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In This Issue:

State Union Contracts: What the Negotiations Tell Us

Tentative agreements have been reached, but harsh union criticism during the negotiations of "egregious anti-union," "union-busting" bargaining positions arising out of a DFL administration points to growing stresses in state human capital management and the need for system reform.

According to news reports, the state has reached a tentative agreement on 2021-23 contracts with its two largest public sector unions – the Minnesota Association of Professional Employees (MAPE) and AFSCME Council 5. The final contract details, as always, will be the focus of media attention and legislator talking points. But in public sector collective bargaining, the journey is no less important than the final destination. That's because collective bargaining in the public sector pits private labor interests not against wealthy owners of capital but rather against the broader public interest as represented by elected officials and their representatives. Absent insights into how the negotiations evolved, citizens have little ability to evaluate what provisions/changes government representatives believed were needed to advance the public interest or to what degree those provisions were secured or sacrificed in the final outcome.

This year, thanks especially to MAPE's commitment to what it calls "radical transparency" (radical because the general public could listen in on and read union updates and access each side's proposals on its website) we have a little better understanding than usual of how the journey unfolded. And this year's journey raises questions that deserve to be asked – not just concerning this year's contract negotiations and results, but also about the future of the state human capital system.

State Government: "A Terrible Negotiations Partner"

In an April 6th memo from MMB containing the state's opening proposal, union representatives were likely stunned to see some major proposed changes to longstanding collective bargaining workforce rules — especially coming from a DFL administration. Of primary concern were altered provisions pertaining to workforce processes and procedures, many centering around filling vacancies and dealing with layoffs and recall. For example, the state proposed eliminating language that in the case of equal job finalists, an individual in the bargaining unit must be selected.

The biggest waves were created by a direct attack on one of the most sacrosanct features of collective bargaining: seniority. For example, instead of basing layoff decisions exclusively on the basis of inverse seniority, the state proposed to include consideration of criteria that reflected "skills, experience, and merit of the employee in relation to the needs of the Appointing Authority (i.e. government)" such as:

- professional awards received external to government
- skills and qualifications beyond the minimum requirements of the position,
- demonstrated self-initiative with respect to new programs, processes, or projects
- consistent satisfactory or above performance reviews.

In addition, the state proposed to eliminate "bumping" rights whereby an employee receiving a layoff notice can take over the job of the least senior employee in the same job class, or another class in which the employee used to work or for which the employer determines the employee is qualified.

To say the least, these types of proposals were not well-received. In an on-line negotiation update in early June, MAPE representatives described the state as "a terrible negotiations partner" in which "everything feels very anti-union." They stated the state's bargaining position showed "a clear intention of union-busting, pitting employees against one another."

Another area of highlighted disagreement existed in the area of how to address workforce equity, diversity, and inclusion (EDI) issues. MAPE proposed adding 6 pages of new language to the contract comprised of new committees, training, reviews, metrics, and workforce rule and process changes. Employees not already assigned to an agency Equity, Access and Inclusion Department would be allotted time to work on EDI issues (at the request of management), and those who volunteer to do so would have their workload adjusted to ensure employees would not be unfairly burdened by tasks impeding their normal work performance — including modifying the employee's performance measures themselves. Position descriptions would be updated to make equity work part of staff assigned duties at all agencies. Hiring processes would be altered. Equity criteria would have

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to be incorporated in all position descriptions before posting, and decision-makers in the hiring process would be diversified.

Well-meaning intentions aside, state negotiators strongly resisted these intrusions into management control. The National Academy of Public Administration has described government human capital systems as suffering from bureausclerosis – “preoccupied with a process of internal compliance with layers of regulations that advance neither agency mission or merit.” It seems possible the state saw the addition of these provisions as a recipe for full blown cardiac arrest for the state human resource system. Instead, recognizing that human resource decisions based exclusively on seniority are very likely to affect a disproportionate number of EDI employee groups, the state proposed including a consideration of adverse impacts of seniority on EDI outcomes in making any layoff decisions. For MAPE, that was an equity and inclusiveness bridge too far.

The ideas and recommendations of these organizations are major departures from the traditional designs and features of <u>both</u> historical civil service systems and collective bargaining systems that have been a staple of government for decades.

