

**Evaluating the Feasibility and Burden Shifting Impacts
of a Statewide Land Value Tax on
Commercial and Industrial Property**

Mark Haveman

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Working Paper**

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Abstract

In the most recent general session of the Minnesota state legislature, a bill was introduced to transition the commercial/industrial portion of the state general property tax into a tax on commercial/industrial land value only. The study explores the burden shifting effects and the technical and administrative issues surrounding its potential adoption. Burden shifting is examined on the basis of geographic location, property value, and property use. A statewide survey of county and city assessors was used to identify key implementation barriers and enabling conditions necessary to adopt such a tax.

Primary Findings:

- Burden shifting would be affected by three elements, the initial splitting of the state general tax levy pool, concurrent declassification, and the phase in of the land value tax itself.
- Concurrent declassification during the land tax phase in yields different burden shifting effects among property values. The replacement of ten percent of tax capacity with ten percent of unclassified land value has a disproportional impact on lower valued properties. Sub-\$150,000 parcels consistently would receive the largest percentage increases and would have to develop at a parcel intensity (as measured by the ratio of building value to total property value) nearly 10% higher than the state average to “break-even.”
- Although geographic shifts in state general taxes payable would be relatively minor, share of general tax payable would be even more concentrated in the Twin Cities metropolitan region. In the majority of counties, lower land values overwhelm the declassification effect, and smaller valued properties would still receive tax cuts.
- Median first year property tax increases and decreases for specific types of commercial and industrial properties vary by county. Within the Twin Cities region, changes typically range from an increase of 15% to a decrease of 5%. The “footprint” of the commercial/industrial establishment is a reasonable predictor of tax changes in the Twin Cities area; however, consumption of land is not a good predictor in outstate areas where land values are significantly lower.
- Vacant commercial/industrial parcels would receive state general tax increases ranging from 21%-31.5% in the first year.
- Development and defense of land values for developed commercial/industrial properties is seen by assessors the primary implementation barrier. Aside from the difficulty of generating such estimates through assessment practice, capacity and resource constraints in assessment offices increase the challenges of implementing such a tax.

- Statewide consistency in applying “highest and best use” principles, the lack of an equalization process for state land values to ensure fairness in the administration of the tax, and concerns over the use of local zoning practices to export tax liability to other areas of the state were identified as three other major barriers to implementation.
- County and city assessors are highly skeptical and resistant to this approach. Nine percent of survey respondents believed it was an idea worth pursuing, while 40% strongly disagreed with this statement.
- The viability of a state land tax will likely be determined by conditions and actions taken in the Twin Cities metropolitan area. Ensuring that existing C/I land values could pass the higher levels of scrutiny required and promoting the necessary inter-district collaborations to ensure greater uniformity in the development of C/I land values (while minimizing opportunities for “gaming” the system through land use regulation) would be necessary to bridge the historical gap between land value tax theory and practice.

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Evaluating the Feasibility and Burden Shifting Impacts of a Statewide Land Value Tax on Commercial and Industrial Property

Introduction

Despite considerable theoretical appeal, land value taxation has made few inroads into state and local tax policy in the United States. Aside from the several small eastern U.S. cities that have adopted split rate taxation, experience to date suggests that administrative and political realities have generally trumped whatever interest and curiosity the approach has sparked within communities and local units of government.

Like other states, Minnesota has also experienced flirtations with land value taxation. The most notable experience occurred in 1973 when a report by the Minnesota Tax Study Commission included a favorable review of the concept. Subsequently during the 1970's, a group of legislators advocated for this reform; however, with the eventual departure of these legislators from the capitol, land value taxation returned to policy obscurity. One long time veteran of state policy has described the state's experience with land value taxation as akin to a comet's visit to earth -- seemingly coming from nowhere, remaining visible for a while generating some interest among the curious, then disappearing into the dark universe for several more years.

In 2001, land value taxation reappeared in tax policy discussions in the context of proposed state property tax reform. Among the major features of the property tax reform bill was a state takeover of the required general education levy (making the property tax more of a local services tax), significant rate compression within Minnesota's property tax classification system, and the creation of a new statewide property tax on commercial, industrial, and seasonal recreational properties (cabins and resorts). Included in the House version of the reform bill was a provision that that the commercial-industrial portion of this new "state general tax" be shifted over a ten-year period to a tax on commercial-industrial land value only. This feature was dropped in conference committee due to a lack of familiarity among legislators with land value taxation, uncertain implications for state C/I properties, and strong resistance from certain business interests and state assessment offices.

In 2003, the land tax bill was reintroduced in both Houses to provide for the same transition to a land value tax. The Senate heard its bill, but as before, unknown burden shifting effects as well as technical and administrative concerns and uncertainties kept it from being passed. Such uncertainty surrounding the tax shifting effects and its technical and administrative feasibility would almost assuredly result in similar defeats in future legislative sessions.

The purpose of this report is to shed light on these implementation issues and generate conclusions on the enabling conditions necessary to adopt this type of reform. The report is divided into 4 sections.

Section 1 provides additional background information on the existing state general tax and the existing land tax proposal.

Section 2 examines tax burden shifting which would occur under this proposal. Effects are examined by geographic region, by property value, and by property type.

Section 3 explores the technical and administrative issues and barriers surrounding the implementation of a statewide land value tax. Included in this analysis are the results of a statewide survey of county and city assessors.

Section 4 contains the report conclusions and recommendations

Section 1: Minnesota's State General Tax and the Land Value Tax Proposal

Minnesota's statewide property tax – or general tax – was created in 2001 out of budget balancing realities. The state takeover of the general education levy resulted in a significant reduction in local property taxes, but the corresponding state commitment to fully fund basic education going forward created the need for a new revenue stream. Despite efforts of some legislators to formally tie the general tax levy to education spending requirements, the state general tax was created as undedicated general fund revenue and remains so today.

The key to the willingness of business to sign onto this new tax was the significant class rate compression which was part of the 2001 reform. Minnesota's notoriously complex classification system features a class rate structure based both on property type and property value. Business benefited from class rate compression of nearly 50% in the reform bill with regards to local property taxes. The creation of a new state general tax mitigated some of that benefit. However the legislation tied growth in the state general tax levy to a price deflator for local government expenditures, and the prospect of commercial and industrial market values generally exceeding levy growth (resulting a lower tax rate) was enough to sway the business community to sign onto this reform. In addition, the inclusion of seasonal properties in the state general tax base created an additional buffer for commercial and industrial interests since seasonal properties valuation tended to increase faster than business properties.

The state general tax preserved Minnesota's classification system. Under the state classification system, property values are multiplied by a tax capacity rate to derive general property tax capacity base. For C/I properties, tax capacity is derived by multiplying the first \$150,000 of property value by 1.5% and the remaining property value at 2.0%.¹ The state's general property tax levy is divided by the sum of the entire state tax capacity base to derive the state's general property tax rate.

Table 1 presents summary 2004 state general property tax information. In 2004 nearly \$625 million in revenue was raised from the state general tax. The levy amount from year to year is indexed to a price deflator for government consumption expenditures and gross investment for state and local governments.

In 2004 nearly 83% of the state's general taxes payable come from approximately 125,000 C/I parcels in the state. About 200,000 seasonal recreational and seasonal commercial parcels made up less than 6% of the levy; however, this lower share is influenced by comparatively lower tax capacity rates. The remaining 11% of state general tax comes from utility, railroad and mining properties, as well as personal property which includes structures on leased government lands, utility transmission and distribution lines, utility machinery, and structures on railroad rights of way. Overall the state general tax constitutes between 20-35% of total property taxes payable by C/I properties, depending on location.

