MINNESOTA CENTER for Fiscal Excellence

ISSUE BRIEF

Sound tax policy. Efficient spending. Accountable government.

No. 0006 | November 2013

A Minnesota-Centric Look at the *50-State Property Tax Comparison Study*

MCFE's *50-State Property Tax Comparison Study* compares effective property tax rates for four property types – homestead, commercial/retail, industrial/manufacturing, and apartments in three different 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. Minneapolis represents Minnesota in the urban set of cities and Glencoe represents Minnesota in the rural set of cities.

Key findings from the study include:

- Minneapolis' rankings for homeowner taxes were relatively unchanged from our payable 2011 study. When comparing properties of equal value, total burdens in Minneapolis continue to be higher than the national averages. When we set values in each large city equal to the median value found there, Minneapolis is below the national average for total burden but above average if the tax is measured as a share of total home value.
- Urban commercial rankings and relative burdens continue to be high in payable 2012. For $1 million and $25 million commercial parcels, Minneapolis' property tax burden ranks fifth in the nation.
- Rural taxes and rankings have climbed considerably from our payable 2011 study. Major factors in that change include a 5.0% increase in the amount of local taxes imposed in Glencoe, an 8.3% increase in the state levy on properties in Glencoe, and a 12.5% decline in the tax base (which itself likely results from a combination of the conversion of market value homestead credit to a market value homestead exclusion).
- Minnesota's exemption for almost all types of personal property continues to make industrial property tax burdens relatively competitive in both an urban and a rural setting.
- Minnesota's regional business property tax competitiveness is strong in relation to Iowa, Michigan, and Chicago, but property tax burdens are higher compared to the rest of the Upper Midwest. Minnesota is at the greatest disadvantage to North Dakota – commercial and industrial property tax burdens in Minneapolis are 89% to 148% higher than those in Fargo on properties of equal value.
- Minnesota's business subsidization of local homeowner property taxes is 19th in the nation. A $1 million commercial property in Minneapolis paid 100.7% more in local property taxes on its share of property value than a homeowner in the median-valued home. If the statewide property tax is included in the analysis, commercial property paid 163.6% higher taxes on its market value.

This is the only property tax study in the nation that calculates and compares effective property tax rates on a national scale and ranks state property tax burdens accordingly. We prepare it 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 for four property types – homestead, commercial/retail, industrial/manufacturing, and apartments in three different 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 is the only property tax study in the nation that calculates and compares effective property tax rates on a national scale and ranks state property tax burdens accordingly. We prepare it 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/. Readers should consult the complete report for full details on our methodology and rankings tables.

Section 1: Minneapolis Findings

Homestead Properties

Compared to other urban cities, the $150,000 Minneapolis home moved down one place to 21st while the $300,000 home rose one place to 19th. (Table 1) Taxes for both parcels were above the national average. Relative to payable 2011, the tax on the $150,000 home was closer to the national average, while the tax on the $300,000 home climbed farther above the national average.

Table 1: Minneapolis Homestead Property Tax Burdens and Rankings, Taxes Payable 2012

Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2012	Change From 2011		Amount	Percent	
$150,000	21	-1	$2,227	+$79	+3.7%	1.485%
$300,000	19	+1	$5,022	+$542	+12.1%	1.674%
Median* – Total Tax	22	+3	$2,684	($163)	(5.7%)	1.538%
Median* – ETR	21	-1		+0.092%	+6.4%	

* Median value for Minneapolis-St. Paul metropolitan area was $174,500

Our findings for property taxes on the median-valued home require some explanation. When comparing only at net taxes, Minneapolis ranks 22nd with a burden of $2,684 – 5.7% <u>*below*</u> the national average. When looking at effective tax rates (measured as tax relative to home value) Minneapolis' 1.538% ranks 21st for all urban cities – 6.4% <u>*above*</u> the national average. This disconnect between a lower-than-average net tax burden but higher-than-average effective tax rate occurs because Minneapolis' relatively low burden ($2,684 vs. the national average of $2,847) is imposed against an even lower (on a relative basis) median home value ($174,500 vs. the national average of $203,310).

