MINNESOTA CENTER for Fiscal Excellence

ISSUE BRIEF

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MCFE's *Pay 2015 50-State Property Tax Comparison Study: Minnesota Results*

MCFE's *50-State Property Tax Comparison Study* compares effective property tax rates in three sets of cities: the largest city in each state and the District of Columbia, plus an additional city for Illinois and New York; the fifty largest cities in the nation; and a rural, county seat city in each state. This unique study calculates and ranks property tax burdens for four property types in each of those cities: homesteads, commercial, industrial (manufacturing), and apartments. Minneapolis represents Minnesota in the urban set of cities and Glencoe represents Minnesota in the rural set of cities.

Key Minnesota-related findings from the study include:

- Minneapolis' rankings for homeowner taxes were relatively unchanged from our payable 2014 study. When comparing properties of equal value (which controls for real estate market conditions and allows for direct comparisons of the effect of state property tax structures), the tax burden on both a $150,000-valued home and on a $300,000-valued home were below the national average. When we set home values in each large city equal to the local median value (which allows for comparisons of burdens of homeowners in relatively similar situations), the total tax burden on a Minneapolis home is 3.9% above the national average. When measuring the tax as a share of the median home's value, Minneapolis taxes are 5.4% below average.
- Urban commercial rankings and relative burdens continue to be high in payable 2015. For $1 million and $25 million commercial parcels, Minneapolis' property tax burden ranks seventh highest in the nation, down one spot from last year.
- Rankings and comparative tax burdens on commercial properties in Glencoe remain high for payable 2015. Tax burdens on commercial properties at $1 million and $25 million of value continue to rank second highest in the nation and are 115% to 120% above the study averages. Industrial (manufacturing) properties fare slightly better in this year's study; with the rankings ranging from 4th to 12th highest, depending on the property value and underlying assumptions about personal property. However, the rankings for all six examples rose, on average by three places, and have tax burdens that are generally 45% to 80% higher than the 50-state average.
- Minnesota's statewide general property tax, a state levy that falls entirely on business and cabin properties, has significant implications for Minnesota's competitiveness with regard to business property taxes. Eliminating this tax would reduce Minneapolis' rankings for commercial parcels by either 11 or 12 places and its rankings for industrial parcels by anywhere from 11 to 15 places. Similarly, eliminating the tax would reduce the rankings for commercial parcels in Glencoe by 2 places for the highest valued properties and 7 places for the $100,000-valued parcel; industrial property tax rankings would fall by anywhere from 5 to 9 places.
- Minnesota's exempts almost all types of personal property (machinery and equipment and inventories, for example), from the property tax. This makes taxes on Minnesota manufacturing facilities – which have lots of personal property – far more competitive than taxes on Minnesota commercial property, which does not benefit nearly as much from the exemption.
- On a regional basis, Minneapolis' business property tax competitiveness is strong in relation to Detroit; Chicago; and Aurora, IL. Minneapolis is at the greatest disadvantage to Fargo – commercial and industrial property tax burdens are 134% to 197% higher in Minneapolis on properties of equal value. Glencoe has virtually no competitive advantage relative to other upper Midwestern rural locations, and is at the greatest disadvantage to Devils Lake, ND – with commercial and industrial property tax burdens that are 184% to 273% higher on properties of equal value.
- Minnesota's business subsidization of local homeowner property taxes is 14th highest in the nation. A $1 million commercial property in Minneapolis paid 108.8% more in local property taxes on its share of property value than a homeowner in the median-valued home. Our subsidization measure has dropped for the first time since our payable 2009 property tax comparison study, but is still 16% above the low from our payable 2004 report.

We prepare this study in conjunction with the Lincoln Institute of Land Policy, which distributes the full report on its website at http://www.lincolninst.edu/subcenters/significant-features-property-tax/.

Introduction

MCFE's *50-State Property Tax Comparison Study* compares effective property tax rates in three sets of cities: the largest city in each state and the District of Columbia, plus an additional city for Illinois and New York[1]; the fifty largest cities in the nation; and a rural, county seat city in each state. This unique study calculates and ranks property tax burdens for four property types in each of those cities: homesteads, commercial, industrial (manufacturing), and apartments. We prepare this report in conjunction with the Lincoln Institute of Land Policy, which distributes the full version at http://www.lincolninst.edu/subcenters/significant-features-property-tax/. Please consult the complete report for details on our methodology and rankings.

Section 1: Minneapolis Findings

Homestead Properties

Compared to other urban cities, taxes on homes in Minneapolis continue to be relatively average. The $150,000-valued home moved up one place to 21st while the rank for $300,000 home was unchanged, also at 21st. (Table 1) Taxes for the $150,000-valued property were 10.3% below the national average while taxes on the $300,000-valued property were just below the national average. Relative to payable 2014, taxes on homes at both values fell compared to the national averages.

