

I. Executive Summary

Introduction

This is MTA's tenth national property tax comparison study. Some valuation assumptions have been dropped and others added over the course of time, so not all property types or values can be compared through the entire series. Data for property tax calculations was collected through various government websites or by using a contact-verification approach in which we asked state and local experts to provide information.

This study assumes that the "true market value" of each of several parcels of property is the same in all 124 locations studied. Because the "assessed value" of property varies from state to state, our tax calculations account for the effects of local assessment practices, as well as statutory tax provisions. Each hypothetical property includes assumptions about personal property and real property. Effective property tax rates (ETRs) – that is, total tax divided by total value – are presented in rank order.

We include three sets of examples for industrial (manufacturing) properties, which reflect three different assumptions regarding personal property¹: personal property comprises 50% of the total parcel value; personal property comprises 60% of the total parcel value; and total personal property varies among states based on different industrial profiles. Our Frequently Asked Questions section has much more on this topic.

This study is most useful when used in connection with other information about state and local tax structures. Some locations have relatively high property taxes because their local governments are more "own-source" revenue dependent. Other states have higher income and sales taxes in part to finance a greater share of the cost of local government. Likewise, the property tax on a selected class of property may be relatively high or low due to policies designed to redistribute the property tax burdens across the classes of property through exemptions, differential assessment rates, or other classification schemes.

Readers of this study often have questions about our use of the "sales ratio" statistic – the comparison of actual sales prices to assessed values. Since this statistic can significantly impact year-to-year changes in property tax burdens and rankings, we encourage readers to turn to page 52 to better understand how this statistic works, why we include it in our calculations, and what implications it can have for our results.

Minnesota's property tax system is complex and changes in tax burdens are a function of many moving parts. Readers of this study are also strongly encouraged to familiarize themselves with the design and structure of the Minnesota property tax system to assist in understanding and interpreting findings. Our primer *Understanding Your Property Taxes* can be found on the MTA website at <http://mntax.org/cpfr/uypt.php>.

Findings – Property Tax Rankings and Burdens

Homesteads

Minneapolis' homestead rankings rose substantially for payable 2009, with both the total burden and the effective tax rate rising in all three examples. Glencoe's rural homestead rankings are mostly unchanged from 2008 – only the \$70,000-valued home changed rank, moving up one spot from 27th to 26th. Property tax burdens as a share of the national average increased in both Glencoe and Minneapolis, indicating that residential property taxes rose more rapidly than did taxes overall for this set of cities. However, property taxes are still average to below-average in Minneapolis and Glencoe than in other areas of the U.S (Table 1).

¹ Machinery and equipment, inventories, and fixtures.

I. Executive Summary

Table 1: Minneapolis and Glencoe Homestead Property Tax Burdens, Rankings, Effective Tax Rates (ETR), and Burdens Compared to Study Averages, Taxes Payable 2009

City	Land/Building Value	Ranking 2009 (2008)	% U.S. 2009 (2008)	2009 Tax		ETR
				Total	Vs. Natl. Average	
Minneapolis	\$150,000	23 (35)	95.0 (87.7)	\$1,861	(\$99)	1.241%
Minneapolis	Median*	23 (34)	97.3 (87.0)	\$2,375	(\$44)	1.287%
Minneapolis	\$300,000	22 (27)	100.3 (93.4)	\$4,095	\$11	1.365%
Glencoe	\$70,000	26 (27)	81.4 (79.9)	\$652	(\$149)	0.932%
Glencoe	\$150,000	26 (26)	92.2 (89.4)	\$1,708	(\$144)	1.139%
Glencoe	\$300,000	25 (25)	98.7 (95.7)	\$3,789	(\$48)	1.263%

*The median home sale price for the Minneapolis-Saint Paul metropolitan area in 2008 was \$210,800 and was \$184,500 for 2009. Rank is for effective tax rate (ETR) only. No median home values were available for our rural examples.