**TABLE 1: 2004 State General Property Tax Base
Statewide Net Tax Capacity and Levy by Property Type**

Property Type	Tax Capacity	State Levy	Percent
Seasonal Commercial	3,168,275	1,714,333	0.27%
Seasonal Residential	69,825,721	37,782,252	6.05%
Commercial	714,755,248	386,749,504	61.93%
Industrial	239,564,789	129,626,979	20.76%
Public Utility	35,807,097	19,374,992	3.10%
Mineral	47,198	25,539	0.00%
Railroad	9,712,000	5,255,101	0.84%
Personal Property	81,313,683	43,998,315	7.05%
TOTAL	\$1,154,194,011	\$ 624,527,014	100.00%

Source:

MN Department of Revenue

Geographically, the incidence of the current state general tax is heavily weighted to the Twin Cities of Minneapolis/St. Paul and surrounding communities. Hennepin County, which includes Minneapolis as well as many large suburbs such as Bloomington and Edina, has a 35.8% share of all state general taxes paid in 2004 and a 40.9% share of all state general taxes paid by C/I properties. Over three quarters of all state general taxes paid by C/I properties came from the seven county Twin Cities metro area. Sixty-three of Minnesota's 87 counties (72.4%) contribute less than a 0.5% share of total C/I general tax payable.

TABLE 2: 2004 County Share of General Tax Payable

County	Share of Total General Tax Paid	Share of General Tax Paid by C/I Properties Only²
Hennepin	35.8%	40.9%
Ramsey	12.0%	13.3%
Anoka	5.1%	5.7%
Carver	1.2%	1.4%
Dakota	7.6%	8.3%
Washington	3.6%	3.8%
Scott	1.7%	1.8%
Total 7 County Metro	67.0%	75.2%
All other 80 Counties	33.0%	24.8%

Source:

MN Department of Revenue

State Land Tax Proposal

The land value tax proposal applies only to the state general tax and applies to only the commercial and industrial portion of this tax. All local property taxes paid by C/I properties would be based on the existing tax capacity system. The bill divides the general tax levy into two separate pools -- a C/I pool and a pool for seasonal recreational properties (cabins and resorts). The share of the general tax levy applied to each pool

would be determined by their relative share in the year of enactment. Thereafter, the annual levy inflator would be applied to both pools separately. For C/I taxes payable in year one, 90 percent would be apportioned to the regular C/I tax capacity and ten percent to the commercial/industrial land tax capacity. In year two, the ratios change to 80%/20% and continue for ten years until 100% of the C/I tax is based solely on land tax capacity. Importantly, C/I land tax capacity is defined as the “estimated market value of the land value” meaning that a ten year phase out of classification takes place concurrently with the ten year phase in of the land value tax.

In the current draft of the bill public utility, railroad, mineral, and personal property would also be subject to the phase in of the land value tax. However, the inclusion of these types of properties present practical as well as conceptual problems. Tools and machinery as well as structures on leased public land (all included in personal property) are not applicable to a tax on land value. Utility, railroad, transmission right-of way, and mineral properties are all dedicated use properties in which concepts of “highest and best use” and property turnover are not very applicable. Moreover, the income generated by these properties – especially in urban areas – is not sufficient to support the higher land values of neighboring commercial and industrial properties. As a result, for purposes of this analysis, these properties were included in the seasonal pool and are not included in the tax shifting analysis.

Factors Affecting Burden Shifting in the Adoption of a Land Value Tax

In addition to the phase in of the land tax itself, two elements also affect burden shifting across C/I properties: splitting of the levy pool and declassification.

The splitting of the total levy pool has immediate first year burden shifting implications and is likely to affect state general tax burdens to some extent in future years as compared to the current system. If the levy inflator for the state general tax exceeds the growth rate of the property tax base, the property tax rate will rise. Removing the fastest growing property values from the base would compound this effect. This is the scenario presented by separating seasonal properties and placing them in a separate levy pool.

TABLE 3: Impact of Levy Pooling on C/I General Tax Rate

	2004 Actual	2004 Split Pool
C/I Levy	\$ 516,376,483	\$ 521,942,711
Other Levy	\$ 108,150,531	\$ 102,584,303
C/I Tax Rate	54.109%	54.692%
Other Tax Rate	54.109%	51.316%

In 2003 C/I accounted for 83.58% of the total state general tax levy. In 2004, C/I share had dropped to 82.69% due to faster growth rate in non-C/I property values. However under the land tax proposal with the C/I share “fixed” at 83.58% (year “0”) going forward, the result is a .5% increase (Table 3) in state C/I general tax rate which translates into an increase in state general taxes payable of 1.08% for all C/I properties. While this increase is a one time effect, the fact that historically faster appreciating

seasonal properties are no longer in the C/I pool increases the likelihood of higher state general tax rates for C/I property in the future than under the current system.

The phase out of classification over ten years introduces another burden shifting effect. In the first year of phase in, ten percent of regular tax capacity is replaced with 10% of the market value of land. As noted earlier, the first \$150,000 of C/I property value features a tax capacity rate of 1.5% and any value exceeding that is taxed at a capacity rate of 2.0%. In the first year of phase in, the loss of preferential treatment for 10% of the first \$150,000 of property value combined with impact of new 10% land value component yields different burden shifting effects across property values.

TABLE 4: Influence of Classification on “Break-Even” C/I Development Intensities Under a Land Tax Phase in

Property Value	“Break Even” BV/TV Ratio
25,000	75.8
50,000	75.8
100,000	75.9
150,000	76.0
200,000	73.9
300,000	71.9
500,000	70.3
1,000,000	69.1
5,000,000	68.1
10,000,000	68.0
50,000,000	67.9

Table 4 illustrates this effect. In a land tax system based solely on market values, burden shifting is easily identified by examining the building-to-total-value ratio (building value / total property value, or “BV/TV”) and comparing it the average of the taxing jurisdiction. The state average BV/TV ratio for C/I properties in Minnesota is 69.4. Under a system based on market value, any properties with a ratio exceeding 69.4 would receive a property tax cut while any property with a ratio below 69.4 would receive a tax increase. For every one point change in the BV/TV ratio, state property taxes payable would increase or decrease by about 1/3rd of a percent, regardless of property value.

Minnesota’s classification system complicates this analysis. For lower value properties which receive proportionately greater benefits from the current classification system, the replacement of ten percent of current tax capacity with 10% of unclassified land value capacity has a disproportionately larger affect than it does on higher value properties. The result is that to achieve break-even on taxes payable during the first year phase in, lower value parcels need to have a higher development intensity as measured by the ration of building value to total property value than higher value counterparts. Sub-\$150,000 parcels would have to be developed at a parcel intensity (as measured by the ratio of building value to total property value) nearly 10% higher than the state average to “break-even.” Conversely, the beneficial effects of declassification for higher value

properties mitigate some of the economic consequences for developing at a parcel intensity lower than the state average. While phased-in declassification might be viewed negatively among lower value C/I parcels, it could provide a buffering effect which could make a land tax phase in more palatable for regions and properties featuring higher C/I land values.

Section 2: Tax Shifting Under a Phased-In Land Value Tax

In the following analysis we explore the first-year effects of the land tax phase in and examine the results by geography, by property value, and by property use. The size of future of C/I general tax burdens under a phased-in land value tax system beyond the first year are a function of many unknowable variables including size of future general tax levies, future composition and number of commercial/industrial properties in the state, changes in parcel and state average development intensities, and capitalization effects of the phased-in land tax. The “full land tax” calculations presented below are based on a hypothetical one-year transition to a 100% tax on land value and are provided in order to give a very general sense of the magnitude of burden shifting which could occur over time. These full land tax estimates should not be interpreted as likely changes in actual taxes payable.

