MCFE's *Pay 2014 50-State Property Tax Comparison Study: Minnesota Results*

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

- Minneapolis' rankings for homeowner taxes were relatively unchanged from our payable 2013 study. When comparing properties of equal value (which controls for real estate market conditions and allows for direct comparisons of the effect of state property tax structures), the tax burden on a $150,000-valued home was below the national average and the burden on a $300,000-valued home was slightly above the average. When we set home values in each large city equal to the local median value (which allows for comparisons of burdens of homeowners in relatively similar situations), the total tax burden on a Minneapolis home is 7.7% above the national average. If the tax is measured as a share of the median home's value, Minneapolis taxes are 3.9% below average.
- Urban commercial rankings and relative burdens continue to be high in payable 2014. For $1 million and $25 million commercial parcels, Minneapolis' property tax burden ranks sixth in the nation, down one spot from last year.
- Rankings and comparative tax burdens on commercial (retail) properties in Glencoe remain high for payable 2014. Tax burdens on commercial properties at $1 million and $25 million of value continue to rank second highest in the nation and are 85% to 95% above the study averages. Industrial (manufacturing) properties fared better in this year's study; dropping anywhere from two to five places. However, four of the six examples continue to rank in the top ten with tax burdens that are around one -third to one-half higher than the average.
- Minnesota's statewide general property tax, a state levy that falls entirely on business and cabin properties, has significant implications for Minnesota's competitiveness with regard to business property taxes. Eliminating this tax would reduce Minneapolis' rankings for commercial parcels by either 9 or 11 places and its rankings for industrial parcels by anywhere from 9 to 16 places. Similarly, eliminating the tax would reduce the rankings for commercial parcels in Glencoe by 5 places for the highest valued properties and 11 places for the $100,000-valued parcel; industrial property tax rankings would fall by anywhere from 7 to 9 places.
- Minnesota's exempts almost all types of personal property (machinery and equipment and inventories, for example), from the property tax. This makes taxes on Minnesota manufacturing facilities – which have lots of personal property – far more competitive than taxes on Minnesota retail or office space, which do not benefit nearly as much from the exemption.
- On a regional basis, Minneapolis' 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 134% to 207% higher in Minneapolis on properties of equal value.
- Minnesota's business subsidization of local homeowner property taxes is 13th highest in the nation. A $1 million commercial property in Minneapolis paid 115.7% more in local property taxes on its share of property value than a homeowner in the median-valued home. This level of subsidization is the highest recorded in the study since payable 2002, before the effects of the 2001 property tax reforms were fully implemented.

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, taxes on homes in Minneapolis continue to be relatively average. The $150,000-valued home moved up one place to 21st while the $300,000 home fell one place, also to 21st. (Table 1) Taxes for the $150,000-valued property were 7.8% below the national average while taxes on the $300,000-valued property were just above the national average. Relative to payable 2013, taxes on homes at both values fell compared to the national averages.

Table 1: Minneapolis Homestead Property Tax Burdens and Rankings, Payable 2014

Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2014	Change From 2013		Amount	Percent	
$150,000	21	+1	$2,061	($174)	(7.8%)	1.374%
$300,000	21	-1	$4,704	+$42	+0.9%	1.568%
Median* – Total Tax	17	+2	$2,905	+$208	+7.7%	1.468%
Median* – ETR	20	No change		(0.059%)	(3.9%)	

* Median value for Minneapolis was $197,900

Our findings for property taxes on the median-valued home require some explanation. When comparing homeowners' property tax bills, Minneapolis ranks 17th with a burden of $2,905 – 7.7% __*above*__ the national average. But when looking at effective tax rates (the tax as a share of home value), Minneapolis' 1.468% ranks 20th for all urban cities and is 3.9% __*below*__ the national average. In other words, Minneapolis homeowners with a median-valued home pay more property taxes than their average large city counterparts across the nation, but since the value of the Minneapolis median home is also higher than average the effective tax rate is lower.