Table 1: Minneapolis Homestead Property Tax Burdens and Rankings, Payable 2015

Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2015	Change From 2014		Amount	Percent	
$150,000	21	+1	$1,990	($228)	(10.3%)	1.327%
$300,000	21	No change	$4,515	($107)	(2.3%)	1.505%
Median* – Total Tax	18	-1	$2,909	+$108	+3.9%	1.422%
Median* – ETR	21	-1		(0.081%)	(5.4%)	

* Median value for Minneapolis was $204,600, per Census Bureau's *American Community Survey*

Our findings for property taxes on the median-valued home require some explanation. When comparing homeowners' property tax bills, Minneapolis ranks 18th with a burden of $2,909 – 3.9% *above* the national average. But when looking at effective tax rates (the tax as a share of home value), Minneapolis' 1.422% ranks 21st for all urban cities and is 5.4% *below* the national average. In other words, on average Minneapolis homeowners with a median-valued home pay more property taxes than their large city counterparts across the nation. However, since the value of the median home in Minneapolis home is also higher than average the effective tax rate (tax divided by value) is lower.

Policymakers have designed Minnesota's property tax system so that effective tax rates rise with home value. To the extent that families with higher incomes own higher valued homes, this introduces some progressivity into the state's property tax system. Two factors make this possible. One is Minnesota's two-tiered classification system for homestead properties: 1.0% of a home's market value is taxable up to $500,000 of value, above that 1.25% of value is taxable. The second factor is the way the property tax relief the homestead market value exclusion offers becomes less and less valuable as a home's value rises. To illustrate how property taxes rise with value, Table 2 on the next page shows net property taxes, effective tax rates, and national rankings for five Minneapolis homes valued at $150,000 through $1 million.

[1] In most cases, property tax structures are uniform across states. However, Cook County (Chicago) and New York City's property tax structures are significantly different than those found in remainder of their respective states. We include the second-largest cities in those states (Aurora, IL and Buffalo, NY) to represent the property tax structure prevalent in those states. In essence, our urban analysis is a comparison of 53 different property tax structures.

Table 2: How Minneapolis Homestead Property Taxes Rise with Value, Payable 2015

Market Value	Total Tax	ETR	Tax Above/(Below) National Average	Rank
$150,000	$1,990	1.327%	(10.3%)	21
$300,000	$4,515	1.505%	(2.3%)	21
$500,000	$7,811	1.562%	(0.4%)	21
$750,000	$12,556	1.674%	+5.6%	20
$1,000,000	$17,302	1.730%	+8.7%	20

Commercial Properties

Our study calculates property tax burdens and rankings for commercial property at three different values. The values are: $100,000 of real property with $20,000 of personal property (things that are not attached to the building, such as office furniture or display racks); $1 million of real property with $200,000 of personal property; and $25 million of real property with $5 million of personal property.

Minneapolis' commercial property tax rankings fell by one place for all three examples between 2014 and 2015: from 15th to 16th highest for the $100,000-valued property only, and from 6th to 7th highest for the other two property values. The sharp jump in rank and effective tax rate between the $100,000 parcel and the two higher-valued properties is largely the result of Minnesota's tiered assessment rate for commercial property. Commercial properties are taxed on 1.5% of their value up to $150,000 and on 2.0% of the value above $150,000. The effect of this tiered system is that these higher valued properties have higher proportions of their market value taxed than does the $100,000-valued property (28% higher at the $1 million level and 33% higher at the $25 million level). This leads to considerably higher burdens for those properties.

The property tax on each parcel relative to the study average fell from payable 2014 for all three values. As Table 3 shows, commercial property tax burdens in Minneapolis are at least 50% higher than the average for the $1 million- and $25 million-valued properties. However, these rankings and relative burdens still represent some competitive improvement over 1995, when Minneapolis ranked first in the country for $1 million-valued commercial parcels.

Table 3: Minneapolis Commercial Property Tax Burdens and Rankings, Payable 2015

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2015	Change From 2014		Amount	Percent	
$100,000	16	-1	$3,092	+$629	+25.5%	2.576%
$1,000,000	7	-1	$39,047	+$13,690	+54.0%	3.254%
$25,000,000	7	-1	$1,010,610	+$366,544	+56.9%	3.369%

For commercial (and industrial) properties, Minnesota's property tax is not purely a local issue. The state imposes its own property tax on business and cabin properties, setting it at $863.7 million for taxes payable in 2015. The state's encroachment into what is generally seen across the country as a revenue source for local governments, has competitiveness implications for Minnesota's business property owners and their tenants. As Table 4 on the next page indicates, eliminating the tax, which is nearly 25% of a parcel's total bill, substantially reduces the tax compared to the national averages.