A cynic may question the sincerity of the state’s interest in these proposals and view their existence as providing future sacrificial fodder to reach an agreement. A mega-cynic might wonder how real the tension and rift between a DFL administration and its historical political allies really was and whether the negotiation battle might be better thought of as a World Wrestling Federation script to fire up membership and strengthen the union’s reputation. It is interesting that, according to MAPE, on July 9th the state “dropped their remaining egregious, anti-union proposals” even before major economic provisions like health care cost share and cost of living increases had been settled where the state’s greatest bargaining leverage existed.

However, there is reason to believe that the state’s proposals were serious and that the drawbacks of the current state human capital system are becoming more evident to agency management and leadership. That may be true because of the experience with COVID. Emergency Executive Order 20-07 provided state agencies “the flexibility to hire staff, schedule, assign, reassign employees without adherence to limitations in collective bargaining agreement, memoranda of understanding, compensation plans, administrative rules, administrative procedures and policies that present barriers to the needs of state agencies to effectively and efficiently mobilize and deploy their workforce.” One can’t help but wonder if this experience gave agency administrators and managers a hint of what “could be” with respect to improving effectiveness, efficiency, and accountability in the delivery of government services in non-emergency times. As a chief administrator in another state has stated “the global pandemic has shown us that we are capable of changing quickly and at scale. Now we have the opportunity to think through which changes we want to make more permanent, along with other changes we want to make to further increase our operational resilience.” [1]

A Half Century of Fitting Square Pegs into Round Holes

“Over the years the basic purpose of civil service systems has been forgotten: to recruit the most talented among our citizens in government, not to employ legions of classification experts and personnel administrators who spend days tracing bumping routes and rewriting job descriptions. State and local governments have a hard enough time as it is recruiting the best and brightest without actively discouraging them.”

— Hard Truth /Tough Choices – An Agenda for State and Local Reform, Report of the National Commission on State and Local Public Service, 1993. Report to the Clinton Administration.

Even since public union collective bargaining became established in the late 60’s and early 70’s, scholars and public administrators have struggled to address the friction and dissonance between civil service based on merit principles and collectively-bargained labor relations. Thirty years ago, a journal article from the American Society of Public Administration captured the essence of the challenge:

> *Although merit principles may be acknowledged and supported by unions, they are not nor can they be the building blocks of unionism. The union is an instrument rooted in collectivism, designed to counterbalance the employer and ensure equality and uniform treatment of employees. As long as the determination of merit and fitness possesses subjective elements, they cannot be considered legitimate union objectives.*[2]

States have long tried to reconcile this conflict by designating certain subjects in statute with strong merit principle relationships as a “management right” and not subject to collective bargaining. This same journal article included a statutory review of subjects removed from the scope of collective bargaining in all 50 states. At that time only 4 of 20 human resource subject areas in Minnesota were reserved by the state through statute as a management right; the rest were subject to collective bargaining. Our cursory review suggests little has changed in the intervening years. Although Minnesota state statute still declares “precedence of merit principles” in its state personnel management policy,[3] as a practical matter collective bargaining constructs have supplanted them and drive the state’s personnel function.

For the National Academy of Public Administration, the National Association of State Chief Administrators, other good government organizations, and special commissions like that quoted above, the challenges of meeting government’s human capital needs this century demands a recommit-

[1] “Job One 2020, Transform State Government’s Workforce for Tomorrow” National Association of State Chief Administrators

[2] “State Civil Service and Collective Bargaining: Systems in Conflict,” Joel M Douglas, *Public Administration Review* March - April 1992, Vol 52. No 2.

[3] Minnesota Statutes 2020, Chapter 43A.01, Subd. 2

ment to merit principles by changing the way they are brought to life in human capital systems, including those that are collectively bargained. The ideas and recommendations of these organizations are major departures from the traditional designs and features of *both* historical civil service systems and collective bargaining systems that have been a staple of government for decades. Needed reform doesn't lie in a law change; it's the stuff of "state blue ribbon commissions" typically reserved for tax reform, health care, and other complex areas of public policy. Though no less relevant to effective, efficient, accountable government, the human capital system hasn't shared the high profile of these other policy areas.