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

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

Table 2: How Minneapolis Homestead Property Taxes Rise with Value, Payable 2014

Market Value	Total Tax	ETR	Tax Above/(Below) National Average	Rank
$150,000	$2,061	1.374%	(7.8%)	21
$300,000	$4,704	1.568%	+0.9%	21
$500,000	$8,167	1.633%	+3.3%	21
$750,000	$13,143	1.752%	+9.7%	18
$1,000,000	$18,118	1.812%	+12.9%	18

Commercial Properties

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

Minneapolis' commercial property tax rankings fell for all three examples between 2013 and 2014: three places for the $100,000-valued property only (from 12th to 15th) and by one spot (from 5th to 6th) for the other two property values. The sharp jump in rank and effective tax rate between the $100,000 parcel and the two higher-valued properties is largely the result of Minnesota's tiered assessment rate for commercial property. Commercial properties are taxed on 1.5% of their value up to $150,000 and on 2.0% of the value above $150,000. This effect of this tiered system is 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 – causing considerably higher burdens for those properties.

The property tax on each parcel relative to the study average fell from payable 2012 for all three values. As Table 3 shows, commercial property tax burdens in Minneapolis are at least 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 2014

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2014	Change From 2013		Amount	Percent	
$100,000	15	-3	$3,275	+$843	+30.0%	2.729%
$1,000,000	6	-1	$41,401	+$15,518	+60.0%	3.450%
$25,000,000	6	-1	$1,071,696	+$415,197	+63.2%	3.572%

For commercial (and industrial) properties, Minnesota's property tax is not purely a local issue. The state imposes its own property tax on business and cabin properties, setting it at $844.4 million for taxes payable in 2014. The state's encroachment into what is generally seen across the country as a revenue source for local governments, has competitiveness implications for Minnesota's business property owners and their tenants. As Table 4 on the next page indicates, eliminating the tax, which is nearly 25% of a parcel's total bill, reduces the tax substantially compared to the national averages.

Table 4: Minneapolis Commercial Property Tax Burdens and Rankings, Without State General Property Tax, Payable 2014

Land/Building Market Value	2014 Ranking (of 53)	Total Tax	Tax Above/(Below) National Average		ETR
			Amount	Percent	
$100,000	26	$2,516	+$12	+0.5%	2.096%
$1,000,000	17	$31,662	+$5,958	+23.2%	2.638%
$25,000,000	15	$819,100	+$167,367	+25.7%	2.730%

Industrial Properties

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

Minneapolis' industrial property tax rankings changed from 2013 to 2014 as follows (Table 5):

- **50% personal property assumption:** the rank for the $100,000- and $1 million-valued examples remained unchanged (at 19th and 11th, respectively) while the rank for the $25 million parcel fell from 10th to 12th (two places). Tax burdens rose slightly compared to the national average for the $100,000 parcel but fell for the two higher-valued examples.
- **60% personal property assumption:** the rank for the $100,000- and $1 million-valued examples also remained unchanged (at 26th and 14th, respectively) while the rank for the $25 million parcel fell one place, from 14th to 15th. As with the 50% personal property assumption, tax burdens rose slightly compared to the national average for the $100,000 parcel but fell for the two higher-valued examples.

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

Table 5: Minneapolis Industrial Tax Burdens and Rankings, Payable 2014

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
		2014	Change From 2013		Amount	Percent	
50%	$100,000	19	No change	$3,275	+$282	+9.4%	1.637%
50%	$1,000,000	11	No change	$41,401	+$9,865	+31.3%	2.070%
50%	$25,000,000	12	-2	$1,071,696	+$273,387	+34.2%	2.143%
60%	$100,000	26	No change	$3,275	($87)	(2.6%)	1.637%
60%	$1,000,000	14	No change	$41,401	+$5,562	+15.5%	2.070%
60%	$25,000,000	15	-1	$1,071,696	+$165,581	+18.3%	2.143%

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

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

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.

