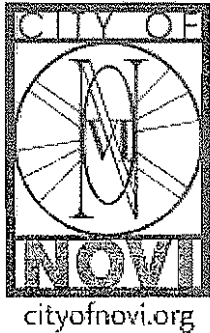


MEMORANDUM



TO: MAYOR AND CITY COUNCIL MEMBERS
FROM: CLAY J. PEARSON, CITY MANAGER
SUBJECT: 2010 TAX BASE PRIMER
DATE: DECEMBER 16, 2009

*For Presentation
12-21-09*

The attached material is for the presentation at your December 21, 2009 meeting. Attached is a report from Glenn Lemmon, our City Assessor, regarding the projections for Novi's tax base in 2010 which funds the FY 2010/11 Budget. The estimated reduction remains manageable with prudent planning and execution. We are providing these numbers as an early reference, even a month earlier than last year's first such report. Obviously, many other things will be built into the complete budget package to you in April. The audit report for FY 08/09 was provided to you on November 23. The second quarter FY 2009/10 financials will be shared by January 28, 2010.

The opportunity to focus on tax base numbers should help frame expectations and deliberations as we go into your Saturday, January 9 goal setting session.

c: Leadership Group



12/14/09
To: Mayor & City
Council Members

For discussion at 12-21
City Council presentation.
Awarred questions welcome

MEMORANDUM

December 12, 2009

To: Clay Pearson, City Manager

From: D. Glenn Lemmon, City Assessor

RE: 2010 City Budget

The purpose of this memorandum is to share the estimated 2010 State Equalized Value (SEV) and Taxable Value (TV) for the City of Novi. We are also projecting values for 2011 and 2012. These estimates are aimed at providing staff and City Council with information to build the 2010-2011 budget, and begin planning for the 2011-2012 budget.

As you are aware, the City of Novi is not immune from the recessionary problems that continue to plague our state. It appears that significant reductions to assessed values will continue for 2010 and beyond. For 2008 & 2009, the City of Novi experienced considerable reductions to residential property values. For 2010, residential, commercial and industrial properties will all see significant reductions. Taxable value, previously buoyed up by new construction and the gap between assessed and taxable values, decreased slightly for 2009. For 2010, declining assessments and a reduction in new construction will further erode the tax base. This trend will most certainly continue for the near future.

For 2010, the gap between assessed and taxable has disappeared for all but 11% of the residential properties. Most of those are vacant parcels and don't represent a large portion of the values. Only 35% of the commercial and industrial properties still have some area between assessed and taxable value. Even though most properties saw reduced assessments over the past two years, many saw increases in taxable value because of the Inflation Rate Multiplier (IRM). Since the inception of Proposal "A" in 1994, IRMs have ranged between 1.5% and 3.7% and peaked last year at 4.4%. The IRM for 2010 has been set at -0.3%. Therefore, with a few very minor exceptions, every property will see some reduction in taxable value in 2010. If taxable values are not reduced by the market decline, they will be reduced by the negative IRM.

Although final adjustments have not been made, existing residential assessments are expected to decrease approximately -13.5%. Commercial and industrial assessments will each decrease approximately -9%. Overall, 2010 assessments on existing properties in the city will be reduced about -11.4%. It's estimated that the overall impact to taxable value will result in a reduction of -10.2%.

Over the past several years, communities in the region have seen values decline and have struggled to maintain services without increasing millage. Fresh revenue from new construction has helped the City of Novi maintain the same millage rate for ten years. For 2010, new construction will not be the "magic potion" that makes everything better. Residential construction has decreased four years in a row. Commercial and industrial construction is significantly reduced. Total new construction has dropped from 163 million for 2006 to approximately 20 million for 2010. While Novi is still a desirable place to live and work, and has fared better than most communities, I don't anticipate large amounts of construction over the next few years.

It is anticipated that market value reductions will continue for 2011. Also, it is expected that 2011 new construction will continue to decline. Oakland County has projected an overall decrease of -12.5% for 2011 and an additional -5% for 2012. Oakland County is anticipating that the real estate market will bottom out during 2011. Due to the gap closing between assessed and taxable values, a \$1 reduction in 2011 assessed value will equate to a \$1 reduction in taxable value. In the near future, the IRM will have little effect on Novi properties. Even if the real estate market bottoms out in 2011 and begins to ascend, it is anticipated that taxable values will not return to 2007 levels until 2020.