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, the design introduces some level of progressivity into the state's property tax system. Two factors make this possible. One is Minnesota's two-tiered classification system for homestead properties is one factor: home value up to $500,000 is taxed at 1.0% of market value, while value above that is taxed at 1.25% of market value. The second factor is phase-out provision of the homestead market value exclusion (HMVE). The HMVE excludes 40% of value from property taxes for homes valued up to $76,000; after that, the exclusion phases out gradually until $413,778 of value. 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 2012

Market Value	Total Tax	ETR	Tax Above/(Below) National Average	Rank
$150,000	$2,227	1.485%	+3.7%	21
$300,000	$5,022	1.674%	+12.1%	19
$500,000	$8,640	1.728%	+13.8%	18
$750,000	$13,901	1.854%	+20.8%	18
$1,000,000	$19,163	1.916%	+24.3%	16

Commercial Properties

Our study calculates property tax burdens and rankings for commercial property (office buildings/retail space) consisting of: $100,000 real property value with $20,000 of personal property; $1 million real property value with $200,000 of personal property; and $25 million real property value with $5 million of personal property.

Minneapolis' commercial property tax rankings fell between 2011 and 2012 by three places for the lowest-valued properties and by one place – from 4th to 5th – for the highest-valued example while remaining constant at 5th place for the medium-valued example. The sharp jump in rank between the $100,000 and $1 million parcels is due to Minnesota's tiered assessment rate for commercial property: value under $150,000 is assessed for tax purposes at 1.5% while value over $150,000 is assessed at 2.0% – a 33% higher rate.

The property tax on each parcel relative to the study average declined slightly from payable 2011 for all values. Even with this decline, commercial property tax burdens are still over 50% higher than the average for the $1 million- and $25 million-valued parcels. However, these rankings and relative burdens still represent 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, Taxes Payable 2012

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2012	Change From 2011		Amount	Percent	
$100,000	16	-3	$3,208	+$680	+26.9%	2.673%
$1,000,000	5	No change	$40,539	+$14,863	+57.9%	3.378%
$25,000,000	5	-1	$1,049,304	+$404,057	+62.6%	3.498%

Industrial Properties

Minneapolis' industrial property tax rankings changed from 2011 to 2012 as follows (Table 4):

- **50% personal property assumption:** the ranking for the $100,000-valued example fell from 18th to 20th (two places); the rank for the $1 million parcel fell from 11th to 12th (one place); and the rank for the $25 million parcel fell from 10th to 12th (two places).
- **60% personal property assumption:** the ranking for the $100,000-valued property fell three places, from 24th to 24th; the rank for the $1 million parcel was unchanged at 16th; and the rank for the $25 million parcel rose two spots, from 16th to 14th.

Compared to other urban cities, Minneapolis' industrial property taxes are above average for $1 million and $25 million-valued properties, regardless of the personal property exemption, and for the $100,000-valued property when the share of personal property is set at 50% of the total parcel value. Property taxes relative to the national average rose slightly for each example. On a relative basis, Minneapolis' industrial tax burdens are at their highest since payable 1998, when the $1 million urban property was roughly 55% higher than the study average and the $25 million urban property was roughly 60% higher than the study average[2].

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

Table 4: Minneapolis Industrial Tax Burdens and Rankings, Taxes Payable 2012

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
		2012	Change From 2011		Amount	Percent	
50%	$100,000	20	-2	$3,208	+$157	+5.1%	1.604%
50%	$1,000,000	12	-1	$40,539	+$9,214	+29.4%	2.027%
50%	$25,000,000	12	-2	$1,049,304	+$262,842	+33.4%	2.099%
60%	$100,000	27	-3	$3,208	($269)	(7.7%)	1.283%
60%	$1,000,000	16	No change	$40,539	+$4,911	+13.8%	1.622%
60%	$25,000,000	14	+2	$1,049,304	+$155,253	+17.4%	1.679%

Astute readers may notice that Minneapolis' industrial property tax rankings are lower than the commercial rankings, even though commercial and industrial property taxes are the same. Minnesota's full exemption of personal property for manufacturers creates this disparity. Since manufacturing/industrial properties have larger proportions of personal property they receive a greater benefit and have a lower effective tax rate, making them more competitive on a property tax basis than commercial properties.

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

Apartment Properties

We calculated property taxes on a $600,000 unfurnished apartment building with $30,000 of additional personal property. Our findings indicate that Minneapolis' apartment tax of $13,229 for such a building was 11.7% above the national average – the highest on a relative basis since payable 2004, when Minneapolis' apartment property taxes were 27.9% higher than the study average (Table 5). When measured against other urban cities, Minneapolis' payable 2012 apartment taxes rank 19th – two places higher than the payable 2011 ranking.

The tax burden relative to the study average for all urban cities increased from payable 2011. However, the ranking is still far below payable 1995 and payable 1998 when it was 2nd and 3rd, respectively.