Burden Shifting By County

Modeling the first year of phase in we find that geographic effects are minimal as compared to current state general taxes payable. This should not be surprising for although the seven county area comprising the Twin cities metropolitan region currently pays 75% of the commercial/industrial share of the state general tax, it currently has 78% of the state’s C/I land value.

Many observers have expressed concern about the potential shift of tax liability to rural and outstate regions under a land tax regime. The opposite is true -- burden over time shifts to the metro region, all else being equal. Any adverse impact on lower value rural/outstate commercial industrial properties due to declassification is more than offset by the transition to a tax based on land value. Fifty-two of Minnesota’s 87 counties feature first year decreases in state general taxes payable even with the combined negative influences of partial declassification (which would hit lower value outstate C/I properties hardest) and first year 1.08% increase due to levy pooling. On a percentage change basis, over 25% of Minnesota counties are affected more by the initial pooling effect (the 1.08% across the board increase described earlier) than by the impact of the first year land tax phase in.

TABLE 5: Tax Shifting for Selected Minnesota Counties

County	Actual 2004 Payable	2004 Phase in Payable	Change	Change w/o pooling	Full Land Tax
Hennepin	\$ 211,348,652	\$ 214,788,242	1.6%	0.5%	5.4%
Washington	19,772,142	20,486,688	3.6%	2.5%	25.1%
Stearns	12,163,986	12,396,026	1.9%	0.8%	8.2%
Beltrami	1,647,392	1,642,302	-0.3%	-1.4%	-13.7%
Yellow Medicine	289,553	278,966	-3.7%	-4.8%	-46.8%

County average building-to-total-value ratios range from a low of 61.1 in Washington County -- which includes the rapidly growing eastern suburbs of the Twin Cities -- to 94.5 in Swift County, a rural western Minnesota county with approximately 12,000 residents. Table 5 presents the burden shifting results for some selected counties (See the report appendix for data on all Minnesota counties). The 2004 phase in payable includes the 1.08% increase of the pooling effect. The column “change w/o pooling” isolates and identifies the impact of the land tax phase in by subtracting the 1.08% pooling effect. The final column documents the percentage change if the land tax would be fully implemented in year one.

Hennepin County, which includes Minneapolis and several large suburbs, contains 43% of the state’s C/I land value and has a BV/TV ratio of 67.0, slightly below the state average. However because of the very high number of parcels exceeding \$150,000 in value, the partial declassification helps to buffer the effects of the land tax phase in. Given that nearly 1.1% of the increase is from the pooling effect, the first year impact is relatively modest. Contrast this with Washington County and Stearns County (which includes the regional center of St. Cloud.) Because of its lower average development intensity given the underlying land value, Washington County would have one of the largest first year increases of any county in the state. However, the increase is muted by higher valued C/I properties and the corresponding beneficial effects of 10% declassification. Stearns County features a BV/TV ratio of 67.6 – slightly higher than Hennepin County. However, the ratio of parcels valued under \$150,000 to total C/I parcels is about twice that of Hennepin County so the beneficial effects of partial declassification are not as great. As a result, on a percentage basis, the increase in taxes payable would be slightly more than Hennepin. Beltrami and Yellow Medicine are two more rural counties with BV/TV ratios of 75.2 and 85.6 respectively which are representative of many counties in greater Minnesota. Given the relatively low land values in these outstate areas resulting in higher than average BV/TV ratios, these counties would benefit from a phased-in land value tax.

The significance of lower outstate land values on tax shifting can also be seen by examining similar structures located in different geographical regions of the state. Table 6 contains the findings for 65 “big box” retail stores all from the same company. Big box was chosen because of the very high level of consistency and similarity in construction across the state and because of the prevailing perception that such properties are always “losers” under a land tax system because of their large footprint. Not surprisingly such

retail stores are predominately “losers” within the Twin Cities and suburbs given their relatively large footprint and the high underlying land values found in higher density commercial areas. (The one center city store which would benefit from land tax adoption is an architectural departure from all other stores in the chain in that it features multilevel shopping and underground parking.)

**TABLE 6: Effects of Diverse State C/I Land Values on Tax Burdens for Similar Structures
“Big Box” Retail Store Analysis**

“Break even” BV/TV ratio approximately 68.0 for these stores

Location	No. Stores	Ave BV/TV Ratio	Group BV/TV Ratio High / Low	No. of Stores Above State BV/TV Ave.
Twin Cities	6	60.0	74.6 / 38.6	1
1st Ring Suburbs	10	46.6	63.8 / 12.3	0
2nd and 3rd Ring Suburbs	21	63.8	76.6 / 47.7	6
Exurban and Commutable Sub Regional Centers	10	70.1	83.1 / 46.6	6
Regional centers	5	70.7	73.5 / 68.1	4
Greater Minnesota Sub Regional Centers	13	76.1	87.6 / 58.5	10
Total	65	66.4	87.6 / 12.3	27

However, moving outward from the Twin Cities, the story begins to change. Newer construction combined with land values that in some circumstances are still relatively low (but appreciating) results in some “winners” being found in many outer suburban and exurban areas. In sub-regional centers, these stores are predominately “winners” (over 75%) in spite of their large footprint. While the value of improvements may be similar, C/I land values in these areas are often a fraction of their metro area counterparts. Even though more land might be consumed by commercial and industrial enterprises in outstate areas, significantly lower C/I land values results in higher BV/TV ratios. Consumption of land is not a good predictor of tax shifting impacts, especially in Greater Minnesota.

Burden Shifting Based on Property Value – Parcels with Improvements

Table 7 describes the average changes in taxes payable based on total property value for commercial and industrial parcels with improvements in Hennepin and Stearns County.³ For purposes of the following analysis, the 1.08% “pooling effect” has been excluded in order to isolate and capture the effects of land taxation and concurrent declassification on first-year taxes payable.

In both counties the majority of commercial properties are “losers” during the first year phase in (Hennepin 57%, Stearns 56%) and the majority of industrial properties are “winners” (Hennepin 58%, Stearns 54%). In both counties the subgroup of parcels with the largest percentage change in property taxes payable are the sub-\$150,000 parcels. It is highly likely that this is a result of the disproportional impact of partial declassification rather than some type of general underutilization of parcel land value common among owners of properties with values under \$150,000.

TABLE 7: Comparison of Changes in First Year Taxes Payable by Property Value and County
(Excludes pooling effect of 1.08% increase for all C/I properties in first year)
(Parcels with improvements only – excludes vacant land)

HENNEPIN COMMERCIAL	Properties with Tax Decrease			Properties with Tax Increase			
	Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
	\$150,000 and lower	45%	(\$28)	-3.6%	55%	\$73	10.8%
	\$150,001 - \$500,000	45%	(\$102)	-3.8%	55%	\$249	9.2%
	\$500,001 - \$1,000,000	38%	(\$262)	-3.6%	62%	\$615	8.3%
	\$1,000,001 - \$10,000,000	39%	(\$1,357)	-3.8%	61%	\$2,413	8.2%
	Over \$10,000,000	71%	(\$18,150)	-4.7%	29%	\$11,568	6.5%

STEARNS COMMERCIAL	Properties with Tax Decrease			Properties with Tax Increase			
	Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
	\$150,000 and lower	35%	(\$18)	-2.8%	65%	\$52	9.4%
	\$150,001 - \$500,000	50%	(\$97)	-3.5%	50%	\$179	7.6%
	\$500,001 - \$1,000,000	50%	(\$297)	-4.0%	50%	\$467	6.4%
	\$1,000,001 - \$10,000,000	63%	(\$1,138)	-4.7%	37%	\$1,089	5.7%
	Over \$10,000,000	50%	(\$2,715)	-4.1%	50%	\$1,538	2.0%

