applies the C-I tax rate to the new tax base contributed to the area-wide pool and all of the other taxable properties.

5. Local Tax Rate

The local taxing unit computes its new local tax rate based on an equalized value that’s a percentage of the total area-wide value equal to the local unit’s share from the area-wide pool. After the local tax rate is determined, it’s compared to the state tax rate.

4. New Local Tax Base

The new tax base is equal to the total value of all local taxing units multiplied by the percentage that each taxing unit contributed from the area-wide pool. This is then divided by the entire area average.

3. Area-Wide Pool

The tax base pool is equal to the total value of all taxing units multiplied by the percentage that C-I property contributed from the area-wide pool. It’s divided by the entire area average.

2. Area-Wide Base is Set

The area-wide property pool is aggregated by the Auditor’s Office to determine how much of the growth in C-I value is shared with every local taxing unit in the seven-county metro area. The piece that is not included is retained by the local taxing unit.

1. Without Fiscal Disparities

Up to 40% of the building’s value travels through the process to become part of a new “Area-Wide Tax Base,” is parcelled out and shared with every taxing unit in the metro area, county, school district or other local taxing units.

Fiscal Disparities:

Up to 40% of the building’s value travels through the process to become part of a new “Area-Wide Tax Base,” is parcelled out and shared with every taxing unit in the metro area, county, school district or other local taxing units.

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 on a city level, and Anoka County has the largest net recipient among all taxing units.

How does Fiscal Disparities affect owners of business property?

For owners of business property, Fiscal Disparities each year effectively levels a significant portion of the property tax bill, influencing the difference between the same tax rate in one taxing area to another.

Fiscal Disparities has worked quietly, under taxpaye...
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**LOCAL ASSESSMENT**

The County Auditor determines each property’s market value. A percentage of the new tax base may be reassessed, based on market value, to cover local spending. The new market value is shared as part of the area-wide pool and distributed, as well as set at an upper limit and minimum limits.

**LOCAL LEVY**

The local taxing unit sets a levy, which is the dollar amount of tax each $100 of assessed value. To determine the levy, the taxing unit’s previous year is multiplied by the area-wide tax base.

**LOCAL TAX RATE**

This determines the amount of tax that will be levied against each $100 of assessed value in the taxing unit.

**METRO ADMINISTRATIVE AUDITOR**

The Administrative Auditor establishes the area-wide tax base. It is an equalized amount of assessment for all assessment units within the metro area and is used to set the area-wide tax base.

**AREA-WIDE LEVY**

The area-wide levy is equalized using the local tax rate and the area-wide tax base. It is then multiplied by the area-wide tax base to determine the area-wide levy.

**COUNCIL APPROVES AREA-WIDE FINAL TAX**

The area-wide levy is approved by the council. It is the amount of tax each $100 of assessed value in the metro area will pay.

**PROFFICIENCY TAX BILL**

The proficiency tax bill is the amount of tax each $100 of assessed value in the metro area will pay.

**PROFITABILITY TAX BILL**

The profitability tax bill is the amount of tax each $100 of assessed value in the metro area will pay.

**WHOSE NET CONTRIBUTION IS THE LARGEST?**

Among the seven county region served by the Fiscal Disparities Area-wide pool, the economic growth of the region in the tax year 2002/2003 has generated a net contribution of $27.2 million in fiscal disparity, with 14 sales in 2002. The year ended the area-wide tax pool at $27.2 million, which provides the taxing units with a measure of fiscal stability that no other region enjoys. Anoka County is the largest net recipient among all the counties.

**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 net recipient as one of the seven-county metro area.

**HOW DOES FISCAL DISPARITIES AFFECT OWNERS OF BUSINESS PROPERTY?**

For owners of business property, Fiscal Disparities not only effectively levels a significant portion of their property tax bills, but it also levels business property taxes across the seven-county area. Fiscal Disparities has been shielded from political pressures and operates on a structural level. Based on just a few basic principles, it has remained 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.

The area-wide tax base is determined from an area-wide pool, which is the difference between the taxing units in a low tax area to a high tax area.

