

In This Issue:

- About that Budget Deficit
- The Time is Now for Nowcasting
- 50 State Property Tax Study – Minnesota Results

About that Budget Deficit

In a chaotic period dominated by COVID response and civil unrest, action on the budget deficit drifted down lawmakers' to-do list. A look at the status, environment, and options for budget repair in the next special session.

When the interim budget projection in March flipped the state from a \$1.5 billion surplus to a \$2.5 billion deficit, one might have expected budget repair to be a focal point for lawmakers. That was most certainly not the case. In the context of policing reform, civil unrest, emergency powers, bonding, and COVID aid to local governments, the state budget deficit seemed to be a legislative afterthought.

Minnesota Center for Fiscal Excellence

Jerry Morris Bob DeBoer
President *Research Director*
Mark Haveman Linda Edstrom
Executive Director *Executive Secretary*

The Minnesota Center for Fiscal Excellence is a non-partisan, non-profit corporation founded in 1926 to advance economy and efficiency in government.

Unless otherwise noted, original material in MCFE publications is not copyrighted and may be reproduced without obligation. Please credit the Minnesota Center for Fiscal Excellence.

Fiscal Focus (USPS 519130) (ISSN 1042847X) published Bi-monthly in February, April, June, August, October & December by the Minnesota Center for Fiscal Excellence, 85 East Seventh Place, Suite 250, St Paul, MN 55101. Periodicals postage paid at St Paul, MN. Postmaster: Send address changes to Fiscal Focus, c/o Minnesota Center for Fiscal Excellence, 85 East Seventh Place, Suite 250, St Paul, MN 55101.

Phone: (651) 224-7477 or
(800) 322-8297
Fax: (651) 224-1209

E-mail: question@fiscalexcellence.org
Web Site: www.fiscalexcellence.org

Our next moment of budget recalibration does not come until the November forecast. The possibility of an equivalent or larger deficit heading into a biennial budget session with a much tighter window for repairs is not a pleasant thought. As MMB's economic forecast has suggested, this is a possibility. Growing consensus appears to be that a v-shaped recovery is unlikely and states' economic recoveries will likely be protracted slogs lasting a couple of years. With this in mind, it's worth taking a closer look at the environment for budget repairs in the next special session.

What Impact Might the Special Session Have?

If the proposals floating around the end of the first special session foreshadow what the final deals will look like, its doubtful much, if any, headway will be made. A tax bill by itself could increase the deficit because of federal conformity actions. The House's omnibus tax bill from early May would reduce general fund collections by a projected \$31 million in the coming fiscal year while the Senate's bill would have a \$258 million negative impact – in both cases largely a function of federal conformity actions. According to news reports, legislative leaders have indicated that behind the scenes an agreement has been reached on a tax bill. Since no conference committee meetings were held and no information has leaked on what type of compromise has been reached, it's difficult to predict what the general fund impact would be. Something between the two committees' goalposts would seem to be a fair assumption.

The other side of the ledger is more difficult to assess. Under normal circumstances a \$2.5 billion budget deficit might be expected to stop discussions of new supplemental spending dead in its tracks. But these are far from normal circumstances. No targets were made public so it is difficult to get an even general any sense of where negotiations would wind up on any supplemental budget spending. The governor's own supplemental budget provided the most detail, and that was understandably ratcheted back a couple of times as COVID developments unfolded.

The waning moments of the special session did offer a preview of what will certainly be a critical budget management tool going forward. In a bill distributing \$841 million of federal CARES aid to local governments, the House included an amendment which added \$148.3 million of the Governor's supplemental budget interests to the bill. However, the bill would have generated a small amount of savings for the state general fund. That is because the bill also included several expenditure transfers out of the state general fund and into the state's fund supported by federal coronavirus relief dollars. Some Republicans criticized this budget shift as an accounting convenience to enable new spending but the needle on this action points to opportunism rather than gimmickry. The state should look to take advantage of all possibilities to relieve pressure on the general fund by transferring expenses and spending obligations that can be justified as COVID-related into federal support. Immediately backfilling the space created with brand new spending might be objectionable, but from a state budget standpoint, the underlying strategy is a smart thing to do.

Federal dollars, and any reduced general fund pressure it creates, will play a major role in any budget agreement. Of the \$1.87 billion allocated directly to the state, \$1.66 billion still remained unallocated when the first special session ended. The Governor's subsequent decision to release that \$841 million under the formula approved by the House and Senate left \$818 million that can be used for COVID-related expenditure reimbursements. Both the House and Senate have outstanding proposals heading into the next special session leaving \$669.3 million and \$755.7 million balances in the coronavirus relief fund respectively. Acceptable uses include medical, public health, payroll, federal compliance, and economic support. Even though Treasury guidelines place restrictions on what spending reimbursements are permissible, they are broad enough to likely accommodate a variety of state spending deemed COVID-related. A possible queue for this treatment appears to already exist. Earlier this year the Senate unanimously passed a bill to change the source of \$333 million of COVID related appropria-

tions and transfers out of the state general fund and into federal COVID relief funds.

State spending targeting the economic fallout of the civil unrest following the death of George Floyd also has budget implications. Proposals in the House included \$125 million to create a special master panel to award claims for damages not covered by insurance and \$168 million for grants and loans to businesses and nonprofits in affected areas. The Senate has proposed a new \$327 million “Protest Response Fund” enabling local units of government to provide forgivable loans to businesses and organizations located in the affected areas. It’s worth noting that although the assistance mechanisms differ, the total spending in both the House and Senate bills are roughly the same and are also in line with the \$333 million of COVID-related spending the Senate voted to shift to federal support. It appears to us policymakers are looking hard at ways to support the reconstruction and redevelopment of impacted areas without significant additional general fund appropriations.