The bottom line, at this early stage, is that the expected overall 11.4% reduction to taxable value will equate to a \$1.8 million reduction in general fund revenue (using the 2009 general fund rate of 4.9027 mills) and a \$3.8 million revenue reduction to all city revenues (using the overall rate of 10.5416 mills) for the 2010-2011 budget year. The City of Novi should expect similar reductions in the following budget.

The attached pages include an overview of the proposed changes from 2009 to 2010 by property class, historical and projected values, 2001-2012 value change graph, and several additional charts and graphs that may be of interest.



RESIDENTIAL PROPERTIES 17,313 PARCELS	2009 POST MBOR	NEW/ADDNS	LOSS/LOSSES	2010 ESTIMATED	2010 w/o NEW/ADDNS
SEV	\$2,194,995,650	\$8,643,900	\$353,350	\$1,897,250,300	\$1,888,606,400
TAXABLE	\$2,118,748,880	\$8,620,640	\$315,175	\$1,852,120,000	\$1,843,499,360
% CHANGE TO ASSESSED				-13.56%	-13.96%
% CHANGE TO TAXABLE				-12.58%	-12.99%
% OF PARCELS WHERE SEV = TAXABLE				88.45%	
% OF VALUE WHERE SEV = TAXABLE				97.62%	

COMMERCIAL & INDUSTRIAL PROPERTIES 1,085 PARCELS	2009 POST MBOR	NEW/ADDNS	LOSS/LOSSES	2010 ESTIMATED	2010 w/o NEW/ADDNS
*****EQUALIZATION NEW AND LOSS*****		\$76,501,350	\$72,108,800		
SEV	\$1,313,896,100	\$9,096,600	\$206,050	\$1,206,249,700	\$1,197,153,100
TAXABLE	\$1,203,024,590	\$9,096,600	\$206,050	\$1,129,017,380	\$1,119,920,780
% CHANGE TO ASSESSED				-8.19%	-8.89%
% CHANGE TO TAXABLE				-6.15%	-6.91%
% OF PARCELS WHERE SEV = TAXABLE				64.52%	
% OF VALUE WHERE SEV = TAXABLE				93.57%	

PERSONAL PROPERTY - ESTIMATED 2,557 PARCELS	2009 POST MBOR	NEW/ADDNS	LOSS/LOSSES	2010 ESTIMATED	2010 w/o NEW/ADDNS
SEV & TAXABLE	\$233,170,160	\$0	\$0	\$210,456,740	\$210,456,740

ALL PROPERTIES 20,955 PARCELS	2009 POST MBOR	NEW/ADDNS	LOSS/LOSSES	2010 ESTIMATED	2010 w/o NEW/ADDNS
SEV	\$3,742,061,910	\$17,740,500	\$559,400	\$3,313,956,740	\$3,296,216,240
TAXABLE	\$3,554,943,630	\$17,717,240	\$521,225	\$3,191,594,120	\$3,173,876,880
% CHANGE TO ASSESSED				-11.44%	-11.91%
% CHANGE TO TAXABLE				-10.22%	-10.72%
% OF PARCELS WHERE SEV = TAXABLE				87.04%	
% OF VALUE WHERE SEV = TAXABLE				96.31%	