Questions That Need To Be Asked

Meanwhile, this year's tentative contract agreements and the negotiations leading up to them prompt some important questions - particularly on the management side. Even though the final details haven't come out, we have a good idea of what labor interests achieved. In addition to beating back self-described "anti-union" proposals, MAPE reports they "secured major victories for our members including strong wage increases, added significant benefits to our health insurance with no major changes in out-of-pocket costs or share of premium costs, added Juneteenth as a holiday, secured a large increase to employer contribution to deferred compensation, and more." Objectively, when looking at the contract details made available to date there is no exaggeration in this assessment. For example, over half of MAPE employees are also eligible for step increases,[4] (57% of MAPE membership in the last contract cycle). For these employees the 2.5% per year salary increase is compounded by an annual 3.6% increase on the employee's work anniversary (if history holds true) yielding a two-year salary increase of 12.8%. That's on top of the 12.5% in the last two-year cycle among step-eligible workers.

What's much less clear is how the broader public interest was served in the latest agreements. Some questions we'd like to hear asked as contracts wind their way through the Subcommittee on Employee Relations and ultimately the Legislature:

- What was the state's rationale/motivation/interest behind proposals to eliminate bumping and introduce other considerations beside seniority in certain types of personnel decisions? Has the status quo demonstrated some detrimental effects on state government operations and service delivery? If so, what are they?
- What caused the state to drop these proposals? Were any concessions made in return by labor on existing workforce rules that enhanced the state's flexibility/ control in human resource management?
- Looking back on the last year while operating under the substantially greater flexibility the Governor's Executive Order on workforce management provided, are there any areas in human resource management that the state feels generated positive benefits with respect to more effective and efficient government, and therefore deserve to be made a permanent element of state workforce policies and practice?
- Looking at the totality of the agreements, can the state point to new provisions or elements that advance the public interest in the area of state human resource management to effective, efficient, accountable government — other than satisfying labor economic interests and maintaining labor peace?
- Looking outside of the agreements, what initiatives are in place to address critical state human resource needs like strategic workforce and succession planning, identifying and filling statewide talent gaps, and upskilling? How do these strategic initiatives fit with a human resource system whose prime directive and objective is to create uniformity and equity across hundreds upon hundreds of extremely dissimilar "jobs"?

We would not be surprised if most of MMB's answers to these questions were essentially defensive – like preventing greater inflexibility in government operations and entanglements in new workforce rules. But as good government organizations and practitioners are telling us, government human resource systems need to be far more flexible, agile and responsive to attract needed talent and address the extraordinary challenges facing government this century, not be one-size-fits-all and preoccupied and mired in administrative rules and process. Simple defense is no longer adequate to serve the public interest. ■

Minnesota Results for the 50-State Property Tax Comparison Study for Taxes Payable in 2020

Our annual look at how Minnesota compares nationally on effective property tax rates, tax burdens, and property tax competitiveness.

First published in 1995, this 2021 report (covering taxes payable in 2020) represents the 21st edition of the *50-State Property Tax Comparison Study*[5]. Published in conjunction with the Lincoln Institute of Land Policy, the 50-State Study examines property taxes on homestead, commercial, industrial and apartment properties with specific values located in the largest city in each state (i.e. "urban cities"). The urban cities group assesses the structure of 53 cities. In addition to 50 state systems, there are essentially three "city-states" – Washington DC, Chicago, and New York City – that have their own distinct property tax systems, spurring the additions of Aurora, Illinois and Buffalo, New York to the study to represent the Illinois and New York state systems. The 50-State Study also offers a nonmetropolitan "rural city" from all 50 states (with population between 2,500 and 10,000), and a separate comparison of the most populous 50 cities in the U.S., which does not include 23 cities in the urban city group. The Lincoln Institute provides additional analysis of all 73 of these "large cities" (ranging from Burlington VT at 43,000 to New York City at 8.4 million) in appendix tables 1a – 1d of the report. That data is not discussed as part of MCFE's Minnesota results.

[4] Even though they are now commonly called "merit increases" (connoting performance "deserving of special praise, reward or honor" per Webster's Dictionary) step compensation in government is given for satisfactorily meeting job expectations and performance standards. Moreover, the state's default action is to grant everyone their annual step increases. In other words, providing step raises does not require an affirmative notification or approval by management. Instead, refusing a step increase requires a manager to give the employee a written notice that the step increase is to be withheld because of less than satisfactory performance. If that notification is not given to the employee prior to the employee's anniversary date, the step increase is automatically granted. Any withholding of a step increase is grievable/arbitrable which triggers administrative demands most managers would prefer not to have to deal with. According to MMB, in the last contract cycle, 92% percent of step-eligible employees receive their step increases.