Table 4: Minneapolis Commercial Property Tax Burdens and Rankings, Without State General Property Tax, Payable 2015

Land/Building Market Value	2015 Ranking (of 53)	Total Tax	Tax Above/(Below) National Average		ETR
			Amount	Percent	
$100,000	28	$2,363	($86)	(3.5%)	1.969%
$1,000,000	18	$29,691	+$4,511	+17.9%	2.474%
$25,000,000	18	$767,959	+$128,471	+20.1%	2.560%

Industrial Properties

The variety of industrial (manufacturing) operations creates a variety of possible assumptions regarding how much personal property (machinery and equipment, inventories, and other movable property) a manufacturer will have on site. For that reason, we prepare comparisons of property taxes on manufacturing properties using two assumptions: that personal property is 50% of the parcel's total value, and that it is 60% of total value.

Minneapolis' industrial property tax rankings changed from 2014 to 2015 as follows (Table 5):

- **50% personal property assumption:** the rank for the $100,000-valued example fell two places (from 19th to 21st highest), by three places for the $1 million-valued example (from 11th to 14th), and by one place for the $25 million parcel (from 12th to 13th). Tax burdens fell compared to the national average for all three examples.
- **60% personal property assumption:** while the rank for the $100,000-valued example remained unchanged (at 26th highest), the rank for the $1 million- and $25 million-valued examples fell five places; from 14th to 19th, and from 15th to 20th, respectively. As with the 50% personal property assumption, tax burdens fell relative to the national average.

Compared to other urban cities, Minneapolis' industrial property taxes are generally above average, except for the $100,000-valued property where 60% of the total parcel value is personal property. Property taxes relative to the national average fell for each example. On a relative basis, Minneapolis' industrial tax burdens are below their payable 1998 high point, when the $1 million property was roughly 55% higher than the study average and the $25 million property was roughly 60% higher[2].

Table 5: Minneapolis Industrial Tax Burdens and Rankings, Payable 2015

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
		2015	Change From 2014		Amount	Percent	
50%	$100,000	21	-2	$3,092	+$127	+4.3%	1.546%
50%	$1,000,000	14	-3	$39,047	+$7,672	+24.4%	1.952%
50%	$25,000,000	13	-1	$1,010,610	+$212,916	+26.7%	2.021%
60%	$100,000	26	No change	$3,092	($236)	(7.1%)	1.237%
60%	$1,000,000	19	-5	$39,047	+$3,364	+9.4%	1.562%
60%	$25,000,000	20	-5	$1,010,610	+$103,847	+11.5%	1.617%

Note that even though the taxes for commercial and industrial properties of the same value do not differ, the effective rates and rankings are lower for industrial properties. Minnesota's full exemption for personal property creates this difference. Since manufacturing/industrial properties have larger proportions of personal property than commercial properties, this exemption provides Minnesota's manufacturers with a greater benefit than owners of commercial properties and so they have lower effective tax rates. This makes them more competitive on a property tax basis.

These examples indicate why the personal property assumptions are so important to our Minnesota findings: as the personal property share increases, more of the parcel value is exempt from tax and so effective tax rates and rankings decline.

[2] Refers to the 50% personal property assumption.

The impact of Minnesota's statewide business property tax on manufacturers is also noticeable. As Table 6 notes, without the tax Minneapolis' industrial property taxes move somewhere below the national averages, depending on the value and personal property assumption.

Table 6: Minneapolis Industrial Property Tax Burdens and Rankings, Without State General Property Tax, Payable 2015

Pers. Property Share of Total Value	Land/Building Market Value	2015 Ranking (of 53)	Total Tax	Tax Above/(Below) National Average		ETR
				Amount	Percent	
50%	$100,000	36	$2,363	($588)	(19.9%)	1.181%
50%	$1,000,000	26	$29,691	($1,508)	(4.8%)	1.485%
50%	$25,000,000	25	$767,959	($25,156)	(3.2%)	1.536%
60%	$100,000	38	$2,363	($952)	(28.7%)	0.945%
60%	$1,000,000	32	$29,691	($5,815)	(16.4%)	1.188%
60%	$25,000,000	31	$767,959	($134,225)	(14.9%)	1.229%

Apartment Properties

We calculate property taxes on a $600,000 unfurnished apartment building with $30,000 of additional personal property. Our findings (Table 7) indicate that Minneapolis' apartment tax of $10,709 for such a building was 10.9% below the national average. When measured against other urban cities, Minneapolis' payable 2015 apartment taxes rank 23rd – down one spot from last year's study.