Federal support, so critical to the state’s pandemic response and budget management, may not be finished. Several weeks ago, the Democratic-controlled House passed a new stimulus bill, the \$3 trillion HEROES Act, that included \$915 billion in additional — and more flexible — state and local aid. The Republican-controlled Senate has not taken up the bill and President Trump has described it as “dead on arrival.” However, several Republican senators have spoken in favor of some form of general state and local government aid. Four have joined two democrats in sponsoring the State Municipal Assistance for Response and Transition (SMART) Act which would provide a more “modest” \$500 billion to states and local governments. Importantly, this package would compensate governments for lost revenue as well as COVID expenses.

Based on current language, Minnesota would receive about \$2.7 billion based on population share plus likely hundreds of millions more based on the two other distribution formula elements.

Based on current language, Minnesota would receive about \$2.7 billion based on population share plus likely hundreds of millions more based on the two other distribution formula elements: 1) the state’s relative share of COVID-infected popula-

tion in the U.S. (as of June 1 addressing the possible moral hazard problem); and 2) the state’s relative share of lost tax and other own source revenue. One-third of the \$2.7 billion aid portion would have to go to Minnesota local governments. Current language would not allow any of this aid to be used to rescue state pension funds which addresses one of the most commonly expressed objections to this aid. If movement happens on this bill in the 116th Congress it would almost certainly be toward the end of the year. But it’s safe

to say enactment of this legislation or something like it would make Minnesota elected officials at all levels breathe much easier heading into 2021.

The Familiar Tools

Before considering tax increases and spending cuts, lawmakers will also try to get the most it can out of the other tools in the state’s budget balancing toolkit.

Reserves — Lawmakers past and present deserve a major tip of the hat for the wisdom and prudence shown in developing and managing the state budget reserve. The \$2.7 billion (when including the cash flow reserve) is enough to cover the projected deficit, but how and how quickly it should be used is a critical question given the uncertainty surrounding the pandemic and the economic repercussions. It would be beneficial, as developments warrant, to have some additional flexibility to cut spending without fully draining the reserve. In that respect, the inability to unallot before the reserve has been fully drained is a disadvantage. Some have suggested giving the Governor greater unallotment powers — for example up to 50 cents for every dollar drawn

out of the reserve – to provide the budget flexibility current circumstances demand. Given the heavy political backlash against the use of his existing executive powers, we don’t expect a vote on that anytime soon.

Transfers — Transfers of other state special fund balances into the general fund or transfers of general fund obligations into state special funds have long been part of the state budget balancing playbook. However, those options may be more limited this year as COVID has inflicted collateral damage on state special funds as well. Looking at the 14 select non-general fund statements which are included in MMB’s May 2020 Interim Budget Update reveals tax revenues are expected to decline by \$166.1 million compared to the previous biennium. Most of this is due to lower forecasted general sales, motor vehicle tax and provider tax collections. That sum may be conservative since it does not include declines in other revenue sources accruing to these funds such as fees, licenses, and investment income.

Accounting shifts — School aid shifts are easy targets for criticism, but history shows they have long been used to buy additional time for state budget adjustments. According to House Research the state aid payment shift saves, on a one-time basis, around \$100 million for each percentage point that the current year aid payment is lowered. Thus, if the normal 90/10 aid payment split were reduced to 80/20, the state would realize a one-time savings on paper of around \$1 billion without actually cutting school district revenue. Of course, on the receiving end, the delay impacts a district’s cash flow and has the effect of potentially imposing borrowing costs. How well school districts own reserves and budgets in these times would be able to accommodate these shifts needs to be understood.

The combination of the state’s healthy budget reserve and federal support has dampened some of the urgency lawmakers feel regarding the state budget deficit. The prospects of another possible round of federal relief, an opening economy, and the availability of internal budget balancing maneuvers also foster a “wait and see” attitude. Put this all together, along with the desire to avoid tax increases and spending cuts in an election year, and it is unlikely any more attention will be given to the deficit whenever the next special session occurs. Whether we will come to regret not giving the issue more

consideration sooner remains to be seen. As a Moody's analyst recently commented, "The virus is in the driver's seat. We are all just along for the ride." ■

The Time is Now for Nowcasting

A new economic tracking tool using real time data from the private sector offers insights into what is happening now in the economy, what impact policies are and are not having, and how Minnesota's economic experience to date differs from the nation as a whole.

A big challenge for making budget and policy decisions in the time of COVID is the lack of real-time information on what is happening around us. Many government measures, especially those reported episodically and based on surveys of households and businesses, feature lag times offering reduced informational value for the rapidly changing circumstances we are experiencing today. Moreover, these measures are often unable to provide the granularity needed to understand what is going on in specific sectors, geographic areas, or within subgroups of populations.

For this reason there is heightened interest around the country in "high-frequency" reported data to obtain a better understanding of what is happening to economies on a real-time basis. The distinguishing feature of this data reporting is that it uses information from private companies and industry groups on consumer spending, employment, business revenues and a host of other areas, all anonymized to protect privacy concerns. By monitoring transactions and economic activity in real time, researchers can provide a better understanding of what is happening (a.k.a. "nowcasting") and how policy solutions might be tailored for better impact and effect.