HENNEPIN INDUSTRIAL	Properties with Tax Decrease			Properties with Tax Increase			
	Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
	\$150,000 and lower	10%	(\$32)	-4.7%	90%	\$106	15.6%
	\$150,001 - \$500,000	46%	(\$118)	-3.3%	54%	\$301	10.0%
	\$500,001 - \$1,000,000	70%	(\$297)	-4.2%	30%	\$590	6.5%
	\$1,000,001 - \$10,000,000	79%	(\$934)	-4.1%	21%	\$2,110	6.7%
	Over \$10,000,000	100%	(\$8,199)	-4.7%	0%	N/A	N/A

STEARNS INDUSTRIAL	Properties with Tax Decrease			Properties with Tax Increase			
	Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
	\$150,000 and lower	20%	(\$22)	-3.0%	80%	\$52	9.4%
	\$150,001 - \$500,000	57%	(\$122)	-3.9%	43%	\$179	7.6%
	\$500,001 - \$1,000,000	71%	(\$408)	-5.2%	29%	\$467	6.4%
	\$1,000,001 - \$10,000,000	92%	(\$1,844)	-5.9%	8%	\$1,089	5.7%
	Over \$10,000,000	100%	(\$7,048)	-6.0%	0%	N/A	N/A

However, in Hennepin County only the highest valued commercial properties are “net winners” under a land tax phase in, whereas in Stearns County winners are more evenly distributed across all property value subgroups. This fact combined with the proportionately larger percentage increases in property taxes payable among “losers” in Hennepin County again points to the significance of metro vs. outstate land values in tax shifting effects. Below average development intensities in relation to underlying land value are the primary cause of tax increases in Hennepin County. In Stearns County, which features proportionately much larger shares of sub-\$150,000 parcels, partial declassification is the primary cause of tax increases.

The declassification effect on lower valued parcels carries potential political problems given the suggestion that tax burdens would be shifted from larger companies to smaller businesses. However this conclusion may be incorrect for two reasons. First, in many areas of the state, lower land values (and resulting higher BV/TV ratios) overwhelm the declassification effect such that these lower valued properties still receive tax cuts. Second, many of the \$150,000 and under parcels with improvements in the Twin Cities may be part of larger property holdings rather than stand-alone business establishments. For example, in Dakota County which includes the southern suburbs of Minneapolis and St. Paul, there are 1,019 commercial parcels with improvements with values less than \$150,000: The average BV/TV ratio for this group is only 50.8 and 35% of them have a BV/TV ratio less than 30. The very low BV/TV ratio suggests that a large number of these parcels are small outlots of larger commercial properties rather than independent “mom and pop” businesses.

Another practical challenge of land tax adoption is illustrated in Table 7. Even if a majority of properties are beneficiaries under a transition, the nature of tax shifting is such that the minority is likely to feel proportionately larger increases in taxes than the “winners” receive in tax reductions. For example, for industrial properties valued between \$1 million and \$10 million in Hennepin County, a significant majority (79%) receive state general tax cuts averaging 4.1%. However, the remaining 21% receive tax increases averaging 6.7%. It would not be surprising if the minority would be quick to lobby their legislators while the majority would not actively work to support the adoption of this policy.

Burden Shifting Based on Property Use

Table 8 presents the changes in property taxes payable by property use in Hennepin County (excluding Minneapolis for which use codes were not readily available). Not surprisingly, commercial establishments featuring large footprints are typically payers under the phased-in system. Only in industrial properties are a majority of properties beneficiaries of this reform, although the inclusion of Minneapolis with its corresponding development densities would likely result in several other uses becoming “net beneficiaries” on average.

TABLE 8: Burden Changes by Property Subtype: Hennepin County (excluding Minneapolis)
(Excludes pooling effect of 1.08% increase for all C/I properties in first year)

	Average BV/TV	Median Tax Increase (Decrease) \$	Median % Change
Greenhouses	33.4	\$963	15.5%
Auto Showrooms	26.8	\$1,328	13.7%
Service Stations	36.7	\$360	11.9%
Convenience Market	41.0	\$467	10.2%
Department Store	43.0	\$5,668	10.1%
Fast Food Restaurants	44.6	\$333	10.0%
Supermarket	48.7	\$1,319	6.8%
Restaurants	49.1	\$611	6.2%
Bars/Taverns	54.9	\$39	5.0%
Banks	51.2	\$365	4.7%
Community Shopping Center	53.7	\$125	4.7%
Neighborhood Shopping Center	53.2	\$479	4.6%
Retail Stores	57.3	\$95	3.8%
Day Care Center	58.1	\$133	3.3%
Parking Ramps	54.1	\$1,166	2.3%
Hotel	58.7	\$366	1.7%
Motel	65.1	\$199	1.5%
Warehousing	59.7	\$58	0.9%
Office	63.6	\$35	0.8%
Industrial Manufacturing	64.5	\$6	0.2%
Light Manufacturing	71.2	(\$93)	-1.6%
Industrial Engineering	70.2	(\$288)	-2.2%

Moving outward from the Twin Cities, more property subtypes are on average beneficiaries of a shift to land value taxation. In Dakota County (Table 9), which borders Hennepin County to the south, general retail stores, taverns, day care centers, office buildings, hotels, motels, supermarkets, and warehousing join industrial properties as subtypes whose median change is a tax reduction.⁴

TABLE 9: Burden Changes by Property Subtype: Dakota County
(Excludes pooling effect of 1.08% increase for all C/I properties in first year)

	Average BV/TV	Median Tax Increase (Decrease) \$	Median % Change
Greenhouses	32.8	47	20.9%
Department Stores	41.3	9481	10.2%
Fast Food Restaurants	54.6	274	5.6%
Convenience Market	56.1	182	4.2%
Banks	57.9	215	4.2%
Auto Showrooms	57.0	242	4.1%
Parking Ramps	57.5	530	3.6%
Service Stations	60.9	48	3.1%
Restaurants	61.4	128	2.8%
Community Shopping Center	61.7	83	0.6%
Neighborhood Shopping Center	64.9	56	0.5%
Retail Stores	69.2	(3)	-0.2%
Day Care Center	72.2	(26)	-0.3%
Office	71.5	(14)	-0.7%
Bars/Taverns	72.0	(12)	-0.9%
Supermarket	70.9	(472)	-1.5%
Industrial Manufacturing	74.9	(74)	-1.7%
Motel	70.5	(196)	-2.3%
Hotel	76.7	(816)	-3.6%
Warehousing	81.2	(37)	-4.6%

Although the similarities in county results suggests that property use is a fair predictor of likely tax changes under a land tax system, it is important to note that at least one parcel could be found that would receive a property tax reduction within every property subtype featuring median increases. Even larger footprint uses in Hennepin and Dakota counties could receive tax cuts depending on underlying land values. The age-old realtor slogan, “location, location, location” has great significance when examining C/I burden shifting effects.

Vacant Parcels

Vacant C/I parcels includes both developable land as well as unimproved parcels which are part of larger property holdings with structures. When land is developed, large parcels are divided into smaller lots and in the first year of assessment the value is divided over the new lots such that the total new plat must equal the original parcel's value. The result is that many vacant parcels have relatively small values due to creation of small outlots in platting, small strips that result from survey discrepancies, partial wetland designation, and other related reasons. These small parcels are often part of larger property holdings and may be undevelopable by another party other than the current owner. For example, of Hennepin county’s 2409 vacant commercial parcels in 2004, over 20% featured a value less than \$20,000.

As a percentage of all C/I parcels subject to the state general tax, vacant parcels are significant. Vacant commercial parcels account for 28.8% of all commercial parcels in the state, and vacant industrial parcels account for 46.7% of all industrial parcels in the state. Taken together, vacant C/I parcels statewide constitute nearly one out of every three C/I parcels subject to the state general tax.