Tax burden on the median valued Minneapolis home increased 1.7% over 2008 (from \$2,334 to \$2,375). Although the median valued home declined 12.5% in 2009 (from \$210,800 to \$184,500) suggesting a lower tax burden all else being equal, higher tax rates resulting from levy decisions and a decline in total tax base offset the impact of decline in median home value. This demonstrates an important (and frequently misunderstood) point: there is no direct correlation between change in property value and change in property taxes.

Commercial

Minneapolis' commercial property tax rankings rose two or three places between 2008 and 2009 depending on value. (Table 2) Commercial property tax rankings for Glencoe are largely unchanged since 2008; the lowest valued property rose two spots to 16th, the \$1 million property's ranking is unchanged, and the ranking for the \$25 million increased one place to 7th. Even with these increases, commercial properties in Minnesota have still experienced significant competitive improvement since 1995, when Minnesota's rank for a \$1 million commercial parcel was first for urban cities second for rural cities. However, commercial property taxes are still 12% to 44% above the national average for Minneapolis and 19% to 54% above the national average for Glencoe. A \$25 million commercial parcel in Minneapolis paid \$255,453 more in property taxes in 2009 than the U.S. urban average.

Table 2: Minneapolis and Glencoe Commercial Property Tax Burdens, Rankings, Effective Tax Rates (ETR), and Burdens Compared to Study Averages, Taxes Payable 2009

City	Land/Building Value	Ranking 2009 (2008)	% U.S. 2009 (2008)	2009 Tax		ETR
				Total	Vs. Natl. Average	
Minneapolis	\$100,000	19 (22)	112.4 (106.3)	\$2,563	\$283	2.136%
Minneapolis	\$1,000,000	11 (13)	140.3 (132.8)	\$32,342	\$9,293	2.695%
Minneapolis	\$25,000,000	9 (12)	143.9 (136.9)	\$836,978	\$255,453	2.790%
Glencoe	\$100,000	16 (18)	119.3 (121.3)	\$2,292	\$370	1.910%
Glencoe	\$1,000,000	8 (8)	148.9 (151.6)	\$29,017	\$9,534	2.418%
Glencoe	\$25,000,000	7 (8)	153.8 (156.4)	\$751,261	\$284,695	2.504%

Industrial

Industrial property tax rankings for both Minneapolis and Glencoe remain largely unchanged from 2008 (Table 3). Urban ranking changes ranged from decline of one spot to an increase of four spots depending on personal property assumptions.² Rankings in Glencoe were even more

² Minnesota's full exemption of personal property (machinery, equipment, inventories, and fixtures) for most industrial firms (except utilities) results in lower Minnesota industrial property tax rankings than the commercial rankings, even though the total taxes payable for industrial parcels are the same as commercial parcels of the same real estate value.

Minnesota Taxpayers Association 50-State Property Tax Study 2009

stable. However, tax burdens for industrial properties in both Minneapolis and Glencoe increased relative to the study average.

Table 3: Minneapolis and Glencoe Industrial Property Tax Burdens, Rankings, Effective Tax Rates (ETR), and Burdens Compared to Study Averages, Taxes Payable 2009