The tax burden relative to the study average for all urban cities decreased from payable 2014. Looking over the longer-term, this year's rank of 23rd is far below payable 1995 and payable 1998 when it was 2nd and 3rd, respectively.

Table 7: Minneapolis Apartment Tax Burdens and Rankings, Payable 2015

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2015	Change From 2014		Amount	Percent	
$600,000	23	-1	$10,709	($1,307)	(10.9%)	1.700%

Section 2: Glencoe Findings

To select cities for our rural analysis, we use the U.S. Department of Agriculture's rural-urban continuum codes, which classify cities based on size and geographic location. All cities used in the Rural analysis are county seats with populations between 2,500 and 10,000 located outside of a metropolitan area. Wherever possible, we maintain continuity in the set of rural cities from one study to the next. This methodology helps ensure that cities in the set are relatively homogenous with regard to population and relationship to urban areas and largely eliminates subjectivity in city choice.

Obviously, the tax and spending preferences of individual communities will always introduce some variability in a comparative study like this, but controlling for demographic and geographic characteristics in this manner helps reduce the variability as much as possible.

Homestead Properties

Table 8 provides a snapshot of Glencoe's homestead property taxes. Compared to other rural locations, Glencoe's total tax burden and ETR are about 7% below the study average for the $150,000 home and about 3% above the national average for the $300,000-valued home. Relative to payable 2014 the rankings are unchanged, while tax burdens fell by five to six percentage points, depending on the home's value. Beginning with the payable 2015 edition of the report, we have begun to calculate property taxes on the median-valued rural home. Our initial findings indicate that the net tax on the median-valued home in Glencoe ranks 16th highest and sits virtually at the national average; while on an effective tax rate basis the city ranks 22nd at 6.3% below the 50-state average.

Table 8: Glencoe Homestead Property Tax Burdens and Rankings, Payable 2014

Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2015	Change From 2014		Amount	Percent	
$150,000	22	No change	$1,906	($142)	(6.9%)	1.271%
$300,000	22	No change	$4,366	+$134	+3.2%	1.455%
Median* – Total Tax	16	**	$1,733	($17)	(0.1%)	1.243%
Median* – ETR	22	**		(0.083%)	(6.3%)	

* Median value for Glencoe was $139,400, per Census Bureau's *American Community Survey*

** No rankings available for payable 2014

Commercial Properties

Glencoe's ranking for a $100,000-valued commercial property rose four places between our 2014 and 2015 studies (Table 9), from 7th to 3rd highest. Meanwhile, the rank for the two higher-valued parcels both remained unchanged at 2nd highest in the nation for the fourth consecutive year. Glencoe trails Iola, Kansas at all three values and also falls behind Warsaw, New York at the $100,000 level. As was the case with Minneapolis, rural commercial effective tax rates increase as value increases because of Minnesota's tiered assessment system for commercial-industrial properties. Tax burdens as a share of the national average also increased significantly at all three values. Compared to other rural cities, taxes in Glencoe are now 74.5% higher than the national average for the $100,000-valued parcel and 115% to 120% higher at the higher values.

Table 9: Glencoe Commercial Property Tax Burdens and Rankings, Payable 2015

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2015	Change From 2014		Amount	Percent	
$100,000	3	+4	$3,559	+$1,520	+74.5%	2.966%
$1,000,000	2	No change	$45,188	+$24,189	+115.2%	3.766%
$25,000,000	2	No change	$1,170,326	+$640,186	+120.8%	3.901%

Minnesota's statewide business property tax also creates competitiveness issues in rural Minnesota. The tax, which is approximately 25% of the total bill for these Glencoe parcels, adds 7 places to the ranking for the $100,000-valued property and 2 places to the ranking for the higher-valued properties. Eliminating the tax brings the differential from the national average down by about 45% for the $1 million- and $25 million-valued properties.

Table 10: Glencoe Commercial Property Tax Burdens and Rankings, Without State General Property Tax, Payable 2015

Land/Building Market Value	2015 Ranking (of 50)	Total Tax	Tax Above/(Below) National Average		ETR
			Amount	Percent	
$100,000	10	$2,696	+$674	+33.4%	2.247%
$1,000,000	4	$34,109	+$13,332	+64.2%	2.842%
$25,000,000	4	$883,003	+$358,609	+68.4%	2.943%

Industrial Properties

Property tax rankings and relative burdens on industrial properties in Glencoe increased considerably between 2014 and 2015. (Note: even though it is not typical for Glencoe, we include a $25 million example to provide comparability to other locations and other city types.) The changes can be summarized as follows:

- **50% personal property assumption:** rankings rose five places for the lowest-valued property (from 12th to 7th), rose two places for the $1 million-valued example (from 7th to 5th), and rose three places for the $25 million examples (from 7th to 4th).
- **60% personal property assumption:** the ranking for all three property values climbed three places (from 15th to 12th at the $100,000 level, from 10th to 7th at the $1 million level, and from 9th to 6th at the $25 million level).