To support the economic recovery from COVID, a collaborative effort of university researchers based out of Harvard called "Opportunity Insights" has developed a freely available interactive website to pro-

vide a real time picture of national and state economies. This Economic Tracker¹ combines anonymized data from private company partners to generate new statistics and new insights on how COVID is affecting the economy, businesses and people. As the developers note, "rather than waiting weeks to see where the economy is falling and playing catch-up, the tracker offers the capacity to spot economic problems as they emerge and develop targeted, evidence-based policy responses – providing a powerful new tool for economic policy."

Behind the Numbers – A Higher Income, Consumption Driven Recession

Government statistics show that COVID has led to a sharp reduction in GDP and an explosion in unemployment. Most of the reduction in GDP has come from a major contraction in consumer spending (rather than business investment, government purchases or exports.) In a new research paper² Opportunity Insights examined what is going on behind these reported numbers with respect to consumer spending, business shocks, and employment trends. The research also generated some insights and conclusions on how government policies have influenced these outcomes.

• **Spending** — Opportunity Insights found changing behaviors of high-income, service-consuming households are the primary source of economic contraction to date. As of mid-June more than half of the reduction in spending since January has come from households in the top income quartile. Only 5% has come from the lowest income quartile. High-income households reduced their spending by 17%; the lowest quartile reduced spending by only 4%. Unsurprisingly, most of the reduction in service spending stems from in-person services. Services demanding less interpersonal interaction experienced far smaller losses. Reductions

in spending were found to be the greatest in high-income, high-density areas with higher rates of infection. Together, these findings led researchers to conclude consumer spending has fallen primarily due to health concerns and the inability to supply services without health risks rather than lost income.

• **Business Shocks** – Continuing the theme of a "higher-income, consumption driven" recession, researchers found the impacts of COVID on small businesses are highly diverse with the greatest impacts occurring in wealthier, higher-income areas. Nationally, more than half of the aggregate loss in small business revenues has come from businesses located in the top quartile of affluent zip codes; only 8% from the bottom quartile. That heterogeneity exists even within cities. Small business revenues fell by more than 70% between March and late April in most affluent city zip codes as compared to 30% in least affluent city zip codes.

• **Employment** – Researchers found that as businesses lost revenues, the shock was passed along to employees. Once again workers in higher-income areas experiencing disproportionately more of the fallout. In the most affluent zip codes, more than 65% of small business workers lost their jobs within two weeks of the beginning of the COVID crisis. In contrast, in the least affluent zip codes, fewer than 30% lost their jobs. Job postings also fell much more sharply in affluent areas. As a result of this one-two combo of unemployment and reduced job prospects, low-income individuals working in these more affluent areas cut their own spending much more than low-income individuals working in less affluent areas.

Small business revenues fell by more than 70% between March and late April in most affluent city zip codes as compared to 30% in least affluent city zip codes.

Much of this may change as the relationship between COVID and the economy evolves and safeguards such as the federal stimulus and "bonus unemployment" – which has protected a lot of lower income

¹ Available at www.tracktherecovery.org

² "How Did Covid-19 and Stabilization Policies Affect Spending and Employment?" https://opportunityinsights.org/wp-content/uploads/2020/05/tracker_paper.pdf

households – expires. But as the authors conclude: “the initial impact of COVID 19 on economic activity appears to be largely driven by a reduction in service spending by higher income households due to health concerns which in turn affected businesses that cater to the rich – e.g. small businesses in affluent areas — and ultimately reduced the incomes and expenditures of low-wage employees of those businesses.”

What Have Government Policies Accomplished

Real-time data also enables investigations into the impacts economic stabilization policies may or may not be having. The researchers evaluated three such policies: state-ordered reopenings, federal stimulus payments to households, and the Paycheck Protection Program.

- **Government Reopenings** — For all the political *sturm und drang* surrounding state economy reopenings, the evidence suggests quite modest impacts on economic activity. Spending and employment remained well below baseline levels even after reopenings and notably did not rise more rapidly in states that reopened earlier relative to comparable states that reopened later. Moreover, spending and employment fell before these state level shutdowns were implemented. Researchers concluded the key driver of reduction in spending is the virus itself rather than restrictions imposed by government, and reopenings only help if the public interprets them as a truly credible indicator of reduced health concerns.
- **Stimulus Payments** — Approximately \$267 billion of direct payments have been made to 160 million people as part of the federal CARES Act. Larger payments went to lower-income households, most

of which were made on April 15. Real-time data indicated the stimulus payments increased spending by low-income consumers immediately and substantially. However, most of this spending went to the purchase of durable and non-durable goods rather than the service sectors hit hardest by the pandemic. Thus, to date, researchers conclude the stimulus has offered little economic and employment benefits in communities and areas where job losses were largest.

- **Paycheck Protection Program** — Loans targeting small businesses through the PPP appear to have had little effect on employment at small businesses to date. The percentage changes in total earnings and hours worked are nearly identical for firms eligible and not eligible for the PPP. Researchers offer three possible explanations: 1) businesses who took up loans did not intend to lay off their workers to begin with; 2) high take-up rates among firms providing professional scientific services despite low job losses in that service sector; and 3) loans flowed to areas with smaller employment losses.