[5] *https://www.lincolninst.edu/publications/other/50-state-property-tax-comparison-study-2020*

The 50 State Study contributes to a better understanding of how state property tax system design affects property tax burdens. Property tax systems' structural features have major influences on tax rankings. Such features include both technical issues like classification schemes and assessment practices and broader topics related to the fiscal system, such as the existence of any state levies, the relationship between state and local governments, and access (or lack thereof) to revenues outside of the property tax to support local government. Importantly, these structural influences are usually not city-dependent but impact the property tax bills of every similar type of property across a state.

Minnesota Urban Results

From 2019 to 2020, effective tax rates remained quite flat for all Minneapolis property types and values included in the study. For median-value homes, the effective tax rate remained at 1.37% and 20th highest nationally among the 53 urban cities in the study. The average effective tax rate for urban cities went down slightly to 1.38% making Minneapolis almost exactly average.

Commercial effective tax rates declined slightly, but Minneapolis taxes remained 10th highest on $1 million properties and 7th highest on $25 million properties. On the first $100,000 in value, Minneapolis' effective tax rate increased slightly, moving the ranking up from 27th to 26th which was still below the urban city average by $137. The $100,000 value essentially shows how Minneapolis property taxes rank without the state business tax (SBT) on commercial and industrial property since the state exempted the first $100,000 in value from that tax in 2017. The 2020 commercial numbers also show the impact of the 2019 legislative action to reduce the SBT by $50 million by removing the inflator and freezing the levy. The 2019 legislative action does not affect the $100,000 value since it is exempt, and the effective tax rate rose slightly from 1.73% to 1.76%. For the higher value properties, the effective tax declined slightly, although the taxes remain substantially above average – by $9,432 on a $1 million property and $267,688 on a $25 million property.

The same effect can be seen in the industrial properties where Minneapolis moved up from 34th to 33rd in 2020 at $100,000 in value and stayed put at 19th for a $1 million property and 18th for a $25 million property. The lower taxes and rankings in industrial property are due to the number of states that tax personal property. Minnesota does not tax personal property and there is greater personal property value associated with industrial properties compared to commercial properties. Despite that difference, Minneapolis still has industrial property tax bills of $4,601 above average on a $1 million industrial property and $143,488 on a $25 million industrial property. [TABLE 1]

Table 1: Minnesota Urban City Property Tax Changes, Payable 2019 to Payable 2020, by Effective Tax Rate (ETR) and Total Tax

Minneapolis, Minnesota	2019	53 City Average	Mpls vs Average	2020	53 City Average	Mpls vs Average	Mpls MV Change	Mpls Change
HOMESTEAD								
Median Value ETR	1.37%	1.40%	-0.03%	1.37%	1.38%	-0.01%		0.00%
Median Value ETR Rank	20	——	——	20	——	——		——
Median Value Tax Bill	$3,687	$3,306	$381	$3,861	$3,470	$392	$12,700	$174
Median Value Tax Bill Rank	15	——	——	15	——	——		——
COMMERCIAL								
$100,000 ETR	1.73%	1.85%	-0.12%	1.76%	1.88%	-0.11%		0.03%
$100,000 Tax Bill	$2,081	$2,225	-$144	$2,116	$2,253	-$137		$35
$100,000 Rank	27	——	——	26	——	——		1↑
$1 Million ETR	2.77%	1.92%	0.85%	2.74%	1.95%	0.79%		-0.03%
$1 Million Tax Bill	$33,219	$23,052	$10,167	$32,872	$23,439	$9,432		-$347
$1 Million Rank	10	——	——	10	——	——		——
$25 Million ETR	2.92%	1.96%	0.96%	2.88%	1.99%	0.89%		-0.04%
$25 Million Tax Bill	$875,604	$587,222	$288,382	$864,372	$596,684	$267,688		-$11,232
$25 Million Rank	7	——	——	7	——	——		——
INDUSTRIAL (50% PERSONAL PROP)								
$100,000 ETR	1.05%	1.32%	-0.27%	1.06%	1.33%	-0.28%		0.01%
$100,000 Tax Bill	$2,092	$2,631	-$539	$2,111	$2,666	-$555		$19
$100,000 Rank	34	——	——	33	——	——		1↑
$1 Million ETR	1.67%	1.40%	0.28%	1.64%	1.41%	0.23%		-0.03%
$1 Million Tax Bill	$33,399	$27,898	$5,501	$32,793	$28,192	$4,601		-$606
$1 Million Rank	19	——	——	19	——	——		——
$25 Million ETR	1.76%	1.42%	0.34%	1.72%	1.44%	0.29%		-0.04%
$25 Million Tax Bill	$880,255	$711,619	$168,636	$862,328	$718,840	$143,488		-$17,927
$25 Million Rank	18	——	——	18	——	——		——