Tax burdens on industrial properties in Glencoe climbed relative to the national averages between 2014 and 2015, with this year's burdens being 15 to 25 percentage points higher. Taxes for every example are above the national averages; in some cases substantially so. Relative to other rural cities, Glencoe is not as competitive from a property tax perspective as Minneapolis is to other large urban areas.

Table 11: Glencoe Industrial Tax Burdens and Rankings, Payable 2015

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
		2015	Change From 2014		Amount	Percent	
50%	$100,000	7	+5	$3,559	+$1,106	+45.1%	1.780%
50%	$1,000,000	5	+2	$45,188	+$19,439	+75.5%	2.259%
50%	$25,000,000	4	+3	$1,170,326	+$517,856	+79.4%	2.341%
60%	$100,000	12	+3	$3,559	+$798	+28.9%	1.424%
60%	$1,000,000	7	+3	$45,188	+$15,971	+54.7%	1.808%
60%	$25,000,000	6	+3	$1,170,326	+$429,374	+57.9%	1.873%

As with Minneapolis, these examples indicate the importance of the personal property assumptions: as the personal property share increases, the effective tax rates and rankings for Glencoe's industrial properties decline.

As with commercial properties, the statewide business property tax has competitiveness implications for properties in Glencoe. Table 12 on the next page demonstrates what the tax burdens and rankings for manufacturing facilities in Glencoe would be without the statewide levy.

Table 12: Glencoe Industrial Tax Burdens and Rankings, Without State General Property Tax, Payable 2015

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 50)	Total Tax	Tax Above/(Below) National Average		ETR
				Amount	Percent	
50%	$100,000	16	$2,696	+$260	+10.7%	1.348%
50%	$1,000,000	11	$34,109	+$8,581	+33.6%	1.705%
50%	$25,000,000	9	$883,003	+$236,279	+36.5%	1.766%
60%	$100,000	17	$2,696	($48)	(1.8%)	1.078%
60%	$1,000,000	14	$34,109	+$5,114	+17.6%	1.364%
60%	$25,000,000	13	$883,003	+$147,798	+20.1%	1.413%

Apartment Properties

Glencoe's ranking for rural apartment taxes rose one place between 2014 and 2015 – moving from 19th to 18th. The tax burden on the Glencoe apartment building increased relative to the national average (Table 13), moving from 19.3% above the study average for payable 2014 to 25.5% above for payable 2015.

Table 13: Glencoe Apartment Tax Burdens and Rankings, Payable 2015

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2015	Change From 2013		Amount	Percent	
$600,000	18	+1	$12,676	+$2,573	+25.5%	2.012%

Section 3: Regional Competitiveness: Commercial and Industrial Properties

Minnesota's commercial and industrial property tax competitiveness within the upper Midwest varies depending on property value and location. Higher value properties are at the greatest disadvantage – continuing a long-existing trend. Compared to other large regional cities, Minneapolis' commercial tax burden ranges from 4.2% below the upper Midwestern average for the $100,000 property to 15.1% above the average for the $25 million property. Similarly, Minneapolis' industrial tax burden ranges from 4.1% below the upper Midwestern average for the $100,000-valued property to 6.3% above the average for the $25 million-valued property.

Commercial and industrial property taxes in Glencoe are far less competitive than Minneapolis' are when compared to other rural communities in the upper Midwest. Glencoe's commercial property tax burdens range from a low of 41.5% above the regional average for a $100,000-valued parcel to 63.5% above the average for a $25 million-valued property. The property tax bills for industrial parcels in Glencoe range from 45.4% above the regional average for the $100,000-valued property to 56.5% above the average for the $25 million-valued property.

Minneapolis has a competitive property tax advantage for with commercial and industrial properties to Chicago, Aurora (IL), Detroit, and Milwaukee at the $100,000 level. Glencoe has the highest taxes for each of these examples except for the $1 million industrial parcel, where it ranks just behind Manistique, Michigan.