City	Pers. Prop. Share	Land/Building Value	Ranking * 2009 (2008)	% U.S.** 2009 (2008)	2009 Tax		ETR
					Total	Vs. Natl. Average	
Minneapolis	50%	\$100,000	28 (29)	90.6 (83.8)	\$2,563	(\$265)	1.282%
Minneapolis	50%	\$1,000,000	16 (20)	111.7 (103.1)	\$32,342	\$3,377	1.617%
Minneapolis	50%	\$25,000,000	18 (19)	114.7 (106.4)	\$836,978	\$107,173	1.674%
Minneapolis	60%	\$100,000	37 (38)	79.2 (72.5)	\$2,563	(\$675)	1.025%
Minneapolis	60%	\$1,000,000	25 (25)	97.2 (89.4)	\$32,342	(\$934)	1.294%
Minneapolis	60%	\$25,000,000	24 (24)	99.9 (92.3)	\$836,978	(\$616)	1.339%
Minneapolis	State Specific	\$100,000	30 (34)	86.1 (78.1)	\$2,563	(\$454)	1.216%
Minneapolis	State Specific	\$1,000,000	22 (21)	105.8 (96.2)	\$32,342	\$1,368	1.534%
Minneapolis	State Specific	\$25,000,000	21 (21)	108.7 (99.3)	\$836,978	\$56,946	1.588%
Glencoe	50%	\$100,000	21 (21)	94.1 (94.9)	\$2,292	(\$145)	1.146%
Glencoe	50%	\$1,000,000	17 (17)	116.8 (117.7)	\$29,017	\$4,181	1.451%
Glencoe	50%	\$25,000,000	16 (17)	120.7 (121.5)	\$751,261	\$128,871	1.503%
Glencoe	60%	\$100,000	27 (26)	81.8 (82.2)	\$2,292	(\$511)	0.917%
Glencoe	60%	\$1,000,000	19 (19)	101.8 (102.0)	\$29,017	\$500	1.161%
Glencoe	60%	\$25,000,000	19 (19)	105.2 (105.4)	\$751,261	\$36,824	1.202%
Glencoe	State Specific	\$100,000	20 (21)	119.3 (88.4)	\$2,292	(\$319)	1.087%
Glencoe	State Specific	\$1,000,000	19 (19)	148.9 (109.6)	\$29,017	\$2,413	1.376%
Glencoe	State Specific	\$25,000,000	17 (18)	153.8 (113.2)	\$751,261	\$84,659	1.425%

* Rank is for effective tax rate (ETR) only.

** Comparison for state-specific calculations is between ETRs, not total tax.

Apartments

Minneapolis' apartment rankings rose from 26th to 22nd for payable 2009. The tax also increased compared to the average for all cities in our urban set, indicating that apartment taxes in Minneapolis are increasing faster than the study average, with both the total burden and the effective tax rate rising in all three examples. However, the ranking is still far below payable 1995 and payable 1998, when it was 2nd and 3rd, respectively. Although the tax burden rank for apartment properties in Glencoe did not change, the tax burden increased relative to the average for all cities in our rural set.

Table 4: Minneapolis and Glencoe Apartment Property Tax Burdens, Rankings, Effective Tax Rates (ETR), and Burdens Compared to Study Averages, Taxes Payable 2009

City	Land/Building Value	Ranking 2009 (2008)	% U.S. 2009 (2008)	2009 Tax		ETR
				Total	Vs. Natl. Average	
Minneapolis	\$600,000	22 (26)	97.9 (87.3)	\$10,601	(\$227)	1.683%
Glencoe	\$600,000	26 (26)	85.8 (79.8)	\$8,109	(\$1,338)	1.287%

Findings – Subsidization of Homeowners

Minnesota's classification ratio – a comparison of effective tax rates between real³ commercial property and homestead property and a measure of homeowner subsidy by businesses – indicates that, in 2009, a \$1 million commercial property in Minneapolis paid 88.7% more in local property taxes on its share of property value than a homeowner in a median-valued home. When the statewide property tax is included in the analysis, the commercial property paid 151.2% higher taxes on its market value.