A Look at How Minnesota Compares

Opportunity Insights’ Economic Tracker offers perspective on how well the state is navigating the crisis. The accompanying table benchmarks the state of the Minnesota economy against the U.S. as a whole on several summary indicators since January. (As

an aside we can’t help but note data included in the tracker from Google Mobility Reports finds the change in time spent away from home in Minnesota since January is now 0% meaning Minnesotans are in one sense “back to normal” compared to pre COVID days. However, a closer look reveals continued reduced times at workplace and in transit is being completely offset by additional time spent in parks – a very Minnesotan finding.)

As the table shows, Minnesota is tracking with national declines in consumer spending albeit with some differences when the spending is disaggregated by income. Small business revenue declines continue to be greater than the U.S. total. Perhaps most disconcerting is that small business revenue declines in low income zip codes are well over twice the nation is experiencing (-30.8% vs. -13.6%). From a sector perspective, Minnesota professional and business service small business revenue is slightly “outperforming” the nation’s decline while the state’s transportation and trade small business sector is experiencing dramatically more significant revenue losses than the national average (-25.4% vs. -4.4%).

Rebounds in the number of small business openings are lagging the U.S as a whole, and once again persistent closures in low income zip codes are primarily responsible for the difference. Declines in Minnesota job postings are slightly larger than the nation in every sector with the exception of education and health services. While job postings requiring “minimal education” are now actually up from the beginning of the year in the U.S., they are down over 10% in the state.

What is rather striking about these results is that the Minnesota experience appears to run counter to the nation as a whole in a significant way. As previously noted, researchers from Opportunity Insights concluded small businesses in affluent areas have taken the brunt of the economic impact from COVID so far. In Minnesota the opposite appears to be true – small businesses in the least affluent areas have by far taken the biggest hit. In fact, since the Minnesota

Loans targeting small businesses through the PPP appear to have had little effect on employment at small businesses to date.

Table 1: Percent Change Since January 2020

	Minnesota	U.S.
All Consumer Spending	-8.7	-8.9
High income	-9.0	-13.3
Middle Income	-8.5	-7.8
Low Income	-5.9	-2.8
Small Business Revenue	-25.3	-19.1
No. of Small Businesses Open	-19.5	-16.9
Job Postings	-15.4	-13.8

Source: Opportunity Insights Economic Tracker. Reported data is from when article was being assembled (mid-June) and is not current at time of publication.

stay at home order ended, it appears every trackable economic metric on the website has shown some improvement except one: the change in small business revenue in low income zip codes has gone from -24.3% to -30.8%. It would not be surprising if some of this decline is capturing the effects of the civil unrest following the death of George Floyd. Somewhere in the neighborhood of 1,500 buildings were damaged throughout the Lake, University and Broadway corridors in Minneapolis and St. Paul, many of them small businesses. An unknown number of other businesses were undamaged but boarded up and closed.

Tools such as this can offer a better and more refined understanding of public policy problems. Whether that translates into better public policy solutions will always be an open question. Inevitably the insights this type of analysis generates will conflict with political agendas and preconceived notions about what to do and how to do it. No tool has yet been created to resolve conflicts between ideas like economic efficiency and political acceptability. ■

Minnesota Results for the 50-State Property Tax Comparison Study for Taxes Payable in 2019

Minnesota Creeps Up in National Rankings; Regional Comparisons Highlight Tradeoff Between Residential and Commercial Property in Minnesota's Property Tax System

First published in 1995, this 2020 report (covering taxes payable in 2019) represents the 20th edition of the *50-State Property Tax Comparison Study*.³ 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 (rather than 50) 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,

requiring 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.

Minnesota Urban Results

From 2018 to 2019, effective tax rates rose for all Minneapolis property types and values included in the study, ranging from \$600,000 value apartments increasing by 0.01% up to \$25 million value commercial increasing by 0.17%. That magnitude of change increased Minneapolis’ \$25 million commercial ranking from 9th in 2018 up to 7th in 2019. The comparison that takes in the broadest swath of commercial properties – at \$1 million in property value – showed similar results with Minneapolis increasing 0.16% in effective tax rate and moving from 12th in 2018 to 10th in 2019.

In 2019, the Minnesota Legislature passed a \$50 million reduction on the state business tax (SBT) by removing the inflator and freezing the levy amount for future years. The effect of this change will be reflected in next year’s *50-State Study* for taxes payable in 2020 and will likely offer some respite from the 2019 level of increase.

All levels of homestead properties crept up in Minneapolis as well, but with percentage effective tax rate increases much less in magnitude than commercial increases (0.02%-0.04% vs. 0.13%-0.17%). Minneapolis’ change in homestead rankings from 2018 to 2019 – up three places to 20th for median value; up one place to 24th for \$150,000 value; and up three places to 21st for \$300,000 value – are due in part to significant new homestead exemptions in Anchorage, Alaska and Providence, Rhode Island.

Despite an increase in effective tax rate on median-value homes (1.33% in 2018 up to 1.37% in 2019), Minneapolis remains below the average (1.40%) as has been the case for 13 of the last 16 years. For the actual tax bill

on a median-value home, however, Minneapolis did increase from \$87 above average in 2018 to \$381 above average in 2019. In addition to new exemptions in Anchorage and Providence, Atlanta also implemented large new exemptions for homesteads in 2019, helping to keep the average increase for all urban cities down. Minneapolis also had an increase in median market value (\$250,400 to \$269,500) that was above average on both a dollar and percentage basis – another factor that has an impact on the median-value tax bill comparisons.