Minnesota Rural Results

Glencoe's effective tax rate on homesteads went up slightly from 2019 to 2020, resulting in a move up in the rankings from 22nd to 20th. Glencoe is now slightly above average in homeowner property taxes compared to the group of 50 rural U.S. cities. Effective tax rates on commercial and industrial property values increased significantly in Glencoe from 2019 to 2020, partly due to a local rate increase, but mainly due to assessments "catching up" after two years of undervaluation. Glencoe moved up from 6th to 2nd out of 50 rural cities at both the $1 million and $25 million property value, and from 24th to 9th at the $100,000 value.

Comparisons of commercial and industrial property for rural cities can have wide variance from year to year. This is due to the limited number of qualified sales in any one year, making it difficult for assessors to find examples of "like" properties needed to recalibrate market values. In essence, a handful of sales in a given year can produce a wider swing in a rural city than would be expected in a large city – effectively resetting the assessed value. For these property types (industrial in particular), it is much more informative to look at a rural city over a longer time period for a good sense of its relative position. [TABLE 2]

It's easy to be misled when looking at property tax changes from just one year to the next in a ranked study like the *50-State Property Tax Comparison Study*. There are generally too many moving parts in what ultimately produces the effective tax rate and the tax bill to make a simple conclusion about what might have caused any changes. The 2020 commercial and industrial property results for Glencoe are a case in point. Anyone taking a cursory look might just assume that the local governments involved simply raised tax rates and leave it at that. While it's true that the local tax rate rose in Glencoe from 2019 to 2020, that was more than offset by a decline in the state tax rate on commercial property due to a decision by the 2019 Legislature (see state and local rate table). In 2021, we will see the result of the 2020 legislature's more recent action, which was to raise the exempted value from $100,000 to $150,000 of assessed value. [TABLE 3]

Therefore, due to Minnesota's unique state property tax on commercial property, even the idea that it was simply local decisions responsible for a change in taxes might immediately be wrong even if the property was valued at 100%. And, of course, these local and state rates on commercial properties don't easily give you an accurate picture of what a "typical" property owner is experiencing (if there is such a thing), because most commercial property owners in most years will experience changes in the assessed value of the property that we cannot represent in the *50-State Study*. Unlike homes –

Table 2: Minnesota Rural City Property Tax Changes, Payable 2019 to Payable 2020, by Effective Tax Rate (ETR) and Total Tax

Glencoe, Minnesota	2019	50 City Average	Glencoe vs Avgerage	2020	50 City Average	Glencoe vs Avgerage	Glencoe MV Change	Glencoe Change
HOMESTEAD								
Median Value ETR	1.24%	1.33%	-0.09%	1.29%	1.28%	0.01%		0.05%
Median Value ETR Rank	22	——	——	20	——	——		2 ↑
Median Value Tax Bill	$1,720	$1,882	-$162	$1,899	$1,834	$64	$8,100	$179
Median Value Tax Bill Rank	19	——	——	18	——	——		1 ↑
COMMERCIAL								
$100,000 ETR	1.71%	1.70%	0.01%	2.22%	1.65%	0.56%		0.51%
$100,000 Tax Bill	$2,050	$2,042	$8	$2,659	$1,984	$675		$609
$100,000 Rank	24	——	——	9	——	——		15 ↑
$1 Million ETR	2.70%	1.76%	0.95%	3.33%	1.72%	1.61%		0.63%
$1 Million Tax Bill	$32,451	$21,067	$11,384	$39,993	$20,662	$19,331		$7,542
$1 Million Rank	6	——	——	2	——	——		4 ↑
$25 Million ETR	2.86%	1.78%	1.08%	3.50%	1.74%	1.75%		0.64%
$25 Million Tax Bill	$856,451	$532,813	$323,638	$1,048,952	$522,515	$526,437		$192,501
$25 Million Rank	6	——	——	2	——	——		4 ↑
INDUSTRIAL (50% PERSONAL PROP)								
$100,000 ETR	1.10%	1.24%	-0.14%	1.35%	1.21%	0.14%		0.25%
$100,000 Tax Bill	$2,194	$2,478	-$284	$2,696	$2,425	$271		$502
$100,000 Rank	25	——	——	10	——	——		15 ↑
$1 Million ETR	1.74%	1.30%	0.44%	2.02%	1.27%	0.75%		0.28%
$1 Million Tax Bill	$34,774	$25,943	$8,831	$40,456	$25,414	$15,042		$5,682
$1 Million Rank	10	——	——	6	——	——		4 ↑
$25 Million ETR	1.83%	1.32%	0.52%	2.12%	1.29%	0.83%		0.29%
$25 Million Tax Bill	$916,615	$658,321	$258,294	$1,060,948	$644,993	$415,955		$144,333
$25 Million Rank	8	——	——	5	——	——		3 ↑

