Tax Base Sharing

Large-scale property tax base sharing has only been legislated for two areas of the country – Minneapolis-St. Paul and the Meadowlands of New Jersey. In a tax-base sharing approach, each municipality shares in the increase in property value that occurs in a specific area after a certain date. Tax-base sharing is intended to:

- Reduce competition among communities for commercial and industrial properties to add to their tax bases.
- Create a fairer distribution of tax benefits from properties that impact on and are supported by surrounding communities.
- Reduce disparities in tax bases.
- Promote orderly urban development, regional planning, and smart growth by reducing the impact of fiscal considerations on the location of business and residential growth; of highways, transit facilities, and airports.

Minneapolis-St. Paul

The Minnesota Fiscal Disparities Act of 1971 was an innovative attempt to address growing fiscal concerns within the seven county Minneapolis-St. Paul region. Although the region is made up of 186 cities, villages and townships; 48 school districts; and 60 other taxing authorities, the regional government views the region as one large, interconnected economy. Under the region's tax-base sharing system, each municipality is required to contribute a percent of the increase in value from its commercial-industrial (C/I) property to a regional pool.

The philosophy behind the Act was that while commercial and industrial development provides needed tax revenue for certain municipalities, these developments are largely funded through regional and state financing. Tax-base sharing allows the other parts of the region that contributed to the financing to benefit, not just the municipality with the new development. In 2000, 28% of the region's C/I tax base went into the pool. In 1998, 137 cities, villages, and townships received funding while 49 did not. Within the region, tax base disparity (as measured by per capita C/I value per capita) was reduced from 50 to 1 to approximately 12 to 1, but for cities with populations over 9,000 people the ratio of tax base disparity dropped from 18 to 1 to 5 to 1.

Each taxing jurisdiction contributes 40 percent of the growth in its C/I property tax base since the 1971 assessment to a regional pool. (Residential property tax increases are not included.) C/I property includes all businesses, offices, stores, warehouses, factories, gas stations, parking ramps, etc. It also includes public utility property and vacant land which is zoned commercial or industrial. The growth in value considered is the total net change in net tax capacity since 1971, including the effects of new construction, inflation, demolition, revaluation, appreciation, and depreciation.

The distribution of the pool is based on fiscal capacity, defined as equalized market value per capita. This means that:

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

For additional details on Minnesota's Fiscal Disparities Program, see the Minnesota House Report at http://www.house.leg.state.mn.us/hrd/pubs/fiscaldis.pdf.

New Jersey Meadowlands Commission (New Jersey)

New Jersey program is not an attempt to minimize fiscal disparities, but to reduce the fiscal impacts of land use regulation. The Hackensack Meadowlands revenue sharing program was created to protect wetlands by reducing competition for new development in the 14 municipalities and 2 counties that are a part of the program. The Hackensack Meadowlands Master Plan for the area, adopted in 1972, formed a regional approach to zoning. As it was being developed, legislators saw a need to create a tax revenue sharing plan to share the benefits of development as they zoned certain areas for industrial, commercial and residential use and others for parks, highways, open space and other nontaxable uses. The tax sharing plan was designed to balance inequities whereby each community would get a proportionate share of the property taxes from "new" (post 1970) development, regardless of where it occurs.

Taxes are assessed and collected in the Meadowlands in the same as other properties. After county taxes are paid, the amount remaining is divided into the amount collected on taxable properties existing in 1970 and those existing post-1970. The post-1970 amount is subject to the tax sharing plan. Each community contributes 40% of the plan revenues it collects to the common pool, or "Intermunicipal Account." From that fund pool, each receives a payment for school pupils living in District residential development equal to the cost of educating these children, as well as a payment reflecting the percentage of property the community has in the Meadowlands District. Some communities receive more than they contribute, others less. However, a tax sharing stabilization fund was created by the state to stabilize the adjustment payments of both the paying and receiving municipalities. It accomplishes this objective by capping the amount paid by a paying municipality to no more than 5% above the previous year's obligation. In the case of receiving municipalities, the amount is capped so that it receives at least 95% of the previous year's receipt. More details about the program can be found at http://www.meadowlands.state.nj.us/municipal/tax/tax.html.

Other Models

Virginia permits localities to enter into a revenue, tax base or economic growth-sharing agreement as an alternative to annexation. The City of Charlottesville and Albemarle County contribute portions of their respective real property tax revenues to a common revenue and economic growth sharing fund that is distributed between them on the basis of population and local tax rates.

New York State

There has been very limited authorization for tax base sharing in New York State. The only one we have identified is an authorization given to the City of Gloversville by a 2001 statute to provide water and other services to the Town of Johnstown in exchange for a share of tax revenues resulting from development of properties in the town receiving the services. Those shared tax revenues could include property tax, sales tax, and any other specified taxes generated from such properties.

Any agreement entered into by the two municipalities would:

- Establish a process for identifying and determining the affected properties or boundaries.
- Identify the types of taxes to be shared.
- Specify the percentage of tax revenues that each municipality shall receive (or otherwise establish a formula for determining the amount of revenues to be shared).
- Specify the process and method of collecting and sharing taxes.
- Address any other matters as determined to be necessary.

While the provisions have not been implemented, discussions are ongoing, with the City of Gloversville seeking to combine a property and sales tax agreement with annexation of land in order to allow the capture of sales tax revenues under the city formula, in exchange for extending water and sewer to the developing properties. The City would also be able to provide police and fire protection to the annexed properties.