Minneapolis apartments were the one urban property type to fall in ranking, moving one place down to 21st with a negligible increase of 0.01% in effective tax rate. In three property categories, Minneapolis moved from below the 53-city average to above the average – industrial property at the 60% personal property levels for \$1 million and \$25 million in value, and for apartments (valued at \$600,000).

Minnesota Rural Results

Effective tax rates on commercial and industrial property values also increased in Glencoe from 2018 to 2019, but by a much lower magnitude than Minneapolis (0.04%-0.06% vs. 0.11%-0.17%). At the most representative \$1 million value, Glencoe remained ranked at 6th out of 50 rural cities, while moving down one place from 5th to 6th at the \$25 million commercial value and up one place (from 25th to 24th) at the \$100,000 commercial value. Since the first \$100,000 in state business tax is now exempt due to a 2017 law change, the \$100,000 ranking is somewhat representative of how Glencoe would fare without the state business tax on commercial and industrial property.

Unlike Minneapolis, Glencoe’s effective tax rates on residential property had no change for median value homes (continuing to be ranked at 22nd) and decreased by 0.04% for both \$150,000 and \$300,000 value homes. Despite the decreases in effective tax rate, Glencoe moved up from 23rd to 21st in rank for a \$150,000 home and stayed at 21st for a \$300,000 home.

Glencoe’s effective tax rate on apartment property had a large drop of 0.58%, causing a fall in rank from 22nd to 28th from 2018 to 2019. The change is largely attributable to an apartment sales ratio of 66% for the

³ <https://www.lincolinst.edu/publications/other/50-state-property-tax-comparison-study-2019>

Table 2: Minnesota Urban City Property Tax Changes, Payable 2018 to Payable 2019, by Effective Tax Rate (ETR) and Total Tax

Minneapolis, Minnesota	2018	53 City Average	Mpls vs Average	2019	53 City Average	Mpls vs Average	Mpls MV Change	Mpls Change
HOMESTEAD								
Median Value ETR	1.33%	1.44%	-0.11%	1.37%	1.40%	-0.03%		0.04%
Median Value ETR Rank	23	—	—	20	—	—		3↑
Median Value Tax Bill	\$3,333	\$3,246	\$87	\$3,687	\$3,306	\$381	\$19,100	\$354
Median Value Tax Bill Rank	16	—	—	15	—	—		1↑
\$150,000 ETR	1.20%	1.40%	-0.20%	1.23%	1.34%	-0.11%		0.03%
\$150,000 Tax Bill	\$1,798	\$2,095	-\$297	\$1,839	\$2,007	-\$168		\$41
\$150,000 Tax Rank	25	—	—	24	—	—		1↑
\$300,000 ETR	1.36%	1.46%	-0.10%	1.39%	1.41%	-0.02%		0.02%
\$300,000 Tax Bill	\$4,091	\$4,378	-\$287	\$4,158	\$4,233	-\$75		\$67
\$300,000 Tax Rank	24	—	—	21	—	—		3↑
COMMERCIAL								
\$100,000 ETR	1.62%	1.88%	-0.25%	1.73%	1.85%	-0.12%		0.11%
\$100,000 Tax Bill	\$1,947	\$2,251	-\$304	\$2,081	\$2,225	-\$144		\$134
\$100,000 Rank	28	—	—	27	—	—		1↑
\$1 Million ETR	2.61%	1.94%	0.66%	2.77%	1.92%	0.85%		0.16%
\$1 Million Tax Bill	\$31,273	\$23,310	\$7,963	\$33,219	\$23,052	\$10,167		\$1,946
\$1 Million Rank	12	—	—	10	—	—		2↑
\$25 Million ETR	2.75%	1.98%	0.77%	2.92%	1.96%	0.96%		0.17%
\$25 Million Tax Bill	\$826,023	\$593,772	\$232,251	\$875,604	\$587,222	\$288,382		\$49,581
\$25 Million Rank	9	—	—	7	—	—		2↑
INDUSTRIAL (50% PERSONAL PROP)								
\$100,000 ETR	0.96%	1.34%	-0.38%	1.05%	1.32%	-0.27%		0.09%
\$100,000 Tax Bill	\$1,915	\$2,672	-\$757	\$2,092	\$2,631	-\$539		\$177
\$100,000 Rank	37	—	—	34	—	—		3↑
\$1 Million ETR	1.54%	1.42%	0.12%	1.67%	1.40%	0.28%		0.13%
\$1 Million Tax Bill	\$30,762	\$28,362	\$2,400	\$33,399	\$27,898	\$5,501		\$2,637
\$1 Million Rank	20	—	—	19	—	—		1↑
\$25 Million ETR	1.63%	1.45%	0.18%	1.76%	1.42%	0.34%		0.14%
\$25 Million Tax Bill	\$812,796	\$723,359	\$89,437	\$880,255	\$711,619	\$168,636		\$67,459
\$25 Million Rank	20	—	—	18	—	—		2↑
INDUSTRIAL (60% PERSONAL PROP)								
\$100,000 ETR	0.77%	1.20%	-0.44%	0.84%	1.19%	-0.35%		0.07%
\$100,000 Tax Bill	\$1,915	\$3,010	-\$1,095	\$2,092	\$2,969	-\$877		\$177
\$100,000 Rank	40	—	—	38	—	—		2↑
\$1 Million ETR	1.23%	1.29%	-0.06%	1.34%	1.27%	0.06%		0.11%
\$1 Million Tax Bill	\$30,762	\$32,323	-\$1,561	\$33,399	\$31,844	\$1,555		\$2,637
\$1 Million Rank	27	—	—	24	—	—		3↑
\$25 Million ETR	1.30%	1.32%	-0.02%	1.41%	1.30%	0.11%		0.11%
\$25 Million Tax Bill	\$812,796	\$823,867	-\$11,071	\$880,255	\$811,691	\$68,564		\$67,459
\$25 Million Rank	24	—	—	22	—	—		2↑
APARTMENT								
\$600,000 ETR	1.64%	1.68%	-0.04%	1.65%	1.65%	0.01%		0.01%
\$600,000 Tax Bill	\$10,346	\$10,585	-\$239	\$10,420	\$10,375	\$45		\$74
\$600,000 Rank	20	—	—	21	—	—		1↓