Table 3:

Year	Local Rate	Change	State Rate	Change	Tax Bill	Change	State Law Change*
Glencoe MN $1 Million Commercial Property State and Local Rates and Tax Bill							
2015	148.60	—	50.84	—	$45,188		
2016	158.55	9.95	48.64	(2.20)	$36,093	-$9,095	
2017	150.65	(7.90)	45.80	(2.84)	$39,720	$3,627	$100,000 Exemption/ Freeze Levy
2018	148.45	(2.21)	43.87	(1.94)	$31,713	-$8,007	
2019	148.75	0.30	42.42	(1.45)	$32,451	$738	Remove Inflator/Freeze Levy
2020	153.90	5.15	35.98	(6.44)	$39,993	$7,542	Exemption increased to $150,000
Change		**5.30**		**(14.86)**		**-$5,195**	
Minneapolis MN $1 Million Commercial Property State and Local Rates and Tax Bill							
2015	143.45	—	50.84	—	$39,047		
2016	137.17	(6.29)	48.64	(2.20)	$36,026	-$3,021	
2017	133.73	(3.44)	45.80	(2.84)	$34,208	-$1,818	$100,000 Exemption/ Freeze Levy
2018	132.60	(1.13)	43.87	(1.94)	$31,273	-$2,935	
2019	128.81	(3.79)	42.42	(1.45)	$33,219	$1,946	Remove Inflator/Freeze Levy
2020	128.44	(0.37)	35.98	(6.44)	$32,872	-$348	Exemption increased to $150,000
Change		**(15.02)**		**(14.86)**		**-$6,175**	

*State law changes impact property tax in the following year

Table 4:

Year	Effective Tax Rate	Rank	State & Local Tax Rate	State & Local Rate Change	Sales Ratio	Sales Ratio % Point Change	Impact on Effective Tax Rate	Effective Tax Rate Change
Glencoe MN $1 Million Commercial Property Tax Rates and Sales Ratios, 2015-2020								
2015	3.766%	2	199.44	—	113.20%	—		
2016	3.008%	2	207.19	7.75	87.20%	(26.00)	↓	(0.758)
2017	3.310%	2	196.45	(10.74)	101.10%	13.90	↑	0.302
2018	2.643%	6	192.31	(4.14)	84.10%	(17.00)	↓	(0.667)
2019	2.704%	6	191.17	(1.15)	86.90%	2.80	↑	0.062
2020	3.333%	2	189.88	(1.29)	105.86%	18.96	↑	0.628
Change	—	—	—	**(9.56)**	—	**(7.34)**	↓	**(0.433)**
Minneapolis MN $1 Million Commercial Property Tax Rates and Sales Ratios, 2015-2020								
2015	3.254%	7	200.09	---	95.60%	---		---
2016	3.002%	9	189.74	(10.36)	93.10%	(2.50)	↓	(0.252)
2017	2.851%	8	184.59	(5.15)	91.10%	(2.00)	↓	(0.152)
2018	2.606%	12	180.38	(4.21)	87.50%	(3.60)	↓	(0.245)
2019	2.768%	10	176.07	(4.31)	94.20%	6.70	↑	0.162
2020	2.739%	10	169.09	(6.98)	97.35%	3.15	↑	(0.029)
Change	—	—	—	**(30.00)**	—	**1.75**	↑	**(0.515)**

where there is data on median market value for cities – no such data exists for commercial property (i.e. last year's $1 million property isn't worth $1 million this year). This is why effective tax rates are used throughout the study, because they allow comparison that can represent the effect of a tax system at different levels of assessed value.