In both the rural and urban environments, Minnesota is at the greatest disadvantage with North Dakota. Commercial and industrial property tax burdens are 134% to 197% higher in Minneapolis than in Fargo on properties of equal value. The tax burden for both types of property is 184% to 273% higher in Glencoe compared to properties of equal value in Devils Lake (Table 14). Although industrial properties in Minnesota benefit from the state's full exemption of personal property, that exemption provides little competitive edge in the upper Midwest because Illinois, Iowa, North Dakota, and South Dakota offer the same exemption.

Table 14: Payable 2015 Commercial and Industrial Property Tax Burdens: Minnesota and Other Upper Midwestern States

Commercial Properties						
VALUE:	**$100,000**		**$1 Million**		**$25 Million**	
States	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**
Minnesota	**$3,092**	**$3,559**	**$39,047**	**$45,188**	**$1,010,610**	**$1,170,326**
Illinois – Chicago	4,325	--	43,249	--	1,081,225	--
Illinois – Remainder	4,112	2,375	41,124	23,750	1,028,106	593,742
Iowa	2,709	2,333	37,312	33,549	988,070	893,988
Michigan	4,950	3,378	49,502	33,776	1,237,562	844,412
North Dakota	1,363	1,255	13,626	12,550	340,643	313,750
South Dakota	1,919	2,007	19,187	20,070	479,665	501,760
Wisconsin	3,364	2,700	34,360	27,604	860,938	691,706
Upper Midwest Avg.	**$3,229**	**$2,515**	**$34,676**	**$28,070**	**$878,352**	**$715,669**
Industrial Properties (40% Real Property/60% Personal Property)						
VALUE:	**$100,000**		**$1 Million**		**$25 Million**	
States	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**
Minnesota	**$3,092**	**$3,559**	**$39,047**	**$45,188**	**$1,010,610**	**$1,170,326**
Illinois – Chicago	4,316	--	43,156	--	1,078,906	--
Illinois – Remainder	4,112	2,375	41,124	23,750	1,028,106	593,742
Iowa	2,731	2,185	37,526	32,071	993,433	857,036
Michigan	5,047	3,170	74,019	45,341	1,850,487	1,133,526
North Dakota	1,363	1,255	13,626	12,550	340,643	313,750
South Dakota	1,919	2,007	19,187	20,070	479,665	501,760
Wisconsin	3,220	2,585	32,925	26,451	825,062	662,882
Upper Midwest Avg.	**$3,225**	**$2,448**	**$37,576**	**$29,346**	**$950,864**	**$747,575**

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Section 4: Subsidization of Homeowners

Minnesota's property tax system, like those in many states, treats homesteads as a "preferred" property class – dictating that homeowners pay a smaller share of taxes than their share of market value – by pushing tax burden onto other types of property. Table 15 shows the ratio of the effective tax rate on a $1 million commercial property[3] to the effective tax rate on a median-value homestead property for each of our 53 urban areas. This "classification ratio" provides a measure of the degree to which commercial property owners subsidize homeowner property taxes.

Table 15: Commercial-Homestead Classification Ratios for Payable 2015, Urban Cities

State	City	Median Value ($)	Ratio	Rank	State	City	Median Value ($)	Ratio	Rank
New York	New York City	496,200	4.219	1	Texas	Houston	134,500	1.380	27
Massachusetts	Boston	413,500	3.999	2	Arkansas	Little Rock	149,300	1.279	28
South Carolina	Columbia	157,800	3.691	3	Georgia	Atlanta	217,700	1.216	29
Hawaii	Honolulu	591,600	3.620	4	New Mexico	Albuquerque	185,000	1.154	30
Colorado	Denver	283,100	3.618	5	Vermont	Burlington	269,300	1.147	31
Minnesota	**Minneapolis**	**204,600**	**2.746**	**--**	Illinois	Aurora	178,100	1.107	32
Illinois	Chicago	219,800	2.729	6	North Dakota	Fargo	171,800	1.106	33
Indiana	Indianapolis	117,000	2.648	7	Michigan	Detroit	41,900	1.103	34
Louisiana	New Orleans	192,000	2.198	8	Alaska	Anchorage	289,400	1.080	35
Alabama	Birmingham	84,400	2.190	9	Wisconsin	Milwaukee	111,900	1.070	36
Kansas	Wichita	120,900	2.180	10	Oklahoma	Oklahoma City	139,100	1.070	37
District of Columbia	Washington	486,900	2.171	11	Maine	Portland	244,500	1.043	38
Pennsylvania	Philadelphia	148,700	2.122	12	Ohio	Columbus	129,600	1.035	39
West Virginia	Charleston	103,600	2.107	13	Nebraska	Omaha	134,900	1.032	40
Minn minus state C/I	***Minneapolis***	***204,600***	***2.088***	***14***	Kentucky	Louisville	142,000	1.014	41
Arizona	Phoenix	178,800	2.066	15	California	Los Angeles	505,500	1.014	42
Idaho	Boise	189,000	2.035	16	New Hampshire	Manchester	197,400	1.000	43
Rhode Island	Providence	183,600	1.909	17	New Jersey	Newark	216,200	1.000	43
Missouri	Kansas City	132,300	1.859	18	North Carolina	Charlotte	174,400	1.000	43
Mississippi	Jackson	90,800	1.839	19	Oregon	Portland	311,800	1.000	43
New York	Buffalo	69,900	1.804	20	Washington	Seattle	473,300	1.000	43
Utah	Salt Lake City	238,700	1.800	21	Virginia	Virginia Beach	261,800	0.996	48
U.S. Average			**1.683**	**--**	Maryland	Baltimore	150,800	0.995	49
Tennessee	Memphis	91,800	1.600	22	Nevada	Las Vegas	187,300	0.988	50
Iowa	Des Moines	119,200	1.561	23	Connecticut	Bridgeport	172,900	0.959	51
South Dakota	Sioux Falls	160,700	1.559	24	Wyoming	Cheyenne	201,200	0.958	52
Florida	Jacksonville	131,600	1.464	25	Delaware	Wilmington	180,100	0.956	53
Montana	Billings	194,100	1.400	26					