2019 study compared to 96% for the 2018 study. Comparisons of apartment and industrial property for rural cities can have wide variance from year to year if a big sale

doesn't meet assessed value. 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 than would be expected in a large city – effectively resetting the assessed

Table 3: Minnesota Rural City Property Tax Changes, Payable 2018 to Payable 2019, by Effective Tax Rate (ETR) and Total Tax

Glencoe, Minnesota	2018	50 City Average	Glencoe vs Average	2019	50 City Average	Glencoe vs Average	Glencoe MV Change	Glencoe Change
HOMESTEAD								
Median Value ETR	1.24%	1.34%	-0.10%	1.24%	1.33%	-0.09%		0.00%
Median Value ETR Rank	22	—	—	22	—	—		—
Median Value Tax Bill	\$1,584	\$1,852	-\$268	\$1,720	\$1,882	-\$162	\$11,400	\$136
Median Value Tax Bill Rank	20	—	—	19	—	—		1↑
\$150,000 ETR	1.30%	1.38%	-0.07%	1.26%	1.36%	-0.09%		-0.04%
\$150,000 Tax Bill	\$1,955	\$2,065	-\$110	\$1,896	\$2,039	-\$143		-\$59
\$150,000 Tax Rank	23	—	—	21	—	—		2↑
\$300,000 ETR	1.49%	1.41%	0.08%	1.45%	1.41%	0.04%		-0.04%
\$300,000 Tax Bill	\$4,462	\$4,226	\$236	\$4,347	\$4,216	\$131		-\$115
\$300,000 Tax Rank	21	—	—	21	—	—		—
COMMERCIAL								
\$100,000 ETR	1.66%	1.69%	-0.02%	1.71%	1.70%	0.01%		0.04%
\$100,000 Tax Bill	\$1,996	\$2,026	-\$30	\$2,050	\$2,042	\$8		\$54
\$100,000 Rank	25	—	—	24	—	—		1↑
\$1 Million ETR	2.64%	1.74%	0.90%	2.70%	1.76%	0.95%		0.06%
\$1 Million Tax Bill	\$31,713	\$20,913	\$10,800	\$32,451	\$21,067	\$11,384		\$738
\$1 Million Rank	6	—	—	6	—	—		—
\$25 Million ETR	2.79%	1.76%	1.03%	2.86%	1.78%	1.08%		0.06%
\$25 Million Tax Bill	\$837,731	\$528,937	\$308,794	\$856,451	\$532,813	\$323,638		\$18,720
\$25 Million Rank	5	—	—	6	—	—		1↓
INDUSTRIAL (50% PERSONAL PROP)								
\$100,000 ETR	1.00%	1.23%	-0.23%	1.10%	1.24%	-0.14%		0.10%
\$100,000 Tax Bill	\$1,996	\$2,451	-\$455	\$2,194	\$2,478	-\$284		\$198
\$100,000 Rank	30	—	—	25	—	—		5↑
\$1 Million ETR	1.59%	1.29%	0.30%	1.74%	1.30%	0.44%		0.15%
\$1 Million Tax Bill	\$31,713	\$25,691	\$6,022	\$34,774	\$25,943	\$8,831		\$3,061
\$1 Million Rank	13	—	—	10	—	—		3↑
\$25 Million ETR	1.68%	1.30%	0.37%	1.83%	1.32%	0.52%		0.16%
\$25 Million Tax Bill	\$837,731	\$652,041	\$185,690	\$916,615	\$658,321	\$258,294		\$78,884
\$25 Million Rank	12	—	—	8	—	—		4↑
INDUSTRIAL (60% PERSONAL PROP)								
\$100,000 ETR	0.80%	1.10%	-0.31%	0.88%	1.12%	-0.24%		0.08%
\$100,000 Tax Bill	\$1,996	\$2,759	-\$763	\$2,194	\$2,787	-\$593		\$198
\$100,000 Rank	37	—	—	33	—	—		4↑
\$1 Million ETR	1.27%	1.17%	0.10%	1.39%	1.18%	0.22%		0.12%
\$1 Million Tax Bill	\$31,713	\$29,119	\$2,594	\$34,774	\$29,371	\$5,403		\$3,061
\$1 Million Rank	15	—	—	14	—	—		1↑
\$25 Million ETR	1.34%	1.18%	0.16%	1.47%	1.19%	0.27%		0.13%
\$25 Million Tax Bill	\$837,731	\$739,581	\$98,150	\$916,615	\$745,818	\$170,797		\$78,884
\$25 Million Rank	15	—	—	12	—	—		3↑
APARTMENT								
\$600,000 ETR	1.84%	1.63%	0.20%	1.25%	1.60%	-0.35%		-0.58%
\$600,000 Tax Bill	\$11,560	\$10,293	\$1,267	\$7,880	\$10,064	-\$2,184		-\$3,680
\$600,000 Rank	22	—	—	28	—	—		6↓

value. For these property types, it is much more informative to look at a rural city over a longer time period for a good sense of its relative position.