As it turns, the big tax increase in 2020 for Glencoe commercial and industrial property is the sales ratio, which is one element in determining the effective tax rate. Sales ratio studies are conducted throughout the country to give assessors a measure of how close the assessed values used for property taxes are to actual values based on recent sales of similar properties in the area. In Glencoe's case, the sales ratios are for all of McLeod County, and the median sales ratio rose from 87% of market value for taxes levied in 2019 to 106% of market value for taxes levied in 2020, which is a very substantial swing (see rate and sales ratio table). What the sales ratios tell us is that in 2018 and 2019 when Glencoe ranked 6th nationally in property taxes on a $1 million commercial property, commercial and industrial properties (represented by the ones that were sold) were paying lower property taxes than what turned out to be 100% of the market value. That has now been corrected, but rather than being less under-assessed, those properties are somewhat over-assessed for our 2020 calculations. [TABLE 4]

What the numbers don't tell you is that Glencoe (McLeod County) is not alone in the challenges faced when assessing commercial properties in more rural areas where there are not a lot of sales to base assessments on in a given year. This is a difficulty faced by assessors throughout the country in trying to determine the proper market value for levying taxes. In general, assessors like to be between 90% and 105% of market value and there are often state laws that require correction if that type of threshold is not met. In the case of Minneapolis, it is easy to see that the sales ratio swings are much less – even though they did slip below 90% one year. This stability is a product of having many more sales each year on which to base their estimates, which is also generally true throughout the country.

The point of the *50-State Study* is to find out the actual taxes paid in each jurisdiction as closely as we are able, and the sales ratio is an important part of that equation – although we usually don't see the impact that we see for Glencoe this year. As the tables spanning 2015-2020 show, the return to 2nd highest is actually where Glencoe has historically been and is not due to decisions by local governments in a single year. For more on sales ratios, see the working paper that MCFE produced for the Lincoln Institute of Land Policy in 2020[6].

Regional Comparisons on the Impact of the State Business Tax

Minnesota's unique state business tax (SBT) continues to have a large effect on how Minneapolis and Glencoe rank regionally. A look at the Upper Midwest Region reveals that for urban cities, the region has high taxes nationally for commercial property valued at $1 million, accounting for 6 of the top 14 cities in the urban city group of the *50-State Study*. Minneapolis has a higher tax than Milwaukee but is lower than Chicago, Aurora, Des Moines and Detroit. Because of the radically lower taxes in Fargo and Sioux Falls, Minneapolis is still 1.9% above the regional average. Without the state business tax, Minneapolis would drop below Milwaukee down to 18th place at 20% below the regional average. (For more on the state business tax, see this MCFE blog from February 25, 2020.)[7]

The Upper Midwest Region does not quite rank as high in commercial taxes for rural cities (with 4 out of the top 12 in the study). As discussed, this year's changes put Glencoe up to 2nd nationally and highest in the region on $1 million and $25 million commercial property. Without the SBT, Glencoe would rank 5th highest, between Manistique MI and Hampton IA in national rankings. [TABLE 5]

The same impact can be seen in the regional comparison on industrial taxes, where Glencoe ranks 6th on a $1 million industrial property and would rank 11th without the SBT. It is important to note here that – with a few exceptions – most personal property is also not taxed in the other states in our region (see page 94-95 of the study), so the advantage Minnesota has nationally from that feature of our tax system is not in evidence in regional comparisons. [TABLE 6]

6 *https://www.lincolninst.edu/publications/working-papers/examination-sales-ratio-data-sources-incorporated-50-state-property-tax*

7 *https://www.fiscalexcellence.org/policy/property-taxes/generaltax.html*

Table 5: Effects of State Business Tax (SBT) on Minnesota Regional Competitveness for Commercial Property Valued at $1 Million, Payable 2020