Ratio = $1 million commercial ETR (real property only) divided by median value home ETR.

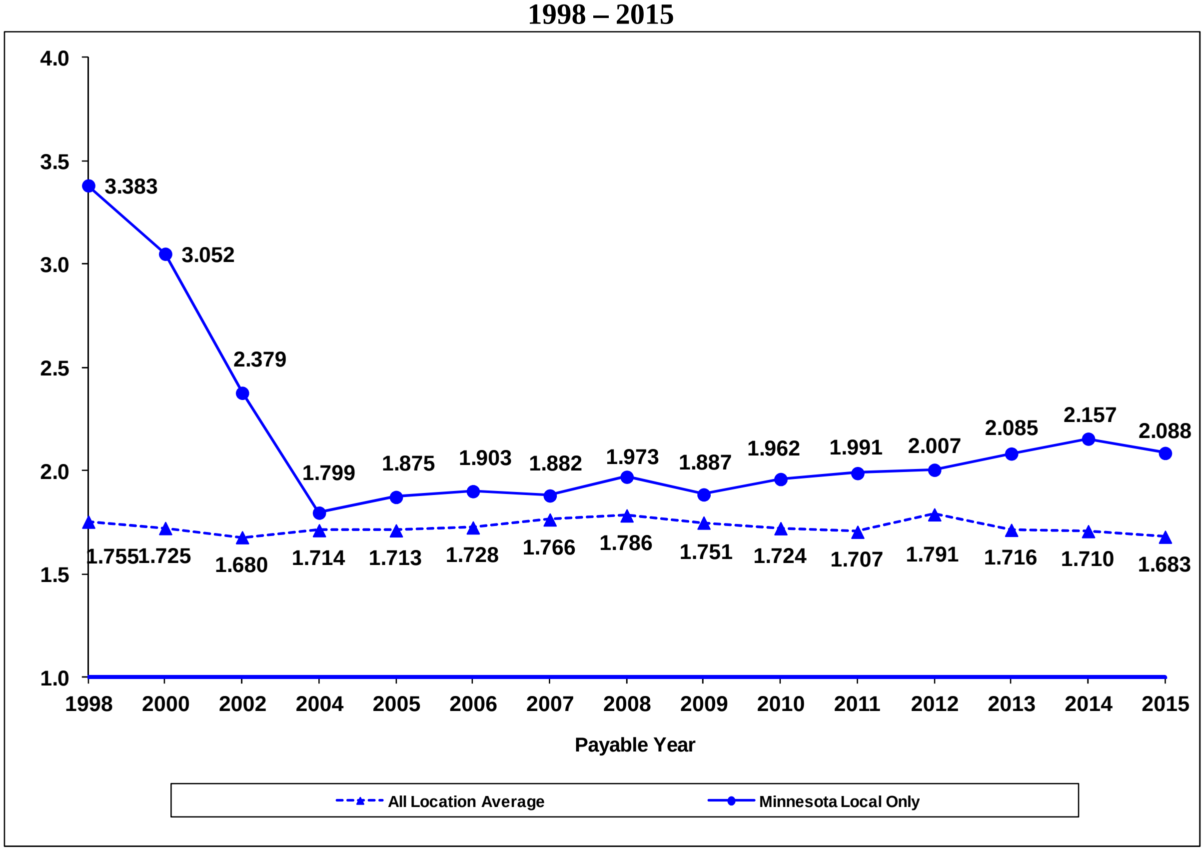
[3] Land and buildings only.