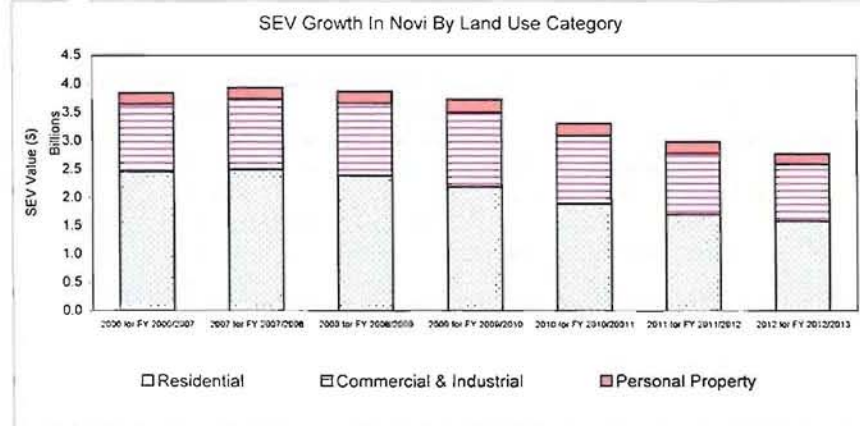
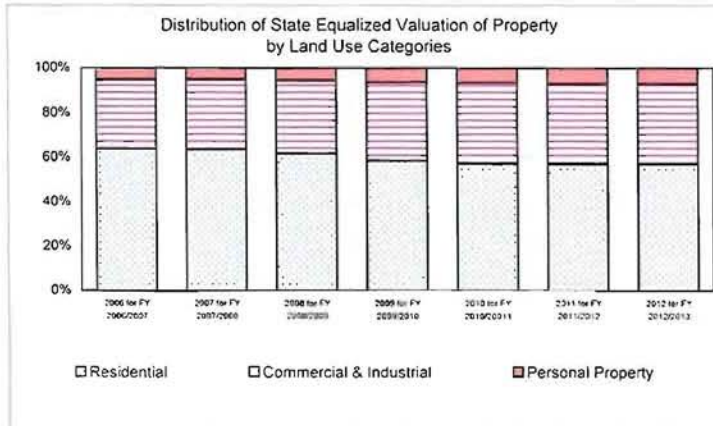


Five-Year State Equalized Valuation (SEV) HISTORY

12/12/2009

SEV is 50% of True Cash Value (Market Value)

	ACTUAL				ESTIMATED	PROJECTED		
	2006 for FY 2006/2007	2007 for FY 2007/2008	2008 for FY 2008/2009	2009 for FY 2009/2010	2010 for FY 2010/2011	2011 for FY 2011/2012	2012 for FY 2012/2013	2013 for FY 2013/2014
Commercial & Industrial	1,190,982,800	1,237,272,500	1,270,942,600	1,313,896,100	1,206,249,700	1,080,975,500	1,005,310,000	1,005,310,000
Personal Property	195,189,850	200,617,830	210,456,740	233,170,160	210,456,740	200,000,000	187,000,000	187,000,000
Total Non-Residential Property	\$1,386,172,650	\$1,437,890,330	\$1,481,399,340	\$1,547,066,260	\$1,416,706,440	\$1,280,975,500	\$1,192,310,000	\$1,192,310,000
Total Non-Residential as % of Total	36.0%	36.4%	38.2%	41.3%	42.7%	42.9%	42.9%	42.9%
Non-Residential Real Change from Previous Year	5.8%	3.7%	3.0%	4.4%	-8.4%	-9.6%	-6.9%	0.0%
Residential	2,462,392,450	2,508,351,450	2,395,555,450	2,194,995,650	1,897,250,300	1,707,525,300	1,587,690,000	1,587,690,000
TOTAL SEV	\$3,848,565,100	\$3,946,241,780	\$3,876,954,790	\$3,742,061,910	\$3,313,956,740	\$2,988,500,800	\$2,780,000,000	\$2,780,000,000
Change from Previous Year	7.5%	2.5%	-1.8%	-3.5%	-11.4%	-9.8%	-7.0%	0.0%



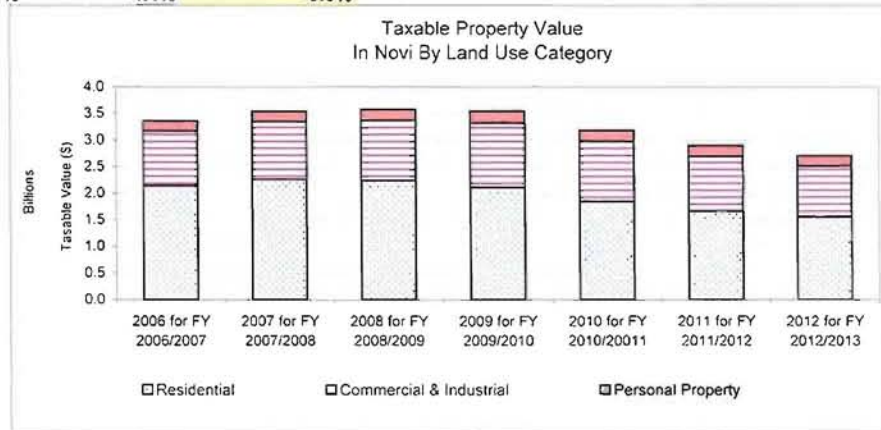
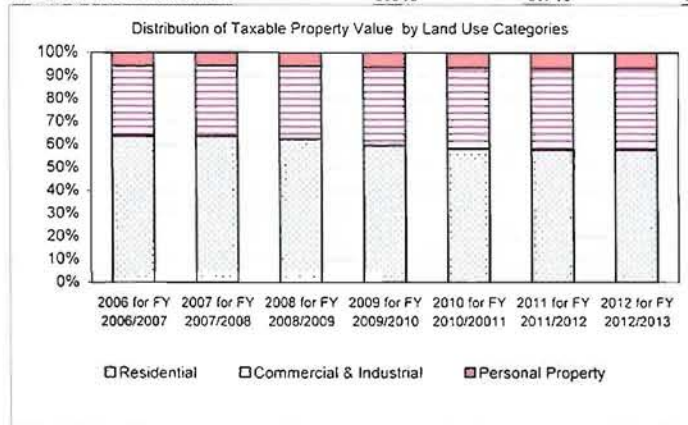
% Change by Category