Urban Cities - Upper Midwest Region						
Locations	Total Tax		Rank (53 Cities)		Tax vs Regional Average	
	With SBT	Without SBT	With SBT	Without SBT	With SBT	Without SBT
Minneapolis, MN	**$32,872**	**$26,129**	**10**	**18**	**(1.9%)**	**(20.0%)**
Chicago, IL	$48,319	$48,319	2	2	44.2%	47.9%
Aurora, IL	$35,238	$35,238	6	6	5.1%	7.8%
Des Moines, IA	$41,071	$41,071	5	5	22.5%	25.7%
Detroit, MI	$49,892	$49,892	1	1	48.9%	52.7%
Fargo, ND	$12,904	$12,904	47	47	(61.5%)	(60.5%)
Sioux Falls, SD	$16,897	$16,897	36	36	(49.6%)	(48.3%)
Milwaukee, WI	$30,943	$30,943	14	13	(7.7%)	(5.3%)
Upper Midwest Avg.	**$33,517**	**$32,674**	—	—	—	—

Rural Cities - Upper Midwest Region			Rank (50 Cities)			
Glencoe, MN	**$39,993**	**$32,661**	**2**	**5**	**53.0%**	30.2%
Galena, IL	$23,299	$23,299	21	21	(10.8%)	(7.1%)
Hampton, IA	$30,328	$30,328	6	6	16.1%	20.9%
Manistique, MI	$33,637	$33,637	5	4	28.7%	34.1%
Devils Lake, ND	$14,012	$14,012	35	35	(46.4%)	(44.1%)
Vermillion, SD	$14,927	$14,927	33	33	(42.9%)	(40.5%)
Rice Lake, WI	$26,737	$26,737	12	12	2.3%	6.6%
Upper Midwest Avg.	**$26,133**	**$25,086**	—	—	—	—

Table 6: Effects of State Business Tax (SBT) on Minnesota Regional Competitveness for Industrial Property Valued at $1 Million (50% Personal Property), Payable 2020

Urban Cities - Upper Midwest Region						
Locations	Total Tax		Rank (53 Cities)		Tax vs Regional Average	
	With SBT	Without SBT	With SBT	Without SBT	With SBT	Without SBT
Minneapolis, MN	**$32,872**	**$26,129**	**10**	**18**	**(1.9%)**	**(20.0%)**
Chicago, IL	$48,319	$48,319	2	2	44.2%	47.9%
Aurora, IL	$35,238	$35,238	6	6	5.1%	7.8%
Des Moines, IA	$41,071	$41,071	5	5	22.5%	25.7%
Detroit, MI	$49,892	$49,892	1	1	48.9%	52.7%
Fargo, ND	$12,904	$12,904	47	47	(61.5%)	(60.5%)
Sioux Falls, SD	$16,897	$16,897	36	36	(49.6%)	(48.3%)
Milwaukee, WI	$30,943	$30,943	14	13	(7.7%)	(5.3%)
Upper Midwest Avg.	**$33,517**	**$32,674**	—	—	—	—

Rural Cities - Upper Midwest Region			Rank (50 Cities)			
Glencoe, MN	**$39,993**	**$32,661**	**2**	**5**	**53.0%**	30.2%
Galena, IL	$23,299	$23,299	21	21	(10.8%)	(7.1%)
Hampton, IA	$30,328	$30,328	6	6	16.1%	20.9%
Manistique, MI	$33,637	$33,637	5	4	28.7%	34.1%
Devils Lake, ND	$14,012	$14,012	35	35	(46.4%)	(44.1%)
Vermillion, SD	$14,927	$14,927	33	33	(42.9%)	(40.5%)
Rice Lake, WI	$26,737	$26,737	12	12	2.3%	6.6%
Upper Midwest Avg.	**$26,133**	**$25,086**	—	—	—	—

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Concern has been raised over the years about whether Glencoe is representative of Minnesota rural cities for the purposes of this study, and inaccurate assertions have been made that Glencoe is an outlier compared to other Minnesota cities. We found that was not true when we ran all other Minnesota cities that qualify for the "rural" definition through the model for taxes payable in 2016. The result[8] was that 11 of the 25 cities would have ranked 2nd that year, and 18 of the 25 cities would have ranked in the top five, so Glencoe is clearly not an outlier and serves the purpose of representing Minnesota's property tax system for the *50-State Study.* ■

[8] *https://www.fiscalexcellence.org/policy/property-taxes/FF-MayJune-2019-REA-Response.html*