A ratio of 1.0 indicates no apparent classification between these two property types, which are typically the target of most classification systems. A ratio greater than 1.0 indicates some degree of classification, broadly defined, with higher values reflecting a greater degree of classification.[4] We calculated the ratios using taxes for real property only, after adjusting for differences in assessment practices. Differences in the quality of assessments between the types of property can produce a de facto classification system even with no formal classification scheme.

Some locations have high ratios because of extreme differences in how much of each property type's market value is taxable. For instance, in New York City, 6% of residential property value is taxable compared to 45% for commercial property. In other cases, differences in tax rates and/or homestead exemptions or credits account for the high ratio. In Boston, the homestead exemption equals about 38% of the median home's value, and the tax rate for homes is 41% that of commercial and industrial properties. Minnesota ranks in the top third of this list because our market value homestead exclusion and class rates differentials both benefit homeowners relative to commercial (and industrial) properties.

Minneapolis' 2.088 classification ratio for local property taxes only ranks 14th highest out of 53, falling one spot from last year's 13th place. The ratio fell 3.2% from last year and is 24.1% above the national average – indicating substantially higher subsidization of Minneapolis homeowners compared to other large cities. The ratio demonstrates that a $1 million commercial property in Minneapolis paid 115.7% more in local property taxes on its market value than did the owner of a median-valued home. If we include the $863.7 million levy the state imposed on business and cabin properties in 2015, the ratio increases to 2.749 – meaning that in total a $1 million commercial property in Minneapolis paid 182.1% higher taxes on its market value than the median valued home. As Table 15 indicates, adding the state general levy moves Minneapolis' ranking from 14th to 6th. Figure 1 shows how the ratio for local taxes only compares to the national average since 1998.

Figure 1: Commercial-Homestead Classification Ratio, Minnesota (Local Taxes Only) and All Location Average, 1998 – 2015



[4] Five locations have a ratio below 1.0, suggesting that their classification systems favor commercial properties over homesteads. This is simply a function of assessment practices; commercial properties in these locations are underassessed relative to homesteads.

As the figure indicates, Minnesota's classification ratio for local property taxes only dropped considerably between 1998 and 2004: the result of major property tax reform in 2001. Since then the general trend in this ratio has been upward and is currently 16% over the payable 2004 level. However, this year's study does see the first decline in the local-only classification ratio since payable 2009. This trend toward additional business subsidization of homeowner taxes differs from the nationwide trend since 2004, which has risen and fallen at times but in total has fallen 1.8% since that time.

Lower classification ratios mean that homeowners pay a larger share of the overall property tax burden. Nationally, greater homeowner sensitivity to property tax prices appears to play a role in slowing overall property tax growth. Twelve of the locations in our Urban set of cities have had classification ratios of no more than 1.05 in at least 75% (10 of 13) of the studies we published between payable 1998 and payable 2013. In two of those locations – Los Angeles, California and Portland, Oregon – limited market value provisions have been in effect during this period that have offered substantial tax relief to homeowners but which our study did not quantify prior to payable 2012. However, the ten remaining locations[5] with low classification ratios have historically offered little or no preferential treatment to homeowners. Census data indicates that between 1998 and 2013, property tax collections have grown more slowly per capita, and fallen more quickly relative to income, in the ten states with locations that have offered little or no homeowner subsidy (Table 16).

Table 16: Property Tax Collections, FY 1998 and FY 2013, for States With No Homeowner-Specific Assessment Limitations and With Classification Ratios < 1.05 and Remaining States

Fiscal Year	States with no homeowner-specific limited market value provisions and Classification Ratio < 1.050 (n = 10)		Remaining States (n = 41)	
	Prop Tax Per Capita	Prop Tax per $1,000 of Income	Prop Tax Per Capita	Prop Tax per $1,000 of Income
FY 1998	$989.48	$37.66	$830.04	$32.51
FY 2013	$1,617.56	$36.16	$1,412.58	$31.83
Pct Chg	**63.5%**	**(4.0%)**	**70.2%**	**(2.1%)**
Property tax and population data from Department of the Census; income data from Bureau of Economic Analysis. Calculations by MCFE.				

[5] Wilmington, DE; Louisville, KY; Newark, NJ; Omaha, NE, Manchester, NH; Las Vegas, NV; Charlotte, NC; Seattle, WA; Milwaukee, WI; and Cheyenne, WY.