MINNESOTA CENTER for Fiscal Excellence

ISSUE BRIEF

Sound tax policy. Efficient spending. Accountable government.

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Minnesota and MCFE's *Payable 2013 50-State Property Tax Comparison Study*

MCFE's *50-State Property Tax Comparison Study* compares effective property tax rates in three sets of cities: the largest city in each state and the District of Columbia, plus an additional city for Illinois and New York; the fifty largest cities in the nation; and a rural, county seat city in each state. This unique study calculates and ranks property tax burdens for four property types in each of those cities: homesteads, commercial (retail), industrial (manufacturing), and apartments. 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 2012 study. When comparing properties of equal value, the tax burden on a $150,000-valued home was below the national average and the burden on a $300,000-valued home was above the average. When we set home values in each large city equal to the local median value, the total tax burden on a Minneapolis home is below the national average. If the tax is measured as a share of total home value, Minneapolis taxes on a median-valued home are above average.
- Urban commercial rankings and relative burdens continue to be high in payable 2013. For $1 million and $25 million commercial parcels, Minneapolis' property tax burden ranks fifth in the nation.
- Taxes on commercial (retail) and industrial (manufacturing) properties in Glencoe relative to the study averages have again steeply climbed in 2013. Assessment practices are the main driver behind this change. Based on statistics from the Minnesota Department of Revenue that compare assessed values to sales prices, we adjusted the taxable value of commercial-industrial properties in Glencoe 15.7% above their market values. This means that we calculated property taxes for $1 million-valued commercial property as though it was worth $1,157,000.
- Minnesota's exempts almost all types of personal property (machinery and equipment and inventories, for example), from the property tax. This makes taxes on Minnesota manufacturing facilities – which have lots of personal property – far more competitive than taxes on Minnesota retail or office space, which do not benefit nearly as much from the exemption.
- Minneapolis' regional business property tax competitiveness is strong in relation to Des Moines; Detroit; Chicago; and Aurora, IL and is relatively competitive with Milwaukee. Minneapolis is at the greatest disadvantage to Fargo – commercial and industrial property tax burdens are 145% to 221% higher in Minneapolis on properties of equal value.
- Minnesota's business subsidization of local homeowner property taxes is 14th in the nation. A $1 million commercial property in Minneapolis paid 108.5% 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 173.4% higher taxes on its market value.

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

Introduction

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

Section 1: Minneapolis Findings

Homestead Properties

Compared to other urban cities, the $150,000 Minneapolis home moved down one place to 22nd while the $300,000 home also fell one place, to 20th. (Table 1) Taxes for the $150,000-valued property were just below the national average while taxes on the $300,000-valued property were 7.4% above the national average. Relative to payable 2011, taxes on both homes fell as a share of the national averages.

Table 1: Minneapolis Homestead Property Tax Burdens and Rankings, Payable 2013

Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2013	Change From 2012		Amount	Percent	
$150,000	22	-1	$2,237	($25)	(1.1%)	1.491%
$300,000	20	-1	$5,061	+$349	+7.4%	1.687%
Median* – Total Tax	19	+3	$3,171	($179)	(5.3%)	1.588%
Median* – ETR	20	+1		+0.049%	+3.2%	

* Median value for Minneapolis-St. Paul metropolitan area was $199,600

Our findings for property taxes on the median-valued home require some explanation. When comparing net taxes, Minneapolis ranks 19th with a burden of $3,171 – 5.3% *below* the national average. But when looking at effective tax rates (tax as a share of home value), Minneapolis' 1.588% ranks 20th for all urban cities – 3.2% *above* the national average. This disconnect is driven by Minneapolis' relatively low median home value of $199,600 compared to the average of $223,092 for all 53 cities. The mathematics involved with applying a less-than-average tax burden on a much-less-than-average home value result in an above-average effective tax rate.