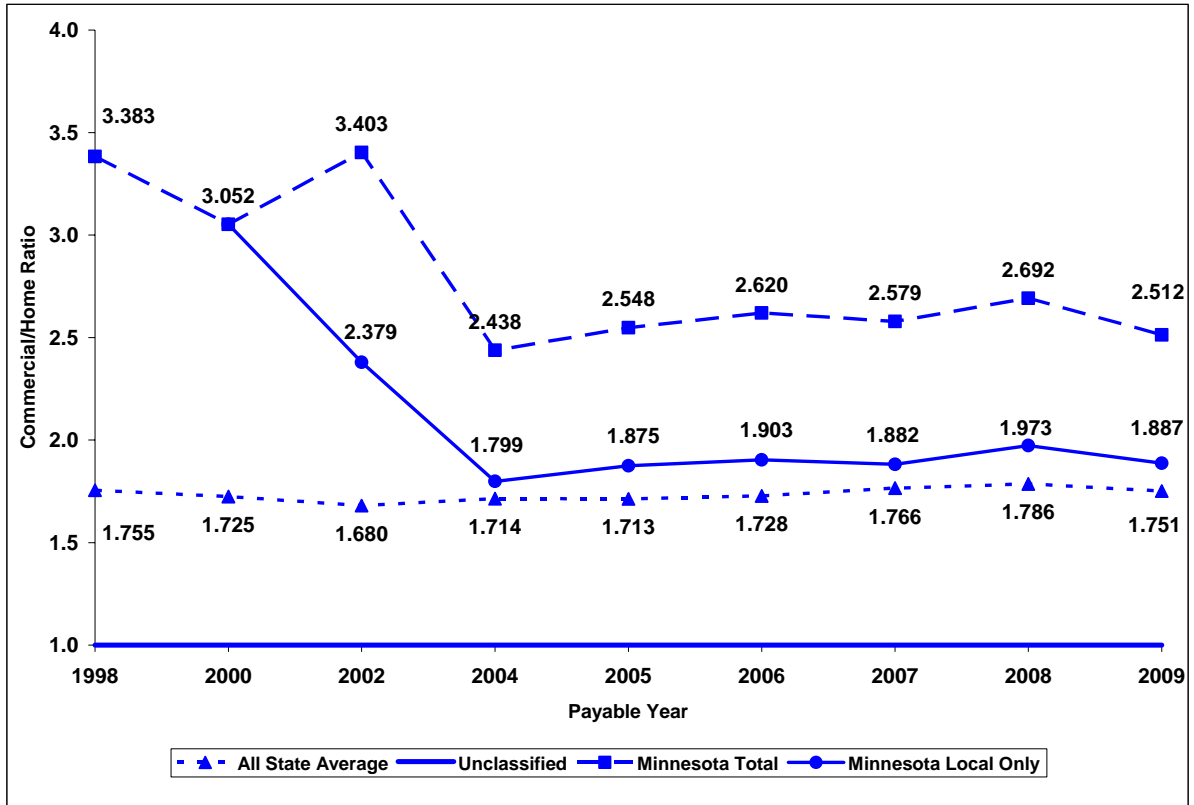
³ Real property is defined as land and buildings only.

I. Executive Summary

Considering local property taxes only, Minnesota's classification ratio is 7.7% higher than the U.S. average, which makes homeowners the 17th most subsidized among the 53 urban areas in this study. If the statewide property tax is included, Minnesota's rank for homeowner subsidization climbs to 9th in the nation.

Minnesota has countered a national trend of preserving a relatively steady amount of subsidy to homeowners. Since 1998, national average commercial effective tax rates consistently have been 1.7 to 1.8 times the effective tax rates on homestead properties. In contrast, Minnesota's classification ratio (for local taxes only) has declined 44% during this period to move much closer to the national average (Figure 1).

Figure 1: Various Ratios of Urban Commercial-to-Median Homestead ETRs, 1998 – 2009



Note: The ratios shown are calculated as the effective tax rate (ETR) of a \$1 million commercial property to the ETR of the median value home.

Nationally, greater homeowner sensitivity to property tax prices appears to play a role in retarding overall property tax growth. Property tax increases, on both a per capita and per \$1,000 of income basis, have been lower in the thirteen states that have offered little or no homeowner subsidy between 1998 and 2007⁴ (Table 5).

⁴ California, Delaware, Kentucky, Maryland, Nebraska, New Hampshire, Nevada, North Carolina, Oregon, Virginia, Washington, Wisconsin, and Wyoming.