Glencoe's effective tax rate on industrial properties of varying values and personal property composition increased by anywhere from 0.08% to 0.16% from 2018 to

2019, resulting in a ranking increase from 13th to 10th for \$1 million valued industrial (50% personal property) and from 15th to 14th for \$1 million valued industrial (60%

personal property). As is the case with Minneapolis, the freeze in the levy amount of the state business tax for taxes payable in 2020 could move Glencoe in the opposite direction next year.

Regional Comparisons Highlight the Tradeoff in Minnesota's Tax Structure and the Impact of the State Business Tax (SBT)

Minnesota's unique state business tax (SBT) continues to have a large effect on where Minneapolis and Glencoe rank regionally.⁴ 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 12 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 radi-

cally lower taxes in Fargo and Sioux Falls, Minneapolis is still 6% above the regional average. Without the state business tax, Minneapolis would drop below Milwaukee down to 21st place at 16% below the regional average.

The Upper Midwest Region does not quite rank as high in commercial taxes for rural cities (with 5 out of the top 17 in the study). Even though Vermillion, South Dakota (25th) and Devil's Lake, North Dakota (35th) both rank a fair bit higher than their instate urban counterparts, Glencoe still checks in at 25% above the regional average and continues to be ranked 6th overall with a \$738 increase (0.06% increase in effective tax rate). Only Manistique, Michigan has a higher tax in the region on a \$1 million commercial property.

Without the state business tax, Glencoe would be on par with Galena, Illinois and

Hampton, Iowa, dropping down to 17th place at just 2% above the regional average.

A comparison of homestead property taxes in the Upper Midwest Region give some insight into how Minnesota differs from others in the region in its treatment of homestead and commercial taxes. Comparing fixed values for homesteads, as we do for commercial property, it is clear to see that both Minneapolis and Glencoe switch from above the regional average in commercial property taxes to roughly 30% below the average on \$150,000 and \$300,000 homes. Only Chicago with its unique property tax system exhibits this kind of swing between commercial and homestead property. This also gives some insight into why Aurora, Illinois is included in the study as the clear difference in Chicago and Aurora treatment of homestead property is evident.

It's important to note that the net property taxes experienced by many Minnesota homeowners could be significantly lower if they are eligible for Minnesota's "circuit breaker" property tax refund which is based on the relationship between income and property taxes.

There are 17 urban cities and 13 rural cities in the *50-State Study* that have some form of circuit breaker based on income, but other states that issue refunds do so at a much lower level than Minnesota. These refunds are often for very low income and do not apply to median-income homeowners at all, as does the Minnesota refund. Minnesota refunds are projected to be approximately \$550 million for all homeowners in 2020.

Since the *50-State Study* is designed to capture what level of taxation results from local property tax systems under state laws, state refunds are not estimated in comparing these systems. From examining circuit breakers in other states, it's clear Minnesota has the most robust refund in the country.

The only state that applies a more generous circuit breaker is Vermont, but it is not a refund and the income-based calculation is applied to all taxpayers to initially calculate their taxes, therefore Vermont's circuit breaker is included in *50-State Study* calculations since it is part of the overall structure used to determine taxes paid.

Although it is a year or so later than the *50-State Study*, Minnesota's Department of

⁴ For more on the state general tax, see this: <https://www.fiscalexcellence.org/policy/property-taxes/generaltax.html>

Table 4: Effects of State Business Tax on Minnesota Regional Competitiveness for Commercial Property Valued at \$1 Million, Payable 2019

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	\$33,219	\$25,528	10	21	6%	(16%)
Chicago, IL	\$42,173	\$42,173	3	3	34%	38%
Aurora, IL	\$36,115	\$36,115	6	6	15%	18%
Des Moines, IA	\$36,252	\$36,252	5	5	15%	19%
Detroit, MI	\$45,267	\$45,267	1	1	44%	48%
Fargo, ND	\$12,919	\$12,919	45	45	(59%)	(58%)
Sioux Falls, SD	\$14,873	\$14,873	41	41	(53%)	(51%)
Milwaukee, WI	\$30,994	\$30,994	12	11	(2%)	2%
Upper Midwest Avg.	\$31,477	\$30,515	—	—	—	—
Rural Cities - Upper Midwest Region						
Locations	Total Tax		Rank (50 Cities)		Tax vs Regional Average	
	With SBT	Without SBT	With SBT	Without SBT	With SBT	Without SBT
Glencoe, MN	\$32,451	\$25,356	6	17	25%	2%
Galena, IL	\$25,556	\$25,556	17	16	(1%)	3%
Hampton, IA	\$25,604	\$25,604	14	13	(1%)	3%
Manistique, MI	\$34,400	\$34,400	5	5	33%	38%
Devils Lake, ND	\$14,296	\$14,296	35	35	(45%)	(43%)
Vermillion, SD	\$21,256	\$21,256	25	25	(18%)	(15%)
Rice Lake, WI	\$27,629	\$27,629	10	9	7%	11%
Upper Midwest Avg.	\$25,885	\$24,871	—	—	—	—