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

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

Table 2: How Minneapolis Homestead Property Taxes Rise with Value, Payable 2013

Market Value	Total Tax	ETR	Tax Above/(Below) National Average	Rank
$150,000	$2,237	1.491%	(1.1%)	22
$300,000	$5,061	1.687%	+7.4%	20
$500,000	$8,725	1.745%	+9.3%	20
$750,000	$14,047	1.873%	+16.2%	18
$1,000,000	$19,368	1.937%	+19.6%	17

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 climbed between 2012 and 2013 for the $100,000-valued property only, rising from 16th to 12th of these 53 cities. The other two properties' ranking remained the same, at 5th. The sharp jump in rank and effective tax rate between the $100,000 parcel and the two higher-valued properties is due to Minnesota's tiered assessment rate for commercial property. Commercial properties are taxed on 1.5% of their value up to $150,000 and on 2.0% of the value above $150,000. This means that a $1 million-valued commercial property has 28% more of its market value taxed than a $100,000-valued property and a $25 million-valued commercial property has 33% more of its market value taxed than a $100,000-valued property.

The property tax on each parcel relative to the study average increased from payable 2012 at all three values. As Table 3 shows, commercial property tax burdens in Minneapolis are over 60% higher than the average for the $1 million- and $25 million-valued properties. However, these rankings and relative burdens still represent some competitive improvement over 1995, when Minneapolis ranked first in the country for $1 million-valued commercial parcels.

Table 3: Minneapolis Commercial Property Tax Burdens and Rankings, Payable 2013

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2013	Change From 2012		Amount	Percent	
$100,000	12	+4	$3,434	+$843	+32.5%	2.861%
$1,000,000	5	No change	$43,434	+$17,152	+65.3%	3.619%
$25,000,000	5	No change	$1,124,380	+$459,579	+69.1%	3.748%

Industrial Properties

Minneapolis' industrial property tax rankings changed from 2012 to 2013 as follows (Table 4):

- **50% personal property assumption:** the rank for the $100,000-valued example rose from 20th to 19th (one place); the rank for the $1 million parcel rose from 12th to 11th (one place); and the rank for the $25 million parcel rose from 12th to 10h (two places).
- **60% personal property assumption:** the rank for the $100,000-valued property rose one place, from 27h to 26th; the rank for the $1 million parcel rose two spots, from 16th to 14th; and the rank for the $25 million parcel was unchanged at 14th.

Compared to other urban cities, Minneapolis' industrial property taxes are generally above average, except for the $100,000-valued property where 60% of the total parcel values is personal property. 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 property was roughly 55% higher than the study average and the $25 million property was roughly 60% higher[2].

Table 4: Minneapolis Industrial Tax Burdens and Rankings, Payable 2013

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
		2013	Change From 2012		Amount	Percent	
50%	$100,000	19	+1	$3,434	+$266	+8.4%	1.717%
50%	$1,000,000	11	+1	$43,434	+$10,743	+32.9%	2.172%
50%	$25,000,000	10	+2	$1,124,380	+$298,939	+36.2%	2.249%
60%	$100,000	26	+1	$3,434	($126)	(3.5%)	1.373%
60%	$1,000,000	14	+2	$43,434	+$6,347	+17.1%	1.737%
60%	$25,000,000	14	No change	$1,124,380	+$189,037	+20.2%	1.799%

Note that even though Minneapolis' commercial and industrial property taxes are the same amount, the effective rates and rankings are lower for industrial properties. Minnesota's full exemption for personal property (machinery and equipment and inventories, for example) creates this disparity. Since manufacturing/industrial properties have larger proportions of personal property than commercial properties, this exemption provides them with a greater benefit and so they have lower effective tax rates. This makes them more competitive on a property tax basis.

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

Apartment Properties

We calculate property taxes on a $600,000 unfurnished apartment building with $30,000 of additional personal property. Our findings (Table 5) indicate that Minneapolis' apartment tax of $12,850 for such a building was 4.0% above the national average. When measured against other urban cities, Minneapolis' payable 2013 apartment taxes rank 22nd – three places below the previous rank.

The tax burden relative to the study average for all urban cities decreased from payable 2012. The rank of 22nd is far below payable 1995 and payable 1998 when it was 2nd and 3rd, respectively.

Table 5: Minneapolis Apartment Tax Burdens and Rankings, Payable 2013

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2013	Change From 2012		Amount	Percent	
$600,000	22	-3	$12,850	+$495	+4.0%	2.040%

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

Section 2: Glencoe Findings

Section 2 compares property taxes in Glencoe to other rural cities. Tax burdens in Glencoe relative to other rural cities across the country have increased substantially between 2011 and 2012. Assessment practices are the main driver behind this change. Based on statistics from the Minnesota Department of Revenue that compare assessed values to sales prices, we adjusted the taxable value of commercial-industrial properties in Glencoe 15.7% above their market values. This means that we calculated property taxes for $1 million-valued commercial property as though it was worth $1,157,000. Since the market values in our study do not change from year to year, an increase in Glencoe's property tax rates also contributes to this change.