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

Table 6: Minneapolis Industrial Property Tax Burdens and Rankings, Without State General Property Tax, Payable 2014

Pers. Property Share of Total Value	Land/Building Market Value	2014 Ranking (of 53)	Total Tax	Tax Above/(Below) National Average		ETR
				Amount	Percent	
50%	$100,000	31	$2,516	($463)	(15.6%)	1.258%
50%	$1,000,000	23	$31,662	+$310	+1.0%	1.583%
50%	$25,000,000	21	$819,100	+$25,557	+3.2%	1.638%
60%	$100,000	36	$2,516	($832)	(24.8%)	1.006%
60%	$1,000,000	30	$31,662	($3,993)	(11.2%)	1.266%
60%	$25,000,000	29	$819,100	($82,250)	(9.1%)	1.311%

Apartment Properties

We calculate property taxes on a $600,000 unfurnished apartment building with $30,000 of additional personal property. Our findings (Table 7) indicate that Minneapolis' apartment tax of $12,085 for such a building was 1.0% below the national average. When measured against other urban cities, Minneapolis' payable 2014 apartment taxes rank 22nd – unchanged from last year's study.

The tax burden relative to the study average for all urban cities decreased from payable 2013. Looking over the longer-term, this year's rank of 22nd is far below payable 1995 and payable 1998 when it was 2nd and 3rd, respectively.

Table 7: Minneapolis Apartment Tax Burdens and Rankings, Payable 2014

Land/Building Market Value	Ranking (of 53)		Total Tax	Tax Above/(Below) National Average		ETR
	2014	Change From 2013		Amount	Percent	
$600,000	22	No change	$12,085	($126)	(1.0%)	1.918%

Section 2: Glencoe Findings

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

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

Homestead Properties

Table 8 provides a snapshot of Glencoe's homestead property taxes. Compared to other rural locations, Glencoe's total tax burden and ETR are markedly below the study average for the $70,000 property, very near the average for the $150,000 home and about 10% above the national average for the highest-valued home. Relative to payable 2013 ranks dropped considerably: the $70,000- and $300,000-valued home both fell six places while the rank for the $150,000-valued home fell four spots. Tax burdens fell compared to the study average for all three examples, by about 15 to 20 percentage points. We did not calculate tax burdens on median-valued homes for rural areas.

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

Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2014	Change From 2013		Amount	Percent	
$70,000	29	-6	$705	($181)	(20.4%)	1.007%
$150,000	22	-4	$1,985	($32)	(1.6%)	1.323%
$300,000	22	-6	$4,554	+$383	+9.2%	1.518%

Commercial Properties

Glencoe's ranking for a $100,000-valued commercial property fell between 2013 and 2014 (Table 9) from 2nd to 7th place in our study – a drop of spots. Meanwhile, the rank for the two higher-valued parcels both remained unchanged at 2nd in the nation for the third consecutive year. 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 9: Glencoe Commercial Property Tax Burdens and Rankings, Payable 2014

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2014	Change From 2013		Amount	Percent	
$100,000	7	-5	$3,099	+$1,059	+51.9%	2.583%
$1,000,000	2	No change	$39,356	+$18,411	+87.9%	3.280%
$25,000,000	2	No change	$1,019,307	+$491,145	+93.0%	3.398%

Minnesota's statewide business property tax also creates competitiveness issues in rural Minnesota. The tax, which is approximately 24% of the total bill for these Glencoe parcels, adds 11 places to the ranking for the $100,000-valued property and 5 places to the ranking for the higher-valued properties. Eliminating the tax brings the differential from the national average down by about half for the $1 million- and $25 million-valued properties.