Vacant commercial and industrial land would receive between a 21% – 31.5% increase in state general taxes payable in the first year of phase in depending on the value of the parcel (31.5% if parcel is \$150,000 or less and declining towards 21% as more of the parcel benefits from partial declassification). Given that the general tax share of all property taxes payable by C/I properties ranges from 20% - 35% in the state depending on location, this translates into an annual increase in the total property tax bill of 6% - 9%, all else being equal.

TABLE 10: Changes in State General Taxes Payable for Vacant C/I Land (Excludes pooling effect)

Land Value	2004 Payable	1st Year Phase in Payable	Change	Percent
\$10,000	\$ 81.16	\$ 106.72	\$ 25.56	31.5%
\$50,000	\$ 405.82	\$ 533.60	\$ 127.79	31.5%
\$150,000	\$ 1,217.45	\$ 1,600.81	\$ 383.36	31.5%
\$500,000	\$ 5,005.08	\$ 6,189.57	\$ 1,184.48	23.7%
\$1,000,000	\$ 10,415.98	\$ 12,744.37	\$ 2,328.38	22.4%
\$10,000,000	\$107,812.18	\$ 130,730.77	\$22,918.58	21.3%

As Table 10 illustrates, under a land value tax, significant new tax liability is placed on property not currently generating any income. For areas to be developed as commercial/industrial, there would be strong economic incentives to preserve agricultural use as long as possible until development is ready to commence. However, such incentives already exist today because under Minnesota’s classification system, the carrying cost of zoned commercial/industrial land is significantly greater than that of land in agricultural use. Whether the land value tax would increase this incentive is difficult to determine. It would be reasonable to assume that the financial implications of holding these outlots could affect platting in the future.

Summarizing the distribution of tax cuts and increases (Tables 11 and 12), we see that when vacant parcels are included, the percentage of commercial properties receiving tax increases and decreases does vary across the three counties and the magnitude of these shifts varies significantly. The fact that Stearns county surpasses both Hennepin and Dakota counties in terms of percentage of properties receiving tax increases is a bit surprising but is more a function of partial declassification than implementing land value taxation. In Stearns County, 57% of all commercial parcels are under \$150,000 as compared to only 30% in Hennepin County. Of the commercial properties in Stearns county receiving first year tax increases of less than \$500, over 65% would receive less than a \$100 increase. Without the declassification effect many of these properties would

receive a tax cut instead. Again, in rural counties and in many sub-regional centers, the lower land values offset even the negative effects of declassification.

TABLE 11: Change in State General Tax Payable in Selected Minnesota Counties Commercial Properties
(Includes vacant parcels)

Change in Taxes	Hennepin	Dakota	Stearns
> \$500 increase	20.9%	13.4%	6.6%
\$0 - \$500 increase	45.6%	53.1%	62.0%
\$0 - \$500 decrease	26.5%	25.1%	28.9%
> \$500 decrease	7.0%	8.4%	2.5%
Largest Tax Increase	\$63,980	\$12,020	\$5,386
Largest Tax Decrease	(\$318,658)	(\$49,600)	(\$15,643)

TABLE 12: Change in State General Tax Payable in Selected Minnesota Counties Industrial Properties
(Includes vacant parcels)

Change in Taxes	Hennepin	Dakota	Stearns
> \$500 increase	17.5%	15.6%	2.6%
\$0 - \$500 increase	36.2%	50.3%	66.7%
\$0 - \$500 decrease	32.6%	19.9%	26.8%
> \$500 decrease	13.7%	14.2%	10.4%
Largest Tax Increase	\$18,769	\$14,075	\$1,534
Largest Tax Decrease	(\$19,921)	(\$15,937)	(\$7,556)

Table 12 shows the story is similar for industrial properties: larger shares of sub-\$150,000 properties results in a higher percentage share of properties receiving tax increases due to the effects of declassification. However, the magnitude of these increases is much smaller than their metro area counterparts.

Section 3:

Technical and Administrative Issues in Adopting a Statewide Land Value Tax

The history of land tax debates in the U.S. has demonstrated that regardless of how tax burdens may shift under a land value tax scheme, the technical and administrative issues present equal or greater challenges to implementation. We surveyed 121 county and city assessors in Minnesota (with a response rate of 77 or 64%) with some follow-up interviews to gain insights into the perceived challenges and implementation issues surrounding the adoption of a tax on C/I land value.

Development and Defense of Commercial/Industrial Land Values

The cornerstone of land value taxation is the ability to develop accurate land value estimates and be able to defend them. The ability to accomplish this within the Twin

Cities metropolitan area is especially important given that the burden of the tax is concentrated in this area.

The paucity of sales data for commercial and industrial properties makes these properties one of the more challenging to assess in any property tax system. Unlike their residential counterparts, business properties do not turn over frequently. From October 2002, through September 2003, only 1,333 developed commercial and industrial properties were sold in the state as compared to over 77,000 residential properties. Not surprisingly, only 17% of survey respondents characterized their C/I property sales data as either “good” or “excellent” for assessment purposes while 40% characterized the sales as “poor” or “very poor.”

Sales of vacant commercial and industrial land occur even less frequently. Although these sales could provide some direct information about C/I land values, the overall value is limited because they cannot inform C/I land values outside of their market area. Moreover, the Minnesota Department of Revenue notes that such sales are not reviewed with the same rigor as developed property sales since vacant land sales are statutorily excluded from being used in equalization studies for purposes of state aid distribution.

Land value taxation compounds the market data problem since accuracy in the valuations of both land and improvements individually are at issue, not just their sum. The accuracy of the values currently assigned to the land portion and the improvement portion is seldom a source of interest or contention under the conventional property tax system that taxes both components at the same rate. The phase in of a land value taxation system changes this.

The question of whether the existing land value estimates for C/I properties in the state are accurate and defensible is very difficult to answer. The first issue is how the land value estimates for developed properties are actually derived. Respondents were asked to identify all site characteristics and location attributes that are maintained in files for C/I land valuation purposes. The responses across the state were quite diverse ranging from simple size and frontage totals only to multiple other factors including zoning influences, and a wide variety of on-site improvements, offsite improvements, and both positive and negative location factors (access, premium view, etc.). There are very good reasons for this diversity, and the state should not “mandate” the factors affecting land value. However adjustments for location factors, public controls, and site improvements are essential to land valuation practice and some consistency in their consideration across the state would aid land value tax adoption.

Conceptually, there are three basic approaches all of which start with an estimation of total market value: determine the value of buildings and ascribe the remainder to land (land residual); determine the value of land and ascribe the remainder to buildings (building residual); or allocate the total value between land and buildings based on historical percentages or “rules of thumb.”

**Table 13: General approach to splitting value between land and improvements
(N=67)**

Land Residual (focus on buildings)	Building Residual (focus on land)	Allocation (historical % or “rules of thumb”)
19%	64%	16%

Survey respondents were asked which approach best describes the jurisdictions general approach toward dividing the total value of developed commercial and industrial properties between land and improvements. In practice, assessors likely use all three approaches depending on the type of commercial and industrial property and the availability of data. As a result, several respondents declined to answer this question.

The “building residual approach” offers the most promise for the implementation of land value taxation because the priority and emphasis is placed on generating appropriate values for underlying land. It involves such activities as constructing land value maps for the jurisdiction featuring fairly smooth contours for C/I land values with overlays showing zoning variations. As Table 13 shows, the majority of survey respondents identified building residual method as the best descriptor of their assessment orientation. In the words of one assessor, land values are “*the* driver for accurate valuations in the metropolitan Twin Cities area”, and therefore that assessment office places a premium on generating accurate land schedules.