Homestead Properties

Table 6 provides a snapshot of Glencoe's homestead property taxes. Compared to other rural locations, Glencoe's total tax burden and ETR are below the study average for the $70,000 property and markedly above the study average for the higher-valued homes. The rankings did not move much. The $70,000-valued home moved up one place, the rank for the $150,000-valued home was unchanged, and the rank for the $300,000-valued home[3] fell one spot. Tax burdens fell 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, Payable 2013

Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2013	Change From 2012		Amount	Percent	
$70,000	23	+1	$846	($47)	(5.3%)	1.208%
$150,000	18	No change	$2,458	+$414	+20.3%	1.638%
$300,000	16	-1	$5,505	+$1,284	+30.4%	1.835%

Commercial Properties

Glencoe's ranking for a $100,000-valued commercial property rose sharply between 2012 and 2013 (Table 7) – the third year in a row this has happened. It rose from 6th to 2nd place in our study – an increase of four spots. Meanwhile, the rank for the two higher-valued parcels both remained unchanged at 2nd in the nation. At all three property values, Glencoe now only trails Iola, Kansas. As was the case with Minneapolis, rural commercial effective tax rates increase as value increases because of Minnesota's tiered assessment system for commercial-industrial properties. Tax burdens as a share of the national average also increased significantly at all three values. Compared to other rural cities, taxes in Glencoe are now 88.2% higher than the national average for the $100,000-valued parcel and 130% to 140% higher for the higher-valued properties.

Table 7: Glencoe Commercial Property Tax Burdens and Rankings, Payable 2013

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2013	Change From 2012		Amount	Percent	
$100,000	2	+6	$3,878	+$1,817	+88.2%	3.232%
$1,000,000	2	No change	$49,147	+$28,131	+133.9%	4.096%
$25,000,000	2	No change	$1,272,580	+$743,573	+140.6%	4.242%

[3] 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 considerably between 2012 and 2013. (Note: even though it is not typical for Glencoe, we include a $25 million example to provide comparability to other locations.)

- **50% personal property assumption:** rankings rose six places for the lowest-valued property (from 13th to 7th) and rose three places for the two higher-valued examples (from 7th to 4th at $1 million of value and from 6th to 3rd at $25 million of value).
- **60% personal property assumption:** the ranking for the $100,000-valued property rose five places, from 16th to 11th; while the rankings for the $1 million parcel and $25 million parcel each rose three places, from 9th to 6th in both instances.

Glencoe had substantially higher property tax burdens relative to the national average than Minneapolis; and all the tax burdens are above the study averages.

Table 8: Glencoe Industrial Tax Burdens and Rankings, Payable 2013

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
		2013	Change From 2012		Amount	Percent	
50%	$100,000	7	+6	$3,878	+$1,379	+55.2%	1.939%
50%	$1,000,000	4	+3	$49,147	+$23,406	+90.9%	2.457%
50%	$25,000,000	3	+3	$1,272,580	+$625,460	+96.7%	2.545%
60%	$100,000	11	+5	$3,878	+$1,049	+37.1%	1.551%
60%	$1,000,000	6	+3	$49,147	+$19,871	+67.9%	1.966%
60%	$25,000,000	6	+3	$1,272,580	+$537,088	+73.0%	2.036%

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

Glencoe's ranking for rural apartment taxes dropped a whopping sixteen places between 2012 and 2013 – moving from 8th to 22nd. The tax burden on the Glencoe apartment building declined considerably relative to the national average (Table 9), moving from 57.4% above the study average for payable 2012 to 3.7% above for payable 2013.