Table 10: Glencoe Commercial Property Tax Burdens and Rankings, Without State General Property Tax, Payable 2014

Land/Building Market Value	2014 Ranking (of 50)	Total Tax	Tax Above/(Below) National Average		ETR
			Amount	Percent	
$100,000	18	$2,363	+$338	+16.7%	1.969%
$1,000,000	7	$29,907	+$9,151	+44.1%	2.492%
$25,000,000	7	$774,262	+$251,001	+48.0%	2.581%

Industrial Properties

Property tax rankings and relative burdens on industrial properties in Glencoe fell considerably between 2013 and 2014. (Note: even though it is not typical for Glencoe, we include a $25 million example to provide comparability to other locations and other city types.) The changes can be summarized as follows:

- **50% personal property assumption:** rankings fell five places for the lowest-valued property (from 7th to 12th), fell two places for the $1 million-valued example (from 4th to 6th), and fell four places for the $25 million examples (from 3rd to 7th).
- **60% personal property assumption:** the ranking for the two lowest-valued properties fell four places (from 11th to 15th at $150,000 of value at from 14th to 10th at $1 million of value) while the ranking for the $25 million parcel fell three places, from 6th to 9th.

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 11: Glencoe Industrial Tax Burdens and Rankings, Payable 2014

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
		2014	Change From 2013		Amount	Percent	
50%	$100,000	12	-5	$3,099	+$663	+27.2%	1.550%
50%	$1,000,000	6	-2	$39,356	+$13,813	+54.1%	1.968%
50%	$25,000,000	7	-4	$1,019,307	+$372,278	+57.5%	2.039%
60%	$100,000	15	-4	$3,099	+$355	+12.9%	1.240%
60%	$1,000,000	10	-4	$39,356	+$10,333	+35.6%	1.574%
60%	$25,000,000	9	-3	$1,019,307	+$283,285	+38.5%	1.631%

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

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

Table 12: Glencoe Industrial Tax Burdens and Rankings, Without State General Property Tax, Payable 2014

Pers. Property Share of Total Value	Land/Building Market Value	Ranking (of 50)	Total Tax	Tax Above/(Below) National Average		ETR
				Amount	Percent	
50%	$100,000	21	$2,363	($59)	(2.4%)	1.182%
50%	$1,000,000	14	$29,907	+$4,553	+18.0%	1.495%
50%	$25,000,000	15	$774,262	+$132,134	+20.6%	1.549%
60%	$100,000	24	$2,363	($366)	(13.4%)	0.945%
60%	$1,000,000	17	$29,907	+$1,073	+3.7%	1.196%
60%	$25,000,000	18	$774,262	+$43,141	+5.9%	1.239%

Apartment Properties

Glencoe's ranking for rural apartment taxes rose three places between 2013 and 2014 – moving from 22nd to 19th. The tax burden on the Glencoe apartment building increased substantially relative to the national average (Table 13), moving from 3.7% above the study average for payable 2013 to 19.3% above for payable 2014.

Table 13: Glencoe Apartment Tax Burdens and Rankings, Payable 2014

Land/Building Market Value	Ranking (of 50)		Total Tax	Tax Above/(Below) National Average		ETR
	2014	Change From 2013		Amount	Percent	
$600,000	19	-3	$11,963	+$1,939	+19.3%	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 3.3% below the upper Midwestern average for the $100,000 property to 18.0% above the average for the $25 million property. Similarly, Minneapolis' industrial tax burden ranges from virtually being at the upper Midwestern average for the $100,000 property to 12.4% above the average for the $25 million property. Glencoe's commercial property tax burdens range from 19.2% above the regional average a $100,000 property to 41.9% above the average for a $25 million property. Glencoe's industrial tax burden ranges from 24.5% above the regional average for the $100,000 property to 37.6% above the average for the $25 million property.

Minnesota is at the greatest disadvantage with North Dakota: commercial and industrial property tax burdens are 134% to 207% higher in Minneapolis than in Fargo on properties of equal value. The tax burden for both types of property is 114% to 182% higher in Glencoe compared to properties of equal value in Devils Lake (Table 14). Although industrial properties in Minnesota benefit from the state's full exemption of personal property, that exemption provides little competitive edge in the region because Illinois, Iowa, North Dakota, and South Dakota offer the same exemption.