Minnesota Taxpayers Association 50-State Property Tax Study 2009

Table 5: Property Tax Collections, FY 1998 and FY 2007, for States with Classification Ratios Above and Below 1.050

Fiscal Year	Classification Ratio < 1.050 (n = 13)		Classification Ratio > 1.050 (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	\$773.25	\$29.94	\$882.12	\$34.52
FY 2007	\$1120.26	\$30.26	\$1312.70	\$36.84
Pct Chg	45.9%	1.1%	48.8%	6.7%
Property tax and population data from Department of the Census; income data from Bureau of Economic Analysis. Calculations by MTA.				

Findings – Regional Competitiveness

Commercial

Minnesota’s commercial property tax competitiveness within the upper Midwest varies depending on property value and location. Higher value commercial properties are at the greatest disadvantage – a trend which has existed for many years. Minnesota’s commercial tax burden ranges from 11.8% below the regional average for the \$100,000 urban property to 12.8% above the regional average for the \$25 million urban property; and from 15.8% below the regional average for the \$100,000 rural property to 6.3% above the regional average for the \$25 million rural property. Minnesota is at the greatest disadvantage with South Dakota: the tax burden is 75% to 129% higher in Minneapolis than in Sioux Falls on properties of equal value; and the tax burden is 16% to 52% higher in Glencoe than in Sisseton on properties of equal value (Table 6).

Table 6: Payable 2009 Commercial 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	\$2,563	\$2,292	\$32,342	\$29,017	\$836,978	\$751,261
Illinois – Chicago ⁵	2,436	--	24,358	--	608,943	--
Illinois – Remainder	2,891	2,481	28,910	24,812	722,758	620,300
Iowa	4,350	4,075	43,505	40,745	1,087,622	1,018,635
Michigan	4,833	3,449	48,333	34,490	1,208,315	862,258
North Dakota	2,027	2,346	20,270	23,430	506,751	586,493
South Dakota	1,462	1,981	14,620	19,805	365,500	495,125
Wisconsin	2,683	2,420	27,173	24,480	680,227	612,746
Upper Midwest Avg.	\$2,906	\$2,721	\$29,939	\$28,116	\$752,137	\$706,688

Industrial

Minnesota’s regional industrial property tax competitiveness also varies depending on property value and location, with higher value properties again at the greatest disadvantage. Minnesota’s industrial tax burden ranges from 19.6% below the regional average for the \$100,000 urban property to 1.7% above the regional average for the \$25 million urban property; and from 20.0% below the regional average for the \$100,000 rural property to 1.1% above the regional average for the \$25 million rural property. As with commercial properties, industrial properties in rural Minnesota are also at the greatest disadvantage with South Dakota: the tax burden is 75% to 129% higher in Minneapolis than in Sioux Falls on properties of equal value; and the tax burden is 16% to 52% higher in Glencoe than in Sisseton on properties of equal value (Table 7).

⁵ In most cases, property tax structures are uniform across states. However, the property tax structure is significantly different in Cook County (Chicago) and in New York City than in the remainder of Illinois and New York. We include the second-largest cities in those states (Buffalo and Aurora) to represent the property tax structure in the remainder of those states. In essence, our urban analysis is a comparison of 53 different property tax structures, not 50 states and D.C. with over-representation in two states.

I. Executive Summary

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 7: Payable 2009 Industrial Property Tax Burdens: Minnesota and Other Upper Midwestern States

Industrial Properties (40% Real Property/60% Personal Property)						
VALUE:	\$100,000		\$1 Million		\$25 Million	
States	Urban	Rural	Urban	Rural	Urban	Rural
Minnesota	\$2,563	\$2,292	\$32,342	\$29,017	\$836,978	\$751,261
Illinois – Chicago	2,833	--	28,331	--	708,281	--
Illinois – Remainder	2,891	2,481	28,910	24,812	722,758	620,300
Iowa	4,350	4,075	43,505	40,745	1,087,622	1,018,635
Michigan	6,807	3,449	68,072	45,693	1,701,800	1,142,320
North Dakota	2,027	2,346	20,270	23,460	506,751	586,493
South Dakota	1,462	1,981	14,620	19,805	365,500	495,125
Wisconsin	2,570	2,318	26,039	23,459	651,883	587,214
Upper Midwest Avg.	\$3,188	\$2,866	\$32,761	\$29,570	\$822,697	\$743,050