Table 9: Glencoe Apartment Tax Burdens and Rankings, Payable 2013

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2013	Change From 2012		Amount	Percent	
$600,000	22	-14	$10,446	+$377	+3.7%	1.658%

Section 3: Regional Competitiveness: Commercial and Industrial Properties

Minnesota's commercial and industrial property tax competitiveness within the upper Midwest varies depending on property value and location. Higher value properties are at the greatest disadvantage – continuing a long-existing trend. Compared to other large regional cities, Minneapolis' commercial tax burden ranges from 0.7% below the upper Midwestern average for the \$100,000 property to 24.9% above the average for the \$25 million property. Similarly, Minneapolis' industrial tax burden ranges from 14.9% below the upper Midwestern average for the \$100,000 property to 7.6% above the average for the \$25 million property. Glencoe's commercial property tax burdens range from 37.5% above the regional average a \$100,000 property to 69.6% above the average for a \$25 million property. Glencoe's industrial tax burden ranges from 31.4% above the regional average for the \$100,000 property to 62.4% above the average for the \$25 million property.

Minnesota is at the greatest disadvantage with North Dakota: commercial and industrial property tax burdens are 145% to 221% higher in Minneapolis than in Fargo on properties of equal value. The tax burden for both types of property is 211% to 308% higher in Glencoe compared to properties of equal value in Devils Lake (Table 10). Although industrial properties in Minnesota benefit from the state's full exemption of personal property, that exemption provides little competitive edge in the region because Illinois, Iowa, North Dakota, and South Dakota offer the same exemption.

Table 10: Payable 2013 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	**\$3,434**	**\$3,878**	**\$43,434**	**\$49,147**	**\$1,124,380**	**\$1,272,580**
Illinois – Chicago	4,231	--	42,313	--	1,057,835	--
Illinois – Remainder	3,867	2,710	38,668	27,105	966,691	677,624
Iowa	4,689	3,378	46,894	33,782	1,172,352	844,540
Michigan	4,895	3,449	48,951	34,491	1,223,773	862,274
North Dakota	1,400	1,248	14,001	12,483	350,036	312,068
South Dakota	1,780	2,320	17,804	23,200	445,095	580,000
Wisconsin	3,364	2,754	34,369	28,116	861,168	704,441
Upper Midwest Avg.	**\$3,458**	**\$2,820**	**\$35,804**	**\$29,761**	**\$900,166**	**\$750,504**
Industrial Properties (40% Real Property/60% Personal Property)						
VALUE:	**\$100,000**		**\$1 Million**		**\$25 Million**	
States	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**
Minnesota	**\$3,434**	**\$3,878**	**\$43,434**	**\$49,147**	**\$1,124,380**	**\$1,272,580**
Illinois – Chicago	4,303	--	43,031	--	1,075,780	--
Illinois – Remainder	3,867	2,710	38,668	27,105	966,691	677,624
Iowa	7,362	3,303	73,624	33,031	1,840,593	825,772
Michigan	6,920	4,571	69,202	45,711	1,730,044	1,142,766
North Dakota	1,400	1,248	14,001	12,483	350,036	312,068
South Dakota	1,780	2,320	17,804	23,200	445,095	580,000
Wisconsin	3,221	2,636	32,934	26,942	825,283	675,086
Upper Midwest Avg.	**\$4,036**	**\$2,952**	**\$41,587**	**\$31,088**	**\$1,044,738**	**\$783,699**

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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[4] to the effective tax rate on a median-value homestead property for each of our 53 urban areas. This "classification ratio" provides a measure of the degree to which commercial property owners subsidize homeowner property taxes.

Table 11: Commercial-Homestead Classification Ratios for Payable 2013, Urban Cities