Table 14: Payable 2014 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	**$3,275**	**$3,099**	**$41,401**	**$39,356**	**$1,071,696**	**$1,019,307**
Illinois – Chicago	4,632	--	46,323	--	1,158,087	--
Illinois – Remainder	3,931	2,326	39,307	23,263	982,669	581,567
Iowa	3,543	3,128	43,385	39,235	1,105,851	1,002,096
Michigan	5,057	3,538	50,574	35,379	1,264,360	884,471
North Dakota	1,397	1,446	13,974	14,464	349,338	361,612
South Dakota	1,821	1,907	18,208	19,074	455,210	476,860
Wisconsin	3,446	2,749	35,170	27,954	881,150	702,871
Upper Midwest Avg.	**$3,388**	**$2,599**	**$36,043**	**$28,389**	**$908,545**	**$718,398**
Industrial Properties (40% Real Property/60% Personal Property)						
VALUE:	**$100,000**		**$1 Million**		**$25 Million**	
States	**Urban**	**Rural**	**Urban**	**Rural**	**Urban**	**Rural**
Minnesota	**$3,275**	**$3,099**	**$41,401**	**$39,356**	**$1,071,696**	**$1,019,307**
Illinois – Chicago	4,056	--	40,558	--	1,013,951	--
Illinois – Remainder	3,931	2,326	39,307	23,263	982,669	581,567
Iowa	3,588	2,698	43,833	34,937	1,117,030	894,634
Michigan	4,852	3,323	71,677	47,089	1,791,928	1,177,215
North Dakota	1,397	1,446	13,974	14,464	349,338	361,612
South Dakota	1,821	1,907	18,208	19,074	455,210	476,860
Wisconsin	3,299	2,632	33,702	26,883	844,432	673,582
Upper Midwest Avg.	**$3,277**	**$2,490**	**$37,833**	**$29,295**	**$953,282**	**$740,682**

Section 4: Subsidization of Homeowners

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

Table 15: Commercial-Homestead Classification Ratios for Payable 2014, Urban Cities

State	City	Median Value ($)	Ratio	Rank	State	City	Median Value ($)	Ratio	Rank
New York	New York City	488,100	4.323	1	Ohio	Columbus	123,700	1.365	26
Massachusetts	Boston	381,700	4.009	2	South Dakota	Sioux Falls	153,300	1.341	27
Hawaii	Honolulu	550,400	3.663	3	Texas	Houston	125,700	1.330	28
South Carolina	Columbia	163,600	3.661	4	Arkansas	Little Rock	159,900	1.262	29
Colorado	Denver	263,900	3.618	5	Georgia	Atlanta	200,900	1.256	30
Indiana	Indianapolis	116,400	3.125	6	North Dakota	Fargo	164,200	1.203	31
Minnesota	**Minneapolis**	**179,900**	**2.821**	**--**	New Mexico	Albuquerque	183,400	1.153	32
Illinois	Chicago	211,400	2.696	7	Illinois	Aurora	159,300	1.123	33
Louisiana	New Orleans	183,100	2.382	8	Vermont	Burlington	273,900	1.104	34
Arizona	Phoenix	162,300	2.355	9	Michigan	Detroit	36,800	1.086	35
Alabama	Birmingham	83,800	2.200	10	Alaska	Anchorage	295,500	1.079	36
Kansas	Wichita	115,800	2.173	11	Oklahoma	Oklahoma City	136,900	1.071	37
Pennsylvania	Philadelphia	136,800	2.170	12	Wisconsin	Milwaukee	113,900	1.065	38
Minn minus state C/I	***Minneapolis***	***179,900***	***2.157***	***13***	Maine	Portland	230,000	1.045	39
Idaho	Boise	169,000	2.093	14	Wyoming	Cheyenne	197,800	1.036	40
West Virginia	Charleston	107,000	2.071	15	California	Los Angeles	451,200	1.016	41
District of Columbia	Washington	470,500	2.028	16	Kentucky	Louisville	141,900	1.014	42
Iowa	Des Moines	113,900	1.962	17	Nebraska	Omaha	134,600	1.000	43
Rhode Island	Providence	170,800	1.909	18	New Hampshire	Manchester	206,600	1.000	43
Mississippi	Jackson	84,000	1.874	19	New Jersey	Newark	206,200	1.000	43
Missouri	Kansas City	126,900	1.831	20	North Carolina	Charlotte	165,900	1.000	43
New York	Buffalo	68,500	1.791	21	Oregon	Portland	291,400	1.000	43
Utah	Salt Lake City	249,600	1.788	22	Washington	Seattle	436,600	1.000	43
U.S. Average			**1.710**	**--**	Nevada	Las Vegas	162,400	0.988	49
U.S. Average (w/o NYC)			**1.659**	**--**	Delaware	Wilmington	152,100	0.981	50
Tennessee	Memphis	89,400	1.600	23	Virginia	Virginia Beach	259,200	0.953	51
Montana	Billings	186,600	1.481	24	Connecticut	Bridgeport	163,400	0.868	52
Florida	Jacksonville	129,700	1.452	25	Maryland	Baltimore	150,000	0.862	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