**HOW DOES FISCAL DISPARITIES AFFECT OWNERS OF BUSINESS PROPERTY?**

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**FISCAL DISPARITIES APPLIES TO EVERY LOCAL TAXING UNIT**

Everyone contributes, everyone shares, in determining the area-wide tax pool and on taxing authority.

**LOCAL TAXING UNITS**

Local taxing units are those that have taxing authority and are located anywhere in the metro area, and be taxed at the local tax rate.

**LOCAL ASSESSOR**

The local assessor is responsible for equalizing the area-wide tax base and then establishes the area-wide tax base.

**METRO ADMINISTRATIVE AUDITOR**

The administrative auditor establishes the area-wide tax base.

**AREA-WIDE TAX BASE POOL**

The area-wide tax base pool is created by joining similar pieces of property from all local taxing units. It is then equalized by the local taxing unit.

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1. **LOCAL ASSESSMENT**
   - The County Auditor determines each local unit’s share of the growth in the taxable value of the property.
   - New construction, inflation, and urban renewal are key factors in determining the local portion.
   - This is the portion of the taxable value that is subject to local taxes.

2. **AREA-WIDE BASE**
   - The total taxable value of all properties in the seven county area is divided by all local taxing units.
   - The resulting amount is known as the area-wide tax base.

3. **AREAIL ASSESSMENT**
   - The total taxable value of all properties in the local taxing unit is divided by the total taxable value of all properties in the seven county area.
   - This is the local unit’s share of the area-wide tax base.

4. **LOCAL TAX RATE**
   - The local unit determines its own tax rate, which is applied to the portion of the taxable value it retains.

5. **LOCAL LEVY**
   - This is the total amount of tax revenue that the local unit collects from the portion of the taxable value it retains.

6. **METRO ADMINISTRATIVE AUDITOR**
   - The seven county metro area’s tax base is a shared pool of financial resources.
   - The metro auditor determines the area-wide tax base, which is divided by all local taxing units to determine the local unit’s share.

7. **COUNTY LEVY**
   - The amount of tax revenue that the county collects from its portion of the taxable value.

8. **AREA-WIDE LEVY**
   - The area-wide levy is determined by dividing the area-wide tax base by the total taxable value of all properties in the seven county area.
   - This is the amount of tax revenue that is distributed to each local taxing unit.

9. **NEW TAX BASE**
   - This is the new taxable value of the property, which is determined by the amount of money it must raise to cover the costs of services and improvements.

10. **WHY DOES FISCAL DISPARITIES AFFECT OWNERS OF BUSINESS PROPERTY?**
    - Fiscal Disparities affects business owners by changing the tax base and rate structure.
    - The area-wide tax base is determined by all properties in the area, not just industrial and commercial properties.
    - This can lead to significant increases in property taxes for businesses that are not growing at the same rate as the area as a whole.

11. **CHANGING THE LAW?**
    - Fiscal Disparities has been largely ineffective, according to some experts.
    - There have been attempts to change the law, but these have not been successful.
    - The City of St. Paul is the largest net recipient of Fiscal Disparities tax base among large taxing areas, receiving over $100 million annually.

12. **INSURANCE POLICY FOR LOCAL TAXING DISTRICTS AND GENERAL TAXPAYERS**
    - An insurance policy may be available to protect against changes in property values.
    - Consideration should be given to the potential impact of Fiscal Disparities on local taxing districts.
    - The policy should be reviewed periodically to ensure adequacy.

13. **AN INSURANCE POLICY FOR LOCAL TAXING DISTRICTS AND GENERAL TAXPAYERS**
    - With Fiscal Disparities, property owners and taxing authorities know that the tax base for their community is not necessarily fixed.
    - An insurance policy may be available to protect against changes in property values.
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    - The policy should be reviewed periodically to ensure adequacy.
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To get here, 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 commerce, finance, regional government, education, transportation and health care.

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Citizens League
Common ground. Common goal.

For more information contact
Kaye Rakow
Director of Public Policy
833 North Washington Ave, Suite 240
Saint Paul, Minnesota 55102
Phone: 651-293-0576 | Fax: 651-293-0576
karakow@citizensleague.org
www.citizensleague.org

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