Revenue does model an effective tax rate for homeowners that does include the effect of the Minnesota property tax refund based on income for median valued homes. This is done as part of the “Voss Report” (*Residential Homestead Property Tax Burden Report*).⁵ In January 2020, the 2018 Voss Report was released and showed that an owner of a median valued home in Minneapolis had a 1.28% effective tax rate. Looking back at the *50-State Study* for 2018, Minneapolis had a 1.33% effective tax rate without the property tax refund. Despite a noticeable decrease of 0.05% in effective tax rate, it still would not have been enough to change Minnesota’s ranking in 2018 (23rd), as 24th place Phoenix was at 1.27%. This level of ranking impact (no change) will not necessarily apply in future years. Ranking in the middle, as Minneapolis does, makes it more likely that Minneapolis could decline from 1-5 places in a given year with a 0.05% effective tax rate reduction due to the Minnesota property tax refund,

and unless there is an eligibility change the refund will have a fairly consistent effect. If nothing else, property tax systems are like shifting sands of various fiscal ecosystems, and the rankings are where the sands wash out in any given year.

For Glencoe, The Voss Report gives only an effective tax rate for the entire Minnesota Valley region (in addition to McLeod county, the Minnesota Valley includes Meeker, Renville, Kandiyohi, Swift, Chippewa, Yellow Medicine, Lac Qui Parle, and Big Stone counties), so it is not necessarily a good indicator of the property tax produced by Glencoe’s local tax system. Glencoe’s effective tax rate was 1.24% in the *50-State Study* from 2018 and the effective tax rate for the entire Minnesota Valley region was 1.02% when adjusting for the property tax refund. Such a reduction in effective tax rate would have dropped Glencoe nine places in the ranking from 22nd to 31st – depending on

Glencoe’s local tax rate relative to the region. It’s possible that Minnesota’s property tax refund has an outsized effect at the median value in Glencoe, but without McLeod County data (at the very least), this -0.22% change should not be viewed as a reliable indicator for future years.

For more discussion of long-term trends and characteristics of Minnesota’s property tax system, see our analysis from 2018.⁶ ■

⁵ <https://www.revenue.state.mn.us/property-tax-burden-voss-report>

⁶ <https://www.fiscalexcellence.org/policy/property-taxes/FF-MayJune-2019-Pay-2018-PT-Study.html>

Table 5: Minnesota Regional Comparison for Homestead Property Taxes, Payable 2019

Urban Cities - Upper Midwest Region									
Location	Median Value					\$150,000 Value		\$300,000 Value	
	Home Value	Effective Tax Rate	ETR vs Reg. Avg.	Total Tax	Tax vs Reg. Avg.	Total Tax	Tax vs Reg. Avg.	Total Tax	Tax vs Reg. Avg.
Minneapolis, MN	\$269,500	1.368%	(34%)	\$3,687	7%	\$1,839	(39%)	\$4,158	(34%)
Aurora, IL	\$193,900	3.303%	60%	\$6,404	86%	\$4,818	59%	\$10,236	62%
Chicago, IL	\$271,600	1.522%	(26%)	\$4,134	20%	\$1,979	(34%)	\$4,637	(27%)
Des Moines, IA	\$137,200	2.245%	9%	\$3,081	(10%)	\$3,389	12%	\$7,008	11%
Detroit, MI	\$51,600	2.933%	42%	\$1,514	(56%)	\$4,400	46%	\$8,800	39%
Fargo, ND	\$220,400	1.188%	(42%)	\$2,618	(24%)	\$1,782	(41%)	\$3,563	(44%)
Sioux Falls, SD	\$197,400	1.538%	(25%)	\$3,036	(12%)	\$2,307	(24%)	\$4,615	(27%)
Milwaukee, WI	\$126,300	2.406%	17%	\$3,039	(12%)	\$3,653	21%	\$7,535	19%
Upper Midwest Avg.	\$183,488	2.063%	—	\$3,439	—	\$3,021	—	\$6,319	—
Rural Cities - Upper Midwest Region									
Location	Median Value					\$150,000 Value		\$300,000 Value	
	Home Value	Effective Tax Rate	ETR vs Reg. Avg.	Total Tax	Tax vs Reg. Avg.	Total Tax	Tax vs Reg. Avg.	Total Tax	Tax vs Reg. Avg.
Glencoe, MN	\$139,200	1.236%	(31%)	\$1,720	(18%)	\$1,896	(31%)	\$4,347	(23%)
Galena, IL	\$149,200	2.247%	25%	\$3,353	60%	\$3,373	23%	\$7,207	27%
Hampton, IA	\$83,600	1.751%	(3%)	\$1,464	(30%)	\$2,769	1%	\$5,716	1%
Manistique, MI	\$59,100	2.130%	18%	\$1,259	(40%)	\$3,195	17%	\$6,391	13%
Devils Lake, ND	\$115,600	1.259%	(30%)	\$1,456	(30%)	\$1,889	(31%)	\$3,778	(33%)
Vermillion, SD	\$144,500	1.869%	4%	\$2,700	29%	\$2,803	3%	\$5,606	(1%)
Rice Lake, WI	\$127,200	2.104%	17%	\$2,676	28%	\$3,203	17%	\$6,666	18%
Upper Midwest Avg.	\$116,914	1.799%	—	\$2,090	—	\$2,733	—	\$5,673	—



85 East Seventh Place
Suite 250
St. Paul, MN 55101
(651) 224-7477

Periodical
Postage
Paid
Twin Cities,
MN