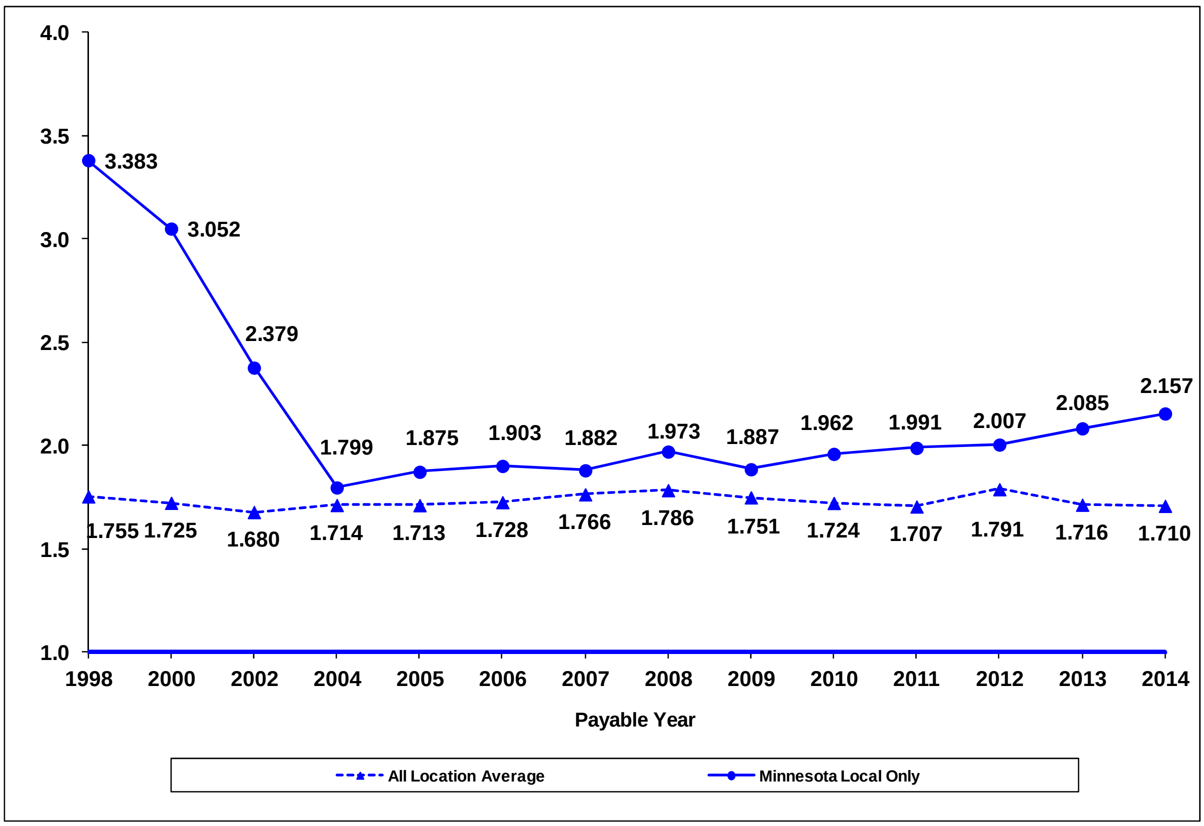
[3] Land and buildings only.

