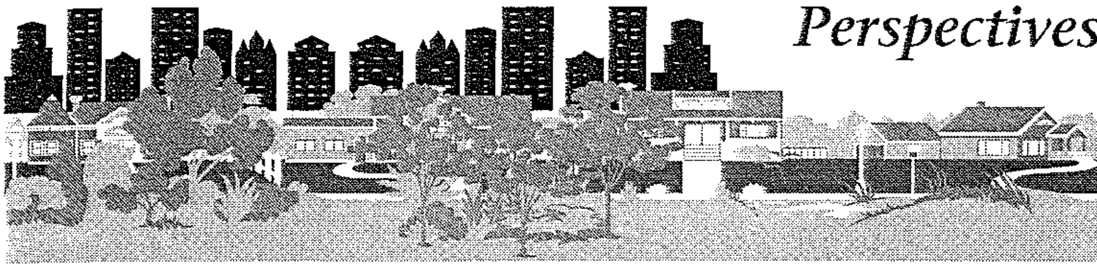

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Understanding Tax Base Sharing

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Property tax base sharing can remove some of the fiscal considerations which drive local land use decisions that often lead to intergovernmental disputes. The potential strengths of property tax base sharing were recognized by Governor Thompson's Interagency Land Use Council. The recent report issued by the Council, entitled *Planning Wisconsin,* includes several proposals recommending tax base sharing as a mechanism to address issues of intergovernmental cooperation.

Property tax *base* sharing should not be confused with the tax *revenue* sharing law passed this past spring by the Wisconsin Legislature. The revenue sharing law allows cities, villages, towns and American Indian tribes to *voluntarily* enter into municipal revenue sharing agreements. This law is codified at section 66.028 of the Wisconsin Statutes. The revenue shared may be from taxes as well as certain special charges. The law is meant to encourage intergovernmental cooperation, facilitate the cooperative provision of services, and help resolve annexation disputes.

The revenue sharing law, however, is limited in its scope. It does not apply to counties, school districts and other special districts which also need to raise tax revenue and are impacted when new development locates in one community and not another. In addition, the revenue sharing law is limited to communities which have contiguous boundaries even though intergovernmental disputes may involve communities which are not contiguous. Other than requiring that the term of the agreement be for a minimum of 10 years, the law does not specify a formula for determining the amount of revenue to share. The details of the revenue sharing formula are left for the cooperating communities to negotiate. A challenge for communities will be to pro-actively negotiate agreements within the context of a comprehensive framework which insures some level of consistency between agreements rather than allowing the agreements to haphazardly reflect numerous battles to annex individual parcels of land.

The Objectives of Tax Base Sharing

Tax base sharing, in theory and practice, is very different from the revenue sharing law recently passed by the Legislature. Tax base sharing is a much more pro-active approach to achieving tax equity. The following summarizes what are generally perceived as the benefits of tax base sharing:

❑Tax base sharing diminishes the incentives of fiscal zoning. "Fiscal zoning" refers to local zoning practices which are meant to attract certain kinds of development and discourage or prohibit other kinds of development in order to develop a more favorable property tax base.

❑Tax base sharing preserves the autonomy of local taxing units (cities, towns, counties, school districts, etc.) to set their own local tax rates because it is the local tax base that is shared, not the local tax revenue.

❑Tax base sharing can reduce competition between communities for certain development to increase the local tax base.

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❑Tax base sharing helps even out the peaks and valleys which are part of the normal cycle of community development. Communities build, go through a period of maturity, and then rebuild. The fiscal demands associated with this cycle arise unevenly as the tax base of a community changes over time. Tax base sharing can ease the fiscal crisis of both growing and declining communities by allowing them to share the tax base from communities which are at a different phase in this cycle.

❑Tax base sharing can provide "compensation" to communities with a high percentage of tax exempt property such as parks and public buildings, or a high percentage of undevelopable land because of natural features or market forces.

❑No additional taxes or taxing authorities need to be created. The program does not generate revenue but rather redistributes tax base.

Minnesota's Tax Base Sharing Programs

Perhaps the most well-know tax base sharing plan is the fiscal disparities program for the seven county metropolitan area of Minneapolis and St. Paul. Under that program, all taxing jurisdictions in the metropolitan area (school districts, counties, towns, cities, etc.) share forty percent of the growth of commercial-industrial tax base since 1971 (the year the program was passed by the Minnesota Legislature). This growth in commercial industrial tax base is contributed to an area-wide pool and redistributed to communities on the basis of population and the market value of property within the community.

While it is difficult to measure the overall impact of the program, the Twin Cities fiscal disparities program has been successful in reducing the disparities between the commercial-industrial tax base of communities in the metropolitan area. In 1995, among the 187 communities in the Twin Cities metropolitan area, the ratio of high to low in commercial-industrial tax base without tax base sharing would have been 171 to 1. Tax base sharing reduced those disparities to 33 to 1.

Even though the fiscal disparities program of the Twin Cities remains controversial within Minnesota, earlier this year the Minnesota Legislature passed another fiscal disparities program for the Iron Range region of northern Minnesota. The Iron Range fiscal disparities program follows the same redistribution formula as the Twin Cities program. Minnesota's experiment with tax base sharing for the urbanized portion of the state therefore provided the model for addressing tax equity issues for a major rural region in the state.

Mismatch of Needs and Resources

Many observers have recognized that one of the major problems with the fiscal disparities program in the Twin Cities is that growth in commercial-industrial tax base is an imperfect indicator of overall fiscal needs. In areas of the Twin Cities where the overall tax base is accelerating rapidly, social needs and their related costs are stable or declining. Yet in areas where the social needs and related costs are growing rapidly, the tax base is declining or not increasing at a rate sufficient to meet these costs. Minneapolis, for example, which has high concentrations of poverty and increasingly strong fiscal needs, has gained property tax base under the program in some years and has lost property tax base under the program in other years.

A growing mismatch between needs and resources is also evident in Wisconsin. For example, between 1980 and 1990, the City of Madison experienced a 34.5 % increase in the number of households living below the federal poverty level. The remainder of Dane County, however, saw a 4.4 % *decrease* in the number of households living below poverty for the same period. During this period the population of the City of Madison grew by 4.6 % while the remainder of Dane County grew by 10.2 %.

Many policy makers recognize that the Twin Cities fiscal disparities program should be redesigned so the formula for distributing the shared tax base focuses more on a community's expenditure needs, rather than just tax-base capacity. To this end, bills have been introduced in recent legislative sessions which would expand the tax-base pool to include the growth in value of all residential property over $200,000 in market value. These bills, however, have been vetoed by Minnesota's governor. As public officials in Wisconsin grapple with issues of tax equity, important lessons can be learned from Minnesota's experiences with tax base sharing.

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