This result offers some promise for the feasibility of land value taxation in that assessors do currently take the development of accurate land schedules seriously. However any optimism must be tempered by the fact that even if high quality land value estimates are regarded by most as an important foundation for commercial/industrial assessment practice, it does not mean that this is easy to do, or that the current land values estimates are accurate, or that they would be successfully defensible in court. A range of related issues also affect the actual quality of the value estimates, and as a result, the feasibility of land value tax adoption

Table 14 identifies several such issues. Forty percent of respondents indicated they did not have sufficient resources to generate defensible C/I land values. Two particularly useful tools to assist in the development of C/I land values -- geographic information systems technology and regression analysis -- were used by only about a quarter of respondents – the former primarily limited by budgetary issues, the latter limited more by lack of sales information.

A related concern is the existence and availability of assessors who have the required accreditation to appraise commercial and industrial properties. The lack of “income-qualified” assessors in jurisdictions presents a major challenge, especially in outstate areas. Using developed commercial parcels per income qualified assessor as a very rough approximation of C/I assessment capacity, we found the ratio ranges from 45:1 to 642:1 across Minnesota counties. In the county featuring the highest ratio, the situation is even more challenging as the only income qualified assessor is the county assessor who does not do field work. Income qualified assessors can be very difficult to find to fill

new needs or vacancies from retirements, and assessment offices are looking at creative strategies to fill this void.

TABLE 14: Selected Results, Survey of Minnesota County and City Assessors
N= 77 of 121 offices surveyed

	Strongly Agree / Agree	Strongly Disagree / Disagree	Don't Know / Undecided
Has sufficient resources to generate defensible C/I land values	55%	40%	5%
Has necessary training and expertise to generate defensible C/I land values	75%	21%	4%
Major reassessment of C/I land values necessary to implement	30%	60%	10%
No. of appeals likely to significantly increase under a land value tax	31%	30%	39%
Office administrative expenses likely to increase	42%	35%	23%
Would expect great resistance from business	43%	14%	43%
Idea is worth pursuing	9%	66%	25%

Confidence in existing C/I land value estimates varies across the state, but nearly one-third of respondents indicated a reassessment would be necessary to implement a land tax approach. It is important to note that a complete reassessment of a jurisdiction could take 4-5 years to complete. While the 10 year phase in of the tax provides some time to accommodate this process, the findings suggest that a one or two year period before implementation begins to allow assessment offices to prepare for this transition may be appropriate.

Assessors' defense of land value estimates and related appeals concerns feature several different dimensions. For many, the transition to a land tax opens up another avenue for appeal – land value as well as total property value. Some assessors see limiting assessment office flexibility to make adjustments in order to avoiding appeals as one potential consequence of a land value tax, while others expressed concern about using the threat of appeal to influence assessors' valuation of land and subsequent exposure to the state general tax. It is also worth noting assessors report that attorneys which specialize in property valuation appeals – once primarily limited to the metro area -- have now increased their marketing efforts to outstate areas as well.

There is also some evidence that tax court rulings on assessment appeals can hinder accurate valuation of C/I property. Assessors note that a successful appeal in one area of the state may have a ripple effect for similar properties in other areas of the state, as that success is used as leverage in negotiating with other assessment offices. While only a

small minority of survey respondents (17%) agreed or strongly agreed with the statement that tax court rulings can hinder accurate assessments, it bears noting as another potential complication especially in the context of ensuring equity in a property tax levied across multiple jurisdictions.

In short, a transition to a land value tax introduces considerable new uncertainty and possible stresses for assessment offices. Combined with increased administrative expenses and business resistance, both anticipated by nearly half of respondents, the concept is not well received among this influential and important stakeholder group. Only 9% of respondents indicated that land value taxation should be explored further while over 40% “strongly disagreed” with the statement that this reform is worth pursuing.

Other Administrative Issues and Implementation Concerns

Several other issues were highlighted which affect the feasibility of transitioning to a land value tax. Many of these are the same challenges presented by land tax adoption at the local level, but take on new dimensions or additional significance when being applied to a state level property tax.

Direct Costs

Direct costs of a transition were estimated to be in the neighborhood of \$200,000 for programming and related software changes to accommodate this reform based on experiences with adopting other reforms. However, other costs related to capacity building, training, and administration could be more significant on a jurisdiction-by-jurisdiction basis.

Statewide Consistency in Applying “Highest and Best Use” Principles

Theoretically, the concept of “highest and best use as if vacant” provides the framework for determining land values. Practically, “highest and best use” is affected by a variety of zoning and regulatory controls which imposes restrictions on a parcel. These may limit development potential in some way (e.g. dedicated open space) or exclude commercial and industrial uses that would otherwise be physically possible and financially feasible. In addition, there are many examples of current property uses being non-conforming with current zoning. Anticipation of potential future zoning changes as well as growth effects on comprehensive land use plans have the potential to determine a “highest and best use” change. Greater statewide consistency in applying “highest and best use” analysis within the context of these public controls and restrictions was seen as critical to its viability.

Equalization of State C/I Land Values

If taxing jurisdictions are larger than assessment jurisdictions, then there is an incentive for an assessor to underassess in order to force other assessment jurisdictions to provide

subsidies. The state's equalization process is intended to help ensure equity in the administration of the property tax by adjusting appraisals within jurisdictions if data indicates that properties are being assessed too high or too low. Undervaluation of land could result in the export of tax liability to other areas of the state.

The Minnesota Department of Revenue uses sales ratio study results to generate adjustment factors and, if necessary, orders locally determined appraised or assessed values to be changed to more nearly reflect market value or the statutorily required level of assessment. Due to the lack of sales data, commercial and industrial properties present one the greatest challenges for the state equalization board. The implementation of a land tax compounds the problem. Market data on sales of developed C/I properties is scarce; market data to support the analysis of the accuracy of land values for developed properties is non-existent. Sales data on vacant C/I land parcels do exist which may help, but officials express concern about the confidence which can be placed in this data. Because it is prohibited from being used for purposes of state aid distribution, it is not reviewed with the same rigor as the sales of developed C/I parcels. Discussions with assessors suggested that the challenge of designing an equalization process for state C/I land values seemed quite intractable.

It should be noted that in spite of the lack of data, such adjustments are currently made. State C/I equalization orders are placed on land only, improvements only, or split between land and improvements in some proportion – all indicating that some form of judgment is being made on the source of property undervaluation or overvaluation in sales ratio studies. However, Revenue Department officials note that the reason for such an order is to try to get the assessment ratio up to the desired target of 90% or better. If an order on land only gets them to that level and the local assessor and the state's regional representative agree that it makes sense to do it that way (believing that land is probably more undervalued) the order will be issued accordingly. In other circumstances the county may use a certain building schedule for multiple districts and only one district has a ratio that results in a needed board order. In order not to 'upset' the schedule, an order will be issued for land only -- with the verbal agreement of the assessor to go into the district the following year and complete a reassessment. In these circumstances, the land only orders are more a function of meeting the requirements of sales ratio studies than an attempt to ensure accurate land valuations.

Local Zoning and Tax Avoidance

Aside from the direct effects on land values, zoning introduces another concern: the ability to use zoning powers to shelter local properties from the tax through variances or related mechanisms. Nearly a third of respondents agreed with the statement that a state general tax based on C/I land value would likely result in efforts to temporarily reclassify developable vacant land to other zoned uses in order to reduce and export tax liability for local businesses. Attempts to game the system through zoning changes would introduce potential fairness issues while resulting in higher tax rates for remaining C/I properties.