reflecting a greater degree of classification.[4] We calculated the ratios using taxes for real property only, after adjusting for differences in assessment practices. Differences in the quality of assessments between the types of property can produce a de facto classification system even with no formal classification scheme.

Some locations 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 37% of the value of the median home is exempt from taxation, and the homestead tax rate is some 40% that of 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, 2.157, ranks 13th out of 53, rising one spot from last year's 14th place. The ratio rose 3.5% from last year and is 26.1% above the national average (30.0% if we ignore New York as an outlier). The ratio indicates that a $1 million commercial property in Minneapolis paid 115.7% more in local property taxes on its market value than a median-valued home did in 2014. If we include the statewide levy of $844 million imposed on commercial and industrial property across Minnesota in 2014, the ratio increases to 2.821 and the ranking would increase to 7th. This means that on the total property tax bill, commercial property paid 182.1% higher taxes on its market value than the median valued home. Figure 1 shows trends for local taxes only since 1998.

Figure 1: Commercial-Homestead Classification Ratio, Minnesota (Local Taxes Only) and All Location Average, 1998 – 2014



As the figure indicates, Minnesota's classification ratio for local property taxes only dropped considerably between 1998 and 2004: the result of major property tax reform in 2001. Since then the general trend in this ratio has been upward and is currently 19.9% over the payable 2004 level. In fact, in payable 2014 we are seeing the highest classification ratios in

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

Minnesota since 2002 after which the full 2001 reforms were implemented. This trend toward additional business subsidization of homeowner taxes differs from the nationwide trend since 2004, which has risen and fallen at times but is essentially unchanged since then.

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. Thirteen of the locations in our Urban set of cities have had classification ratios of no more than 1.05 in at least 75% (nine of twelve) of the studies we published between payable 1998 and payable 2012. In two of those locations – Los Angeles, California and Portland, Oregon – limited market value provisions have been in effect during this period that have offered substantial tax relief to homeowners but which our study did not quantify prior to payable 2012. However, the eleven remaining locations[5] with low classification ratios have historically offered little or no preferential treatment to homeowners. Census data indicates that total property tax increases between 1998 and 2012, on both a per capita and per $1,000 of income basis, have been lower in the eleven states these locations represent that have offered little or no homeowner subsidy (Table 16).

Table 16: Property Tax Collections, FY 1998 and FY 2012, for States With No Homeowner-Specific Assessment Limitations and With Classification Ratios < 1.05 and Remaining States

Fiscal Year	States with no homeowner-specific limited market value provisions and Classification Ratio < 1.050 (n = 11)		Remaining States (n = 40)	
	Prop Tax Per Capita	Prop Tax per $1,000 of Income	Prop Tax Per Capita	Prop Tax per $1,000 of Income
FY 1998	$962.20	$36.57	$830.46	$32.56
FY 2012	$1,556.49	$36.38	$1,394.68	$33.48
Pct Chg	**61.8%**	**(0.5%)**	**67.9%**	**2.8%**
Property tax and population data from Department of the Census; income data from Bureau of Economic Analysis. Calculations by MCFE.				

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