Table 5: Minneapolis Apartment Tax Burdens and Rankings, Taxes Payable 2012

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2012	Change From 2011		Amount	Percent	
$600,000	19	+2	$13,229	+$1,391	+11.7%	2.100%

Section 2: Glencoe Findings

Section 2 looks at how property taxes in Glencoe compare to the set of rural cities in our report. Tax burdens in Glencoe relative to other rural cities across the country have increased substantially between 2011 and 2012. This is largely a function of three changes: a 5.0% increase in the amount of local taxes imposed in Glencoe, an 8.3% increase in the state levy on properties in Glencoe, and a 12.5% decline in the tax base (net tax capacity)[3] – which itself likely results from a combination of the conversion of market value homestead credit to a market value homestead exclusion, and changes in market values. All these factors contribute to an increase in the property tax rate, which in turn drives a year-to-year increase in burdens since our study compares fixed-value examples.

Homestead Properties

Table 6 provides a snapshot of our findings for Glencoe homestead property taxes. Compared to other rural locations, Glencoe's total tax burden and ETR are below the study average for the lowest-valued ($70,000) property and markedly above the study average for the higher-valued homes. The rankings increased compared to 2011 for homes at all values: up two places for the $70,000-valued home (from 26th to 24th); up six spots for the $150,000-valued home (from 24th to 18th); and up eight places for the $300,000-valued home4 (from 23rd to 15th). Tax burdens grew compared to the study average for all three examples. No median home values were available for rural cities.

Table 6: Glencoe Homestead Property Tax Burdens and Rankings, Taxes Payable 2012

Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2012	Change From 2011		Amount	Percent	
$70,000	24	+2	$837	($27)	(3.1%)	1.196%
$150,000	18	+6	$2,425	+$447	+22.6%	1.617%
$300,000	15	+8	$5,420	+$1,337	+32.8%	1.807%

Commercial Properties

Glencoe's rankings rose sharply between 2011 and 2012 (Table 7) – as they did between 2010 and 2011. The ranking for the $100,000-valued parcel rose five places (from 13th to 8th) while the two higher-valued parcels both rose four spots – from 6th to 2nd in the nation. Tax burdens as a share of the national average increased significantly for all three examples. 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. Compared to other rural cities, taxes in Glencoe are now 52.8% higher than the national average for the $100,000-valued parcel and over 90% higher for the higher-valued properties.

Table 7: Glencoe Commercial Property Tax Burdens and Rankings, Taxes Payable 2012

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2012	Change From 2011		Amount	Percent	
$100,000	8	+5	$3,086	+$1,066	+52.8%	2.572%
$1,000,000	2	+4	$39,060	+$18,545	+90.4%	3.255%
$25,000,000	2	+4	$1,011,229	+$496,630	+96.5%	3.371%

[3] Tax and valuation data from the *Minnesota Land Economics* website at http://www.landeconomics.umn.edu/mle/default.aspx

[4] Though not typical for Glencoe, we calculate taxes on a $300,000 home for comparative purposes.

Industrial Properties

Property tax rankings and relative burdens on industrial properties in Glencoe rose slightly or remained unchanged in most cases between 2011 and 2012. (Note: we include a $25 million example, even though it is not typical for Glencoe, to provide comparability to other locations.)

- **50% personal property assumption:** rankings rose four places for the lowest-valued property (from 17th to 13th) and rose six places for the two higher-valued examples (from 13th to 7th at $1 million of value and from 12th to 6th at $25 million of value).
- **60% personal property assumption:** the ranking for the $100,000-valued property rose five places, from 21st to 16th; while the rankings for the $1 million parcel and $25 million parcel each rose seven places, from 16th to 9th in both instances.

Glencoe had substantially higher property tax burdens relative to the national average than Minneapolis; and all the examples have tax burdens above the national average.

Table 8: Glencoe Industrial Tax Burdens and Rankings, Taxes Payable 2012

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
		2012	Change From 2011		Amount	Percent	
50%	$100,000	13	+4	$3,086	+$616	+25.0%	1.543%
50%	$1,000,000	7	+6	$39,060	+$13,846	+54.9%	1.953%
50%	$25,000,000	6	+6	$1,011,229	+$379,152	+60.0%	2.022%
60%	$100,000	16	+5	$3,086	+$273	+9.7%	1.234%
60%	$1,000,000	9	+7	$39,060	+$10,380	+36.2%	1.562%
60%	$25,000,000	9	+7	$1,011,229	+$292,504	+40.7%	1.618%

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.