	ACTUAL				ESTIMATED	PROJECTED		
	2006 for FY 2006/2007	2007 for FY 2007/2008	2008 for FY 2008/2009	2009 for FY 2009/2010	2010 for FY 2010/2011	2011 for FY 2011/2012	2012 for FY 2012/2013	2013 for FY 2013/2014
Commercial & Industrial	2.6%	3.9%	2.7%	3.4%	-8.2%	-10.4%	-7.0%	0.0%
Residential	19.0%	1.9%	-4.5%	-8.4%	-13.6%	-10.0%	-7.0%	0.0%
Total Real Property	26.0%	2.5%	-2.1%	-4.3%	-11.6%	-10.1%	-7.0%	0.0%
Personal Property	-6.0%	2.8%	4.9%	10.8%	-9.7%	-5.0%	-6.5%	0.0%
TOTAL SEV	22.2%	2.5%	-1.8%	-3.5%	-11.4%	-9.8%	-7.0%	0.0%

Five-Year Taxable Value HISTORY

	ACTUAL				ESTIMATED	PROJECTED		
	2006 for FY 2006/2007	2007 for FY 2007/2008	2008 for FY 2008/2009	2009 for FY 2009/2010	2010 for FY 2010/2011	2011 for FY 2011/2012	2012 for FY 2012/2013	2013 for FY 2013/2014
Commercial & Industrial	1,024,363,150	1,089,805,110	1,133,315,240	1,203,024,590	1,129,017,380	1,027,406,000	958,056,000	958,056,000
Personal Property	195,189,850	200,617,830	210,456,740	233,170,160	210,456,740	200,000,000	187,000,000	187,000,000
Total Non-Residential Property	\$1,219,553,000	\$1,290,422,940	\$1,343,771,980	\$1,436,194,750	\$1,339,474,120	\$1,227,406,000	\$1,145,056,000	\$1,145,056,000
Total Non-Residential as % of Total	36.3%	36.3%	37.5%	40.4%	42.0%	42.3%	42.3%	42.3%
Non-Residential Real Change from Previous Year	#VALUE!	5.8%	4.1%	6.9%	-6.7%	-8.4%	-6.7%	0.0%
Residential	2,144,508,500	2,259,983,800	2,238,676,260	2,118,748,880	1,852,120,000	1,674,444,000	1,560,944,000	1,560,944,000
TOTAL Taxable Value	\$3,364,061,500	\$3,550,406,740	\$3,582,448,240	\$3,554,943,630	\$3,191,594,120	\$2,901,850,000	\$2,706,000,000	\$2,706,000,000
LOSS PROVISION FOR Board of Review, Michigan Tax Tribunal cases, etc.					\$95,000,000	\$90,000,000	\$80,000,000	\$75,000,000
NET TAX BASE					\$3,096,594,120	\$2,811,850,000	\$2,626,000,000	\$2,631,000,000