Effects on Land Markets

Several assessors expressed concern that a full land tax is too aggressive, and that the effective elimination of all speculation may not be in line with societal interests or properly functioning land markets. It was noted that the best use for currently vacant land might become evident “later” as a community matures and evolves. Ensuring that a proper amount of land “ripening” exists, as described by one assessor, is important to sensible land use and efficient land markets. Commercial and industrial developers interviewed in the context of this study echoed these concerns, noting that larger developments could be unduly harmed by excessively high holding costs during the assemblage process.

Assessors also noted that the existing property tax combined with other common costs such as debt service and special assessments for infrastructure already creates significant economic incentives to develop vacant land and generate an economic return from it. A full land tax on top of these existing incentives may be too aggressive.

These concerns are in contrast with the interests of the community in keeping more of the property wealth resulting from public investment from accruing to private landholders. This tension between these two objectives suggests that a permanent split rate tax, which retains some level of taxation on the existing tax capacity basis, may have merit. The few U.S. venues which have adopted land value taxation feature split rate taxes that tax land values at higher rates and improvement values at lower rates, but do not eliminate the tax on improvements completely. Speculative activity is decreased but not eliminated. There may be considerable wisdom to be learned from these few land tax adopters.

Section 4 Summary and Conclusions

Land value taxation rests on unique theoretical ground and is generally regarded by economists as the “best” possible tax base. However the attractiveness of land value taxation theory has historically collided with a number of practical issues affecting implementation. Adoption of land value taxation is ultimately based on the political realities and administrative feasibility.

Politically, the impact of a transition to a land value tax is primarily a metropolitan Twin Cities regional issue. Most of the major burden shifting, the key component of whether or not such a change is politically feasible, would take place within and across property uses in the seven county twin cities metro area. Because of comparatively lower land values, greater Minnesota would be the greatest beneficiaries and, despite assessor skepticism, may be supporters for this reason.

Tax increases after only a modest 10% phase in would certainly be noticed by many property owners. For example, first year vacant parcel tax increases would range from 21 to 32.5%. Assuming the state general property tax share is 30% of all property taxes payable for commercial-industrial property, results in a 6-9% increase in total property

taxes payable aside from any future year levy increases. Moreover, the nature of tax shifting is such that the “losers” are likely to feel proportionately larger increases in taxes than the “winners” receive in tax reductions. Concurrent declassification would provide some buffering effect which could make the phase in more politically palatable; however declassification increases the likelihood of small tax increases for small (sub-\$150,000) commercial parcels, which contains its own political peril.

Administratively, as noted in many other studies of land value taxation, accurate and cost-effective development and defense of developed property land values is clearly the greatest implementation barrier. To accommodate this reform, three major enabling issues would need to be addressed: a process for land value equalization or some surrogate activity to ensure fair distribution of state land tax burdens, a consistent treatment of “highest and best use” principles across the wide variety of zoning and land use regulation systems in Minnesota, and disparities in C/I assessment resources and capabilities across Minnesota jurisdictions. Of the three, the equalization issue appears to be the most difficult to address, although it could be argued that current state equalization orders demonstrate that professional judgment can be used to accommodate this need.

These political and administrative issues must be weighed against the potential benefits arising from its adoption, which are primarily the removal of disincentives for business property improvement and development, greater efficiency of higher value land use in growing metropolitan areas, and the improved capture and return of government and community related property value to government for purposes of public expenditures. The Twin Cities metropolitan region and jurisdictions in the region have the most at stake in moving to such a reform, and the viability of a state land tax will be determined in this area of the state. Ensuring that existing C/I land values could pass the higher levels of scrutiny required and promoting the necessary inter-district collaborations to ensure greater uniformity in the development of C/I land values (while minimizing opportunities for “gaming” the system through land use regulation) would go a long way toward bridging the historical gap between land value tax theory and practice.

Finally, more discussion is needed on whether the bill should be modified to create a permanent split rate tax as opposed to a full land tax. A full land tax reduces the likelihood that land speculation will be subsidized by the taxpayer, but the elimination of all speculative activity may have a number of unintended consequences. Moreover under the proposed system land is still being taxed as part of tax capacity. Balancing the interests of the community with the interests of maintaining properly functioning land markets may suggest that a system featuring permanent differential rates is preferable.

Endnotes

¹ Seasonal commercial retains a 1.00% for the first \$500,000 of value and 1.25% for value exceeding \$500,000 while private cabins and cottages feature rates of 0.4%, 1.0% and 1.25% for valuation levels of under \$76,000, \$76,000 - \$500,000, and over \$500,000 respectively.

² Excludes public utility, railroad, mineral, and personal property

³ It is important to note that this analysis can only present an approximation of burden shifting by ownership. Multiple parcels including parcels without structures (not included in this analysis) may together be part of a larger property holding. Analysis by property ownership which would require matching parcel pins numbers with parcels maps was beyond the scope of this report

⁴ Differences in use codes between Hennepin and Dakota counties prevented identical categorization and comparisons.