Apartment Properties

Minnesota's ranking for rural apartment taxes climbed a whopping sixteen places between 2011 and 2012 – moving from 24th to 8th. The tax burden on the Glencoe apartment building increased considerably relative to the national average (Table 9), moving from 2.7% below the study average for payable 2011 to 57.4% above the study average for payable 2012.

Table 9: Glencoe Apartment Tax Burdens and Rankings, Taxes Payable 2012

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2012	Change From 2011		Amount	Percent	
$600,000	8	+16	$15,808	+$5,762	+57.4%	2.509%

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. Minnesota's commercial tax burden ranges from 6.1% below the regional average for the \$100,000 urban property to 18.2% above the regional average for the \$25 million urban property; and from 10.8% above the regional average for the \$100,000 rural property to 38.1% above the regional average for the \$25 million rural property. Minnesota's industrial tax burden ranges from 11.8% below the regional average for the \$100,000 urban property to 11.3% above the regional average for the \$25 million urban property; and from 5.4% above the regional average for the \$100,000 rural property to 31.6% above the regional average for the \$25 million rural property.

Minnesota is at the greatest disadvantage with North Dakota: both the commercial and industrial property tax burden is 89% to 148% higher in Minneapolis than in Fargo on properties of equal value. The tax burden for both types of property is 56% to 105% higher in Glencoe compared to properties of equal value in Devils Lake (Table 10). Although industrial properties benefit from Minnesota's full exemption of personal property, it is less helpful for regional competition because Illinois, Iowa, North Dakota, and South Dakota also offer the same exemption.

Table 10: Payable 2012 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	**\$3,208**	**\$3,086**	**\$40,539**	**\$39,060**	**\$1,049,304**	**\$1,011,229**
Illinois – Chicago	4,664	--	46,637	--	1,165,923	--
Illinois – Remainder	3,149	2,662	31,486	26,625	787,140	665,614
Iowa	4,843	3,710	48,428	37,100	1,210,704	927,501
Michigan	4,925	3,446	49,254	34,461	1,231,339	861,524
North Dakota	1,693	1,973	16,932	19,731	423,299	493,269
South Dakota	1,710	1,975	17,105	19,747	427,613	493,675
Wisconsin	3,144	2,635	32,156	26,907	805,808	674,173
Upper Midwest Avg.	**\$3,417**	**\$2,784**	**\$35,317**	**\$29,090**	**\$887,641**	**\$732,426**
Industrial Properties (40% Real Property/60% Personal Property)						
VALUE:	**\$100,000**		**\$1 Million**		**\$25 Million**	
States	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**
Minnesota	**\$3,208**	**\$3,086**	**\$40,539**	**\$39,060**	**\$1,049,304**	**\$1,011,229**
Illinois – Chicago	4,272	--	42,715	--	1,067,885	--
Illinois – Remainder	3,149	2,662	31,486	26,625	787,140	665,614
Iowa	5,085	3,710	50,847	37,100	1,271,181	927,501
Michigan	6,969	4,566	69,689	45,663	1,742,216	1,141,579
North Dakota	1,693	1,973	16,932	19,731	423,299	493,269
South Dakota	1,710	1,975	17,105	19,747	427,613	493,675
Wisconsin	3,010	2,522	30,813	25,783	772,229	646,080
Upper Midwest Avg.	**\$3,637**	**\$2,928**	**\$37,516**	**\$30,530**	**\$942,608**	**\$768,421**

Section 4: Subsidization of Homeowners

Many states' property tax systems treat 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 11 shows the ratio of the effective tax rate on a $1 million commercial property to the effective tax rate on a median-value homestead property for each metropolitan area (real property only). This "classification ratio" provides a summary measure of the degree to which commercial property owners subsidize homeowner property taxes.