State	City	Median Value ($)	Ratio	Rank	State	City	Median Value ($)	Ratio	Rank
New York	New York City	399,900	4,981	1	Florida	Jacksonville	166,500	1.311	26
Massachusetts	Boston	382,200	3.871	2	Arkansas	Little Rock	144,200	1.289	27
South Carolina	Columbia	148,200	3.747	3	South Dakota	Sioux Falls	158,300	1.288	28
Colorado	Denver	286,500	3.621	4	Ohio	Columbus	148,600	1.275	29
Hawaii	Honolulu	660,100	3.563	5	Michigan	Detroit	65,167	1.253	30
Arizona	Phoenix	183,300	2.867	6	Texas	Houston	189,000	1.249	31
Indiana	Indianapolis	139,700	2.831	7	New Mexico	Albuquerque	171,600	1.150	32
Minnesota	**Minneapolis**	**199,600**	**2.734**	**--**	Vermont	Burlington	280,900	1.107	33
Illinois	Chicago	201,300	2.617	8	Illinois	Aurora	201,300	1.086	34
Louisiana	New Orleans	177,200	2.580	9	Virginia	Virginia Beach	200,000	1.076	35
District of Columbia	Washington	403,000	2.389	10	Oklahoma	Oklahoma City	149,100	1.070	36
Kansas	Wichita	127,800	2.263	11	Alaska	Anchorage	346,374	1.067	37
West Virginia	Charleston	135,600	2.140	12	Maine	Portland	233,400	1.045	38
Alabama	Birmingham	173,700	2.092	13	Wyoming	Cheyenne	211,584	1.036	39
Minn minus state C/I	***Minneapolis***	***199,600***	***2.085***	***14***	Wisconsin	Milwaukee	208,700	1.030	40
Idaho	Boise	168,500	2.068	15	North Dakota	Fargo	164,500	1.030	41
Iowa	Des Moines	172,700	1.979	16	Maryland	Baltimore	262,700	1.030	42
Rhode Island	Providence	233,900	1.909	17	Delaware	Wilmington	227,200	1.023	43
Missouri	Kansas City	159,600	1.831	18	California	Los Angeles	378,400	1.019	44
Utah	Salt Lake City	230,000	1.768	19	Nebraska	Omaha	151,300	1.000	45
U.S. Average			**1.716**	**--**	New Hampshire	Manchester	233,200	1.000	45
Mississippi	Jackson	149,600	1.696	20	New Jersey	Newark	398,100	1.000	45
U.S. Average (w/o NYC)			**1.653**	**--**	North Carolina	Charlotte	180,100	1.000	45
New York	Buffalo	132,000	1.617	21	Oregon	Portland	264,200	1.000	45
Tennessee	Memphis	136,200	1.600	22	Washington	Seattle	345,800	1.000	45
Pennsylvania	Philadelphia	227,200	1.564	23	Nevada	Las Vegas	171,800	0.988	51
Georgia	Atlanta	143,300	1.477	24	Kentucky	Louisville	146,200	0.979	52
Montana	Billings	228,643	1.462	25	Connecticut	Bridgeport	425,900	0.907	53

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

A ratio of 1.0 indicates no apparent classification between these two property types, which are typically the target of most classification systems. A ratio greater than 1.0 indicates some degree of classification, broadly defined, with higher values

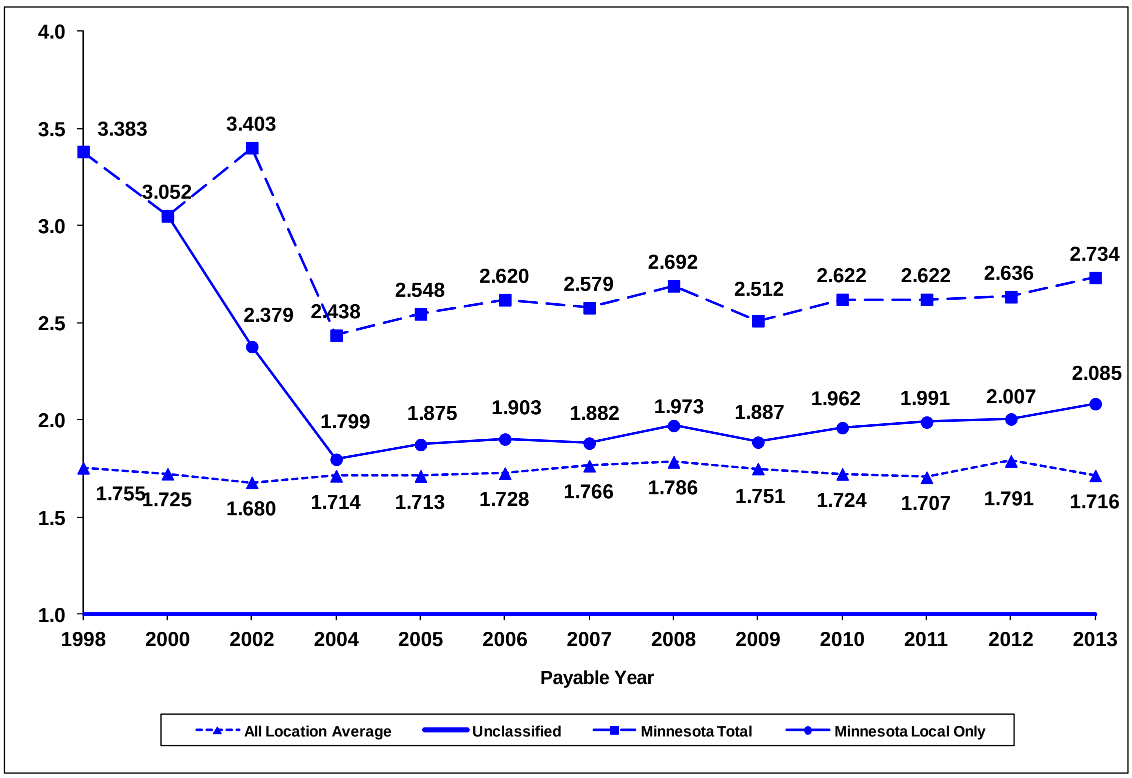
[4] Land and buildings only.