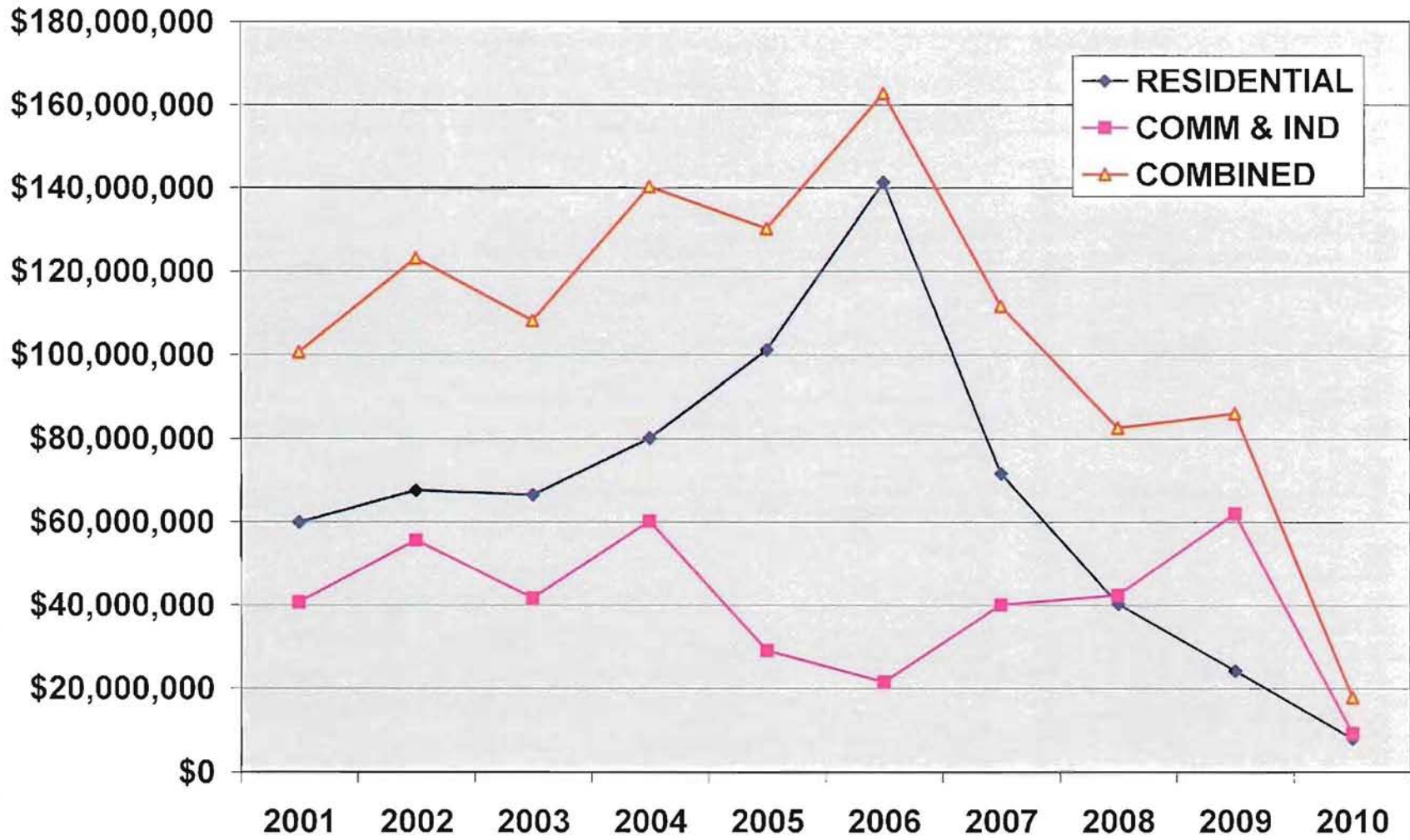
Change from Previous Year	8.6%	5.5%	0.9%	-0.8%	-12.89%	-11.9%	-9.5%	-2.8%
MI Consumer Price Index	3.3%	3.7%	2.3%	4.4%	-0.3%			