Table 11: Commercial-Homestead Classification Ratios for Payable 2012, Urban Cities

State	City	Median Value ($)	Ratio	Rank	State	City	Median Value ($)	Ratio	Rank
New York	New York City	382,500	5.969	1	Florida	Jacksonville	133,000	1.403	26
Hawaii	Honolulu	629,700	3.932	2	Ohio	Columbus	142,100	1.346	27
Massachusetts	Boston	362,100	3.931	3	South Dakota	Sioux Falls	150,800	1.316	28
South Carolina	Columbia	143,400	3.729	4	Arkansas	Little Rock	137,800	1.258	29
Colorado	Denver	260,700	3.538	5	Michigan	Detroit	60,200	1.258	30
Indiana	Indianapolis	135,100	2.962	6	Texas	Houston	168,300	1.255	31
Illinois	Chicago	187,700	2.960	7	Maryland	Baltimore	255,000	1.104	32
Minnesota	**Minneapolis**	**174,500**	**2.636**	**--**	Illinois	Aurora	187,700	1.102	33
Louisiana	New Orleans	165,100	2.578	8	New Mexico	Albuquerque	174,300	1.082	34
Arizona	Phoenix	148,400	2.566	9	North Dakota	Fargo	148,600	1.081	35
Georgia	Atlanta	103,200	2.507	10	Delaware	Wilmington	219,700	1.079	36
District of Columbia	Washington	367,000	2.412	11	Alaska	Anchorage	335,731	1.069	37
Rhode Island	Providence	217,500	2.305	12	Oklahoma	Oklahoma City	139,100	1.067	38
Missouri	Kansas City	148,400	2.152	13	Maine	Portland	226,000	1.046	39
West Virginia	Charleston	126,700	2.140	14	Vermont	Burlington	266,400	1.043	40
Kansas	Wichita	118,800	2.105	15	Wisconsin	Milwaukee	189,700	1.034	41
Alabama	Birmingham	154,100	2.105	16	California	Los Angeles	296,800	1.024	42
Iowa	Des Moines	162,600	2.045	17	Nebraska	Omaha	143,000	1.010	43
Idaho	Boise	138,200	2.021	18	Wyoming	Cheyenne	160,729	1.005	44
Minn minus state C/I	***Minneapolis***	***174,500***	***2.007***	***19***	Connecticut	Bridgeport	374,900	1.000	45
Utah	Salt Lake City	187,000	1.849	20	New Hampshire	Manchester	212,700	1.000	45
U.S. Average			**1.791**	**--**	New Jersey	Newark	385,700	1.000	45
Mississippi	Jackson	146,500	1.754	21	North Carolina	Charlotte	164,600	1.000	45
U.S. Average (w/o NYC)			**1.710**	**--**	Oregon	Portland	233,900	1.000	45
New York	Buffalo	131,600	1.691	22	Washington	Seattle	290,700	1.000	45
Tennessee	Memphis	123,500	1.600	23	Nevada	Las Vegas	130,700	0.986	51
Pennsylvania	Philadelphia	219,700	1.490	24	Kentucky	Louisville	139,600	0.956	52
Montana	Billings	178,681	1.446	25	Virginia	Virginia Beach	195,000	0.956	53

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

A ratio of 1.0 indicates that no classification is apparent 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.[5] We calculated the ratios for real property only, after adjusting for

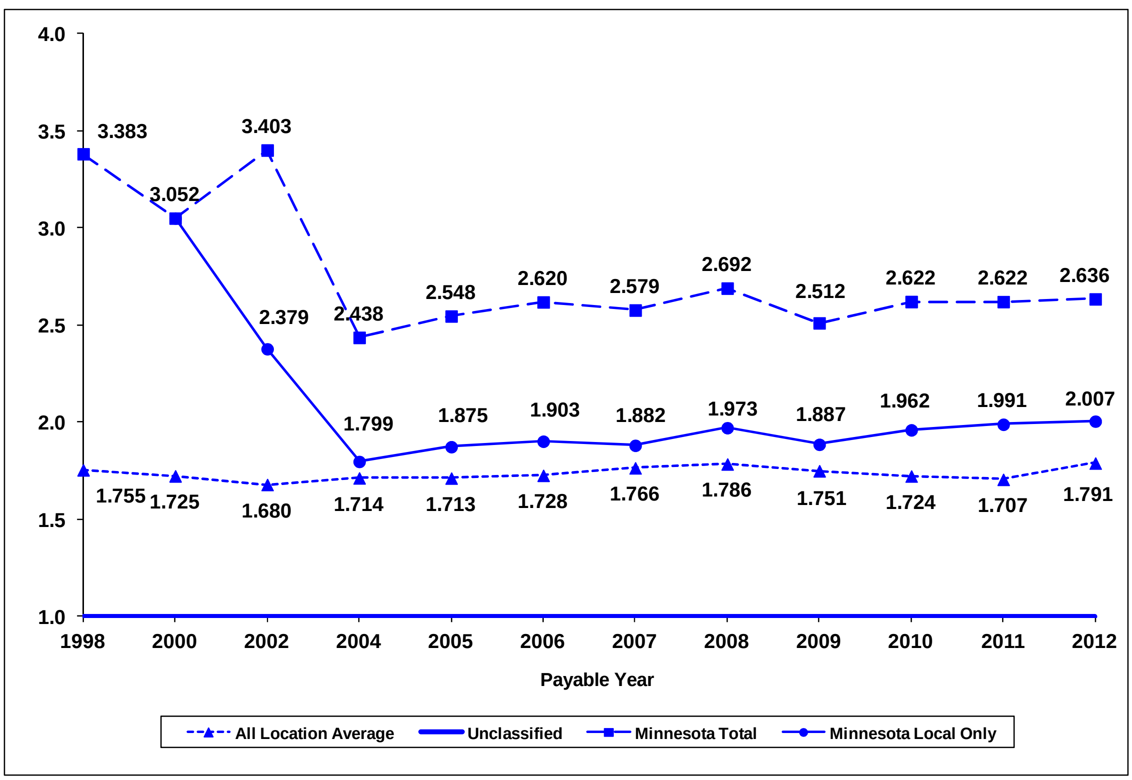
[5] Three locations have a ratio below 1.0, suggesting that their classification systems favor commercial properties over homesteads. This