reflecting a greater degree of classification.[5] We calculated the ratios using taxes for real property only, after adjusting for differences in assessment practices. Differences in the quality of assessments between the types of property can produce a de facto classification system even with no formal classification scheme.

Some locations rank near the top of this list because of extreme differences in how much of each property type's market value is taxable. For instance, in New York City, 6% of residential property value is taxable compared to 45% for commercial property. In other cases, differences in tax rates and/or homestead exemptions or credits account for the high ratio. In Boston, roughly 35% of the value of the median home is exempt from taxation, and the homestead tax rate is about 41% that for commercial and industrial properties. Minnesota ranks in the top third of this list because of our market value homestead exclusion and because residential class rates are lower than those for commercial property.

Minnesota's classification ratio for local property taxes only, 2.085, ranks 14th out of 53, rising five spots from last year's 19th place. The ratio rose 3.9% from last year and is 21.5% above the national average (26.1% if we ignore New York as an outlier). The ratio indicates that a $1 million commercial property in Minneapolis paid 108.5% more in local property taxes on its market value than a median-valued home did in 2013. If we include the statewide levy of $802 million imposed on commercial and industrial property across Minnesota in 2013, the ratio increases to 2.734 and the ranking would increase to 8th. This means that on the total property tax bill, commercial property paid 173.4% 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 – 2013



As the figure indicates, Minnesota's classification ratio dropped considerably between 1998 and 2004: the result of major property tax reform in 2001. Since 2004, Minnesota's classification ratio has trended upwards, though in some years the ratio has dropped. When looking at state and local property taxes the classification ratio has increased 12.1% since 2004, the ratio for local taxes only has climbed by 15.9% during that period. This trend toward additional business subsidization

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

of homeowner taxes differs from the nationwide trend since 2004, which has risen and fallen two times since 2004 but as of 2013 is essentially unchanged from 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 slowing overall property tax growth. Eleven of our 53 urban cities have had classification ratios of 1.05 or less in at least nine of our last eleven studies. In two of those locations – Los Angeles, California and Portland, Oregon – limited market value provisions have offered substantial tax relief to homeowners. However, the nine other locations[6] with low classification ratios have historically offered little or no preferential treatment to homeowners. Census data indicates that overall property tax increases between 1998 and 2011, on both a per capita and per $1,000 of income basis, have been lower in the nine states these cities that have offered little or no preferential treatment to homeowners represent (Table 12).

Table 12: Property Tax Collections, FY 1998 and FY 2011, for States With No Homeowner-Specific Limited Market Value Provisions and Classification Ratios < 1.05 and Remaining States

Fiscal Year	States with no homeowner-specific limited market value provisions and Classification Ratio < 1.050 (n = 9)		Remaining States (n = 42)	
	Prop Tax Per Capita	Prop Tax per $1,000 of Income	Prop Tax Per Capita	Prop Tax per $1,000 of Income
FY 1998	$772,36	$31.41	$860,69	$33.42
FY 2011	$1,215.68	$31.66	$1,447.84	$35.27
Pct Chg	**57.4%**	**0.8%**	**68.2%**	**5.5%**
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; Omaha, NE, Manchester, NH; Las Vegas, NV; Charlotte, NC; Seattle, WA; Milwaukee, WI; and Cheyenne, WY.