**Appendix: State General Tax Burden Shift for Commercial and Industrial Properties
by Minnesota Counties**

County	County BV/TV ratio (C/I only)	Actual 2004 C/I Payable	2004 Phase-In (1st year) No pooling effect		2004 Phase-In (1st year) With pooling effect		Full Land Value Tax	
			Tax payable	% Change	Tax payable	% Change	Tax payable	% Change
Aitkin	74.7%	393,123	391,244	-0.5%	395,462	0.6%	374,336	-4.8%
Anoka	69.8%	29,592,098	29,529,007	-0.2%	29,847,312	0.9%	28,961,226	-2.1%
Becker	76.6%	1,362,502	1,338,542	-1.8%	1,352,970	-0.7%	1,122,901	-17.6%
Beltrami	75.2%	1,647,392	1,624,787	-1.4%	1,642,302	-0.3%	1,421,352	-13.7%
Benton	72.4%	2,402,869	2,387,785	-0.6%	2,413,523	0.4%	2,252,024	-6.3%
Big Stone	76.6%	83,354	83,030	-0.4%	83,925	0.7%	80,115	-3.9%
Blue Earth	69.0%	5,588,439	5,608,403	0.4%	5,668,858	1.4%	5,788,085	3.6%
Brown	79.7%	1,538,787	1,493,770	-2.9%	1,509,872	-1.9%	1,088,615	-29.3%
Carlton	79.5%	1,594,104	1,545,527	-3.0%	1,562,187	-2.0%	1,108,337	-30.5%
Carver	72.0%	7,142,352	7,077,963	-0.9%	7,154,259	0.2%	6,498,471	-9.0%
Cass	65.9%	1,213,515	1,245,913	2.7%	1,259,343	3.8%	1,537,493	26.7%
Chippewa	81.7%	522,772	505,157	-3.4%	510,603	-2.3%	346,623	-33.7%
Chisago	68.1%	1,951,432	1,971,846	1.0%	1,993,101	2.1%	2,155,571	10.5%
Clay	78.7%	2,250,927	2,189,183	-2.7%	2,212,781	-1.7%	1,633,492	-27.4%
Clearwater	84.1%	110,086	105,973	-3.7%	107,115	-2.7%	68,952	-37.4%
Cook	62.2%	253,877	264,057	4.0%	266,903	5.1%	355,675	40.1%
Cottonwood	88.4%	490,722	461,753	-5.9%	466,730	-4.9%	201,031	-59.0%
Crow Wing	65.9%	6,220,919	6,315,741	1.5%	6,383,820	2.6%	7,169,147	15.2%
Dakota	68.5%	42,725,007	42,770,825	0.1%	43,231,869	1.2%	43,183,240	1.1%
Dodge	82.9%	520,349	499,930	-3.9%	505,319	-2.9%	316,159	-39.2%
Douglas	71.0%	2,989,124	2,987,104	-0.1%	3,019,303	1.0%	2,968,930	-0.7%
Fairbault	87.8%	559,956	528,178	-5.7%	533,871	-4.7%	242,173	-56.8%
Fillmore	82.8%	704,349	679,414	-3.5%	686,738	-2.5%	455,000	-35.4%
Freeborn	79.3%	1,418,812	1,378,637	-2.8%	1,393,498	-1.8%	1,017,060	-28.3%
Goodhue	69.9%	3,255,590	3,263,897	0.3%	3,299,080	1.3%	3,338,659	2.6%
Grant	81.0%	136,754	133,291	-2.5%	134,728	-1.5%	102,120	-25.3%
Hennepin	67.0%	211,348,652	212,497,645	0.5%	214,788,242	1.6%	222,838,852	5.4%
Houston	72.4%	529,821	531,196	0.3%	536,922	1.3%	543,577	2.6%
Hubbard	74.8%	1,035,665	1,024,784	-1.1%	1,035,830	0.0%	926,857	-10.5%
Isanti	74.5%	1,333,205	1,316,505	-1.3%	1,330,696	-0.2%	1,166,208	-12.5%
Itasca	74.1%	2,108,061	2,087,850	-1.0%	2,110,355	0.1%	1,905,950	-9.6%
Jackson	83.2%	390,868	374,932	-4.1%	378,973	-3.0%	231,505	-40.8%
Kanabec	72.3%	407,794	408,596	0.2%	413,001	1.3%	415,821	2.0%
Kandiyohi	69.6%	2,089,901	2,102,934	0.6%	2,125,602	1.7%	2,220,230	6.2%
Kittson	88.3%	83,729	79,319	-5.3%	80,174	-4.2%	39,626	-52.7%
Koochiching	87.4%	820,708	773,385	-5.8%	781,722	-4.8%	347,482	-57.7%
Lac Qui Parle	83.9%	183,633	175,995	-4.2%	177,892	-3.1%	107,249	-41.6%
Lake	73.7%	443,713	440,979	-0.6%	445,732	0.5%	416,370	-6.2%
Lake of Woods	84.7%	174,101	166,344	-4.5%	168,137	-3.4%	96,527	-44.6%
Lesueur	74.9%	1,032,769	1,022,177	-1.0%	1,033,195	0.0%	926,843	-10.3%
Lincoln	89.3%	100,900	94,888	-6.0%	95,910	-4.9%	40,771	-59.6%
Lyon	77.8%	1,963,030	1,914,381	-2.5%	1,935,016	-1.4%	1,476,538	-24.8%
McLeod	72.9%	2,142,557	2,127,414	-0.7%	2,150,346	0.4%	1,991,123	-7.1%
Mahnomen	86.7%	292,724	276,414	-5.6%	279,393	-4.6%	129,624	-55.7%
Marshall	88.4%	135,640	128,299	-5.4%	129,682	-4.4%	62,234	-54.1%

Martin	86.2%	1,066,771	1,011,095	-5.2%	1,021,994	-4.2%	510,008	-52.2%
Meeker	71.8%	667,676	670,640	0.4%	677,869	1.5%	697,314	4.4%
Mille Lacs	74.5%	669,069	665,775	-0.5%	672,952	0.6%	636,127	-4.9%
Morrison	80.5%	1,130,888	1,097,515	-3.0%	1,109,345	-1.9%	797,155	-29.5%
Mower	81.4%	1,330,687	1,285,562	-3.4%	1,299,420	-2.3%	879,442	-33.9%
Murray	79.9%	188,249	183,982	-2.3%	185,965	-1.2%	145,579	-22.7%
Nicollet	77.6%	1,852,759	1,807,619	-2.4%	1,827,104	-1.4%	1,401,363	-24.4%
Nobles	76.0%	1,093,049	1,074,540	-1.7%	1,086,123	-0.6%	907,966	-16.9%
Norman	80.1%	94,585	92,763	-1.9%	93,763	-0.9%	76,367	-19.3%
Olmsted	75.9%	13,491,257	13,197,902	-2.2%	13,340,168	-1.1%	10,557,723	-21.7%
Otter Tail	73.3%	2,441,060	2,428,972	-0.5%	2,455,154	0.6%	2,320,175	-5.0%
Pennington	87.0%	464,743	439,672	-5.4%	444,411	-4.4%	214,032	-53.9%
Pine	65.6%	1,084,517	1,108,205	2.2%	1,120,151	3.3%	1,321,400	21.8%
Pipestone	80.9%	342,086	331,882	-3.0%	335,460	-1.9%	240,045	-29.8%
Polk	85.7%	1,095,045	1,040,574	-5.0%	1,051,791	-4.0%	550,335	-49.7%
Pope	82.1%	323,367	312,754	-3.3%	316,125	-2.2%	217,235	-32.8%
Ramsey	69.6%	68,450,067	68,304,803	-0.2%	69,041,088	0.9%	66,997,515	-2.1%
Red Lake	89.3%	42,260	39,846	-5.7%	40,276	-4.7%	18,119	-57.1%
Redwood	86.3%	586,699	556,930	-5.1%	562,934	-4.1%	289,012	-50.7%
Renville	82.8%	737,235	708,362	-3.9%	715,997	-2.9%	448,504	-39.2%
Rice	70.3%	3,096,942	3,102,359	0.2%	3,135,801	1.3%	3,151,121	1.7%
Rock	84.2%	363,060	347,406	-4.3%	351,151	-3.3%	206,523	-43.1%
Roseau	85.5%	517,296	492,348	-4.8%	497,655	-3.8%	267,815	-48.2%
St. Louis	73.5%	10,271,136	10,168,363	-1.0%	10,277,972	0.1%	9,243,415	-10.0%
Scott	71.9%	9,413,600	9,333,490	-0.9%	9,434,099	0.2%	8,612,511	-8.5%
Sherburne	72.0%	4,194,618	4,166,472	-0.7%	4,211,384	0.4%	3,913,166	-6.7%
Sibley	82.2%	342,005	330,443	-3.4%	334,005	-2.3%	226,384	-33.8%
Stearns	67.6%	12,163,986	12,263,829	0.8%	12,396,026	1.9%	13,162,432	8.2%
Steele	75.1%	2,634,760	2,591,936	-1.6%	2,619,876	-0.6%	2,206,525	-16.3%
Stevens	84.2%	335,091	321,090	-4.2%	324,551	-3.1%	195,081	-41.8%
Swift	94.9%	558,736	516,293	-7.6%	521,858	-6.6%	134,301	-76.0%
Todd	84.2%	437,691	419,881	-4.1%	424,407	-3.0%	259,585	-40.7%
Traverse	80.7%	72,420	70,675	-2.4%	71,437	-1.4%	54,968	-24.1%
Wabasha	76.9%	776,174	763,413	-1.6%	771,642	-0.6%	648,566	-16.4%
Wadena	84.4%	441,173	422,401	-4.3%	426,954	-3.2%	253,450	-42.6%
Waseca	80.0%	714,361	693,191	-3.0%	700,663	-1.9%	502,664	-29.6%
Washington	61.1%	19,772,142	20,268,209	2.5%	20,486,688	3.6%	24,732,838	25.1%
Watowan	85.7%	332,321	316,665	-4.7%	320,079	-3.7%	175,760	-47.1%
Wilkin	81.4%	173,111	167,853	-3.0%	169,663	-2.0%	120,536	-30.4%
Winona	71.5%	3,185,425	3,176,313	-0.3%	3,210,552	0.8%	3,094,318	-2.9%
Wright	69.2%	5,845,977	5,877,879	0.5%	5,941,239	1.6%	6,164,997	5.5%
Yellow Medicine	85.6%	289,553	275,991	-4.7%	278,966	-3.7%	153,933	-46.8%