differences in assessment practices. Differences in the quality of assessments among various classes of property can produce a de facto classification system even in the absence of statutory classification schemes.

States that rank near the top of this list do so because of extreme differences in classification ratios between these two types of property. For instance, in New York City, residential property is assessed at 6% of value while commercial property is assessed at 45% of value. In other cases differences in tax rates and/or homestead exemptions or credits account for the differences, such as in Boston; where roughly 35% of the value of the median home is excluded from taxation, and the homestead tax rate is about 41% that for commercial and industrial properties. Minnesota ranks near the top of the list because of the state's market value homestead exclusion and because of the different class rates applied to residential and other types of properties. The statewide number if further inflated because of the statewide business property tax, which is not applied against residential property.

Minnesota's classification ratio for local property taxes only, 2.007, rose 0.8% from last year's 1.991 figure. This year's rank is 19th overall – a drop of two places from 2011's 17th place – and is 12.1% above the national average (17.4% above the study average if we ignore New York as an outlier). This 2.007 ratio indicates that a $1 million commercial property in Minneapolis paid 100.7% more in local property taxes on its share of property than a median-valued home in 2012. This accurately measures the degree of subsidization at the local level, but disregards the statewide levy of about $821 million imposed on commercial and industrial property for payable 2012. Including that levy increases the ratio for payable 2012 to 2.636, meaning that on the total bill, commercial property paid 163.6% higher taxes on its market value than the median valued home. Figure 1 shows trends since 1998.

Figure 1: Commercial-Homestead Classification Ratio, Minnesota (Local-Only and Total) and All Location Average, 1998 – 2012



As the figure indicates, Minnesota's classification ratio dropped considerably between 1998 and 2004; the result of a major reform to the state's property tax system in 2001. Since 2004, the classification ratio for Minnesota has trended upwards, though some years have seen downward movement. When looking at both state and local property taxes the classification

is simply a function of assessment practices; commercial properties in these locations are underassessed relative to homesteads.

ratio has increased 11.6% since 2004; when only local taxes are considered the ratio has climbed by 8.1% during that period. This trend toward additional business subsidization of homeowners taxes mimics what we see nationwide – the study's average classification ratio has climbed 4.5% since 2004.

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 retarding overall property tax growth. Twelve of the locations in our Urban set of cities have had classification ratios of 1.05 or less in at least eight of the ten studies we have published since payable 1998. In two of those locations – Los Angeles, California and Portland, Oregon – limited market value provisions have been in effect during this period that this study historically has not measured but which have offered substantial tax relief to homeowners. However, the ten remaining locations[6] offer little or no preferential treatment to homeowners. Census data indicates that property tax increases between 1998 and 2010, on both a per capita and per $1,000 of income basis, have been lower in the ten states these locations represent that have offered little or no homeowner subsidy (Table 12).

Table 12: Property Tax Collections, FY 1998 and FY 2010, for States With No Homeowner-Specific Limited Market Value Provisions and Classification Ration < 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	$780.81	$30.91	$861.42	$33.54
FY 2010	$1,258.56	$32.65	$1,452.53	$37.22
Pct Chg	**61.2%**	**5.7%**	**68.6%**	**11.0%**
Property tax and population data from Department of the Census; income data from Bureau of Economic Analysis. Calculations by MCFE.				

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