Increases in Minnesota's statewide property tax levy would impact regional commercial-industrial competitiveness from a tax burden standpoint. A 25% increase in the statewide property tax, which would raise about \$200 million per year, would move the urban commercial tax burden for a \$1 million-valued property from 8.0% above the regional average to 13.8% above the regional average and would move the rural commercial tax burden for a \$1 million-valued property from 3.2% above the regional average to 8.8% above the regional average. For a similarly-valued industrial parcel, a 25% increase in the statewide property tax would move the urban industrial tax burden from 1.3% below the regional average to 4.1% above it; and would move the rural industrial tax burden from 1.9% below the regional average to 3.5% above it.

Table 8: Payable 2009 Commercial and Industrial Property Tax Burdens: Minnesota and Other Upper Midwestern States, \$1,000,000 Real Property, 25% Increase in Minnesota Statewide Property Tax

PROPERTY TYPE:	Commercial		Industrial (60% Pers. Prop)	
	Urban	Rural	Urban	Rural
Minnesota	34,354	30,873	34,354	30,873
Illinois – Chicago	24,358	--	28,331	--
Illinois – Remainder	28,910	24,812	28,910	24,812
Iowa	43,505	40,745	43,505	40,745
Michigan	48,333	34,490	68,072	45,693
North Dakota	20,270	23,430	20,270	23,430
South Dakota	14,620	19,805	14,620	19,805
Wisconsin	27,173	24,480	26,039	23,459
Upper Midwest Avg.	30,190	28,376	33,013	29,831

Minnesota Taxpayers Association 50-State Property Tax Study 2009

Table 9: Summary of Selected Previous Comparison Studies by Property Type and Year

Property Type and Real Property Value	Payable 2004		Payable 2005		Payable 2006		Payable 2007		Payable 2008		Payable 2009	
	MN Rank		MN Rank		MN Rank		MN Rank		MN Rank		MN Rank	
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>
Homestead												
\$70,000	37	32	**	35	**	34	**	31	**	27	**	26
\$150,000	28	28	29	29	27	31	34	27	35	26	23	26
\$300,000	29	28	28	27	25	26	27	23	27	25	22	25
Commercial												
\$100,000	23	17	21	14	21	18	20	9	22	18	19	16
\$1,000,000	14	7	14	7	11	9	12	4	13	8	11	8
\$25,000,000	11	5	13	6	8	8	12	3	12	8	9	7
Industrial (50-50)												
\$100,000	25	25	33	21	26	24	29	17	29	21	28	21
\$1,000,000	18	17	23	14	19	18	20	11	20	17	16	17
\$25,000,000	13	16	21	11	18	18	18	9	19	17	18	16
Industrial (40-60)												
\$100,000	35	32	38	28	36	31	37	21	38	26	37	27
\$1,000,000	26	22	30	20	25	23	26	17	25	19	25	19
\$25,000,000	24	20	28	18	23	22	24	15	24	19	24	19
Industrial (State-Specific)#												
\$100,000	**	**	**	**	**	**	**	**	34	21	30	20
\$1,000,000	**	**	**	**	**	**	**	**	21	19	22	19
\$25,000,000	**	**	**	**	**	**	**	**	21	18	21	17
Apartment												
\$600,000	26	29	28	29	27	28	29	29	26	26	22	26

Note: The table omits results from our payable 1995, 1998, 2000, and 2002 studies.
 # Ranks are for ETRs only, not total tax burdens

I. Executive Summary

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