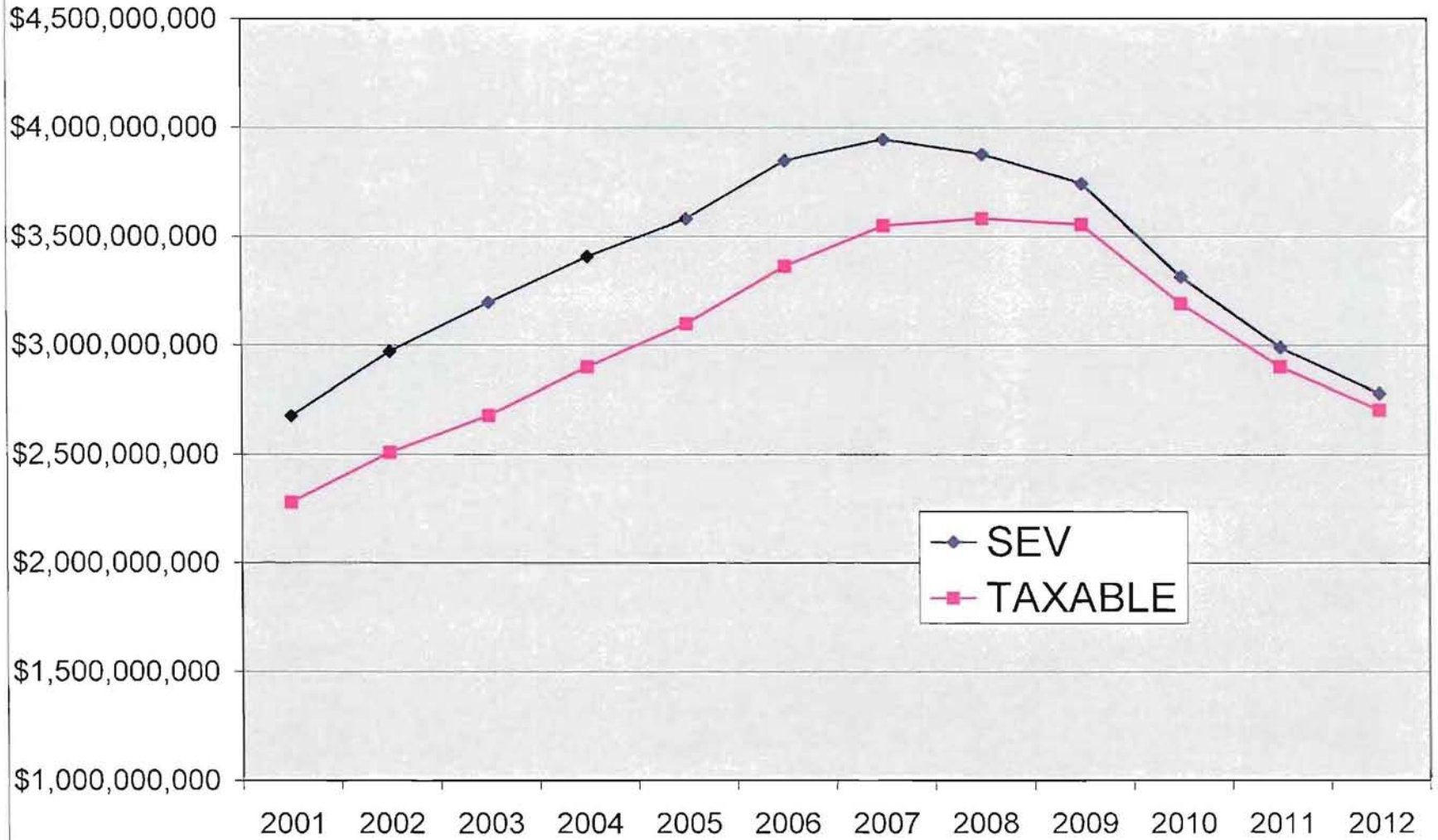
% Change by Category

	2006 for FY 2006/2007	2007 for FY 2007/2008	2008 for FY 2008/2009	2009 for FY 2009/2010	2010 for FY 2010/2011	2011 for FY 2011/2012	2012 for FY 2012/2013	2013 for FY 2013/2014
Commercial & Industrial	5.4%	6.4%	4.0%	6.2%	-6.2%	-9.0%	-6.8%	0.0%
Residential	11.0%	5.4%	-0.9%	-5.4%	-12.6%	-9.6%	-6.8%	0.0%
Total Real Property	9.1%	5.7%	0.7%	-1.5%	-10.3%	-9.4%	-6.8%	0.0%
Personal Property	0.5%	2.8%	4.9%	10.8%	-9.7%	-5.0%	-6.5%	0.0%
TOTAL Taxable Value	8.6%	5.5%	0.9%	-0.8%	-10.2%	-9.1%	-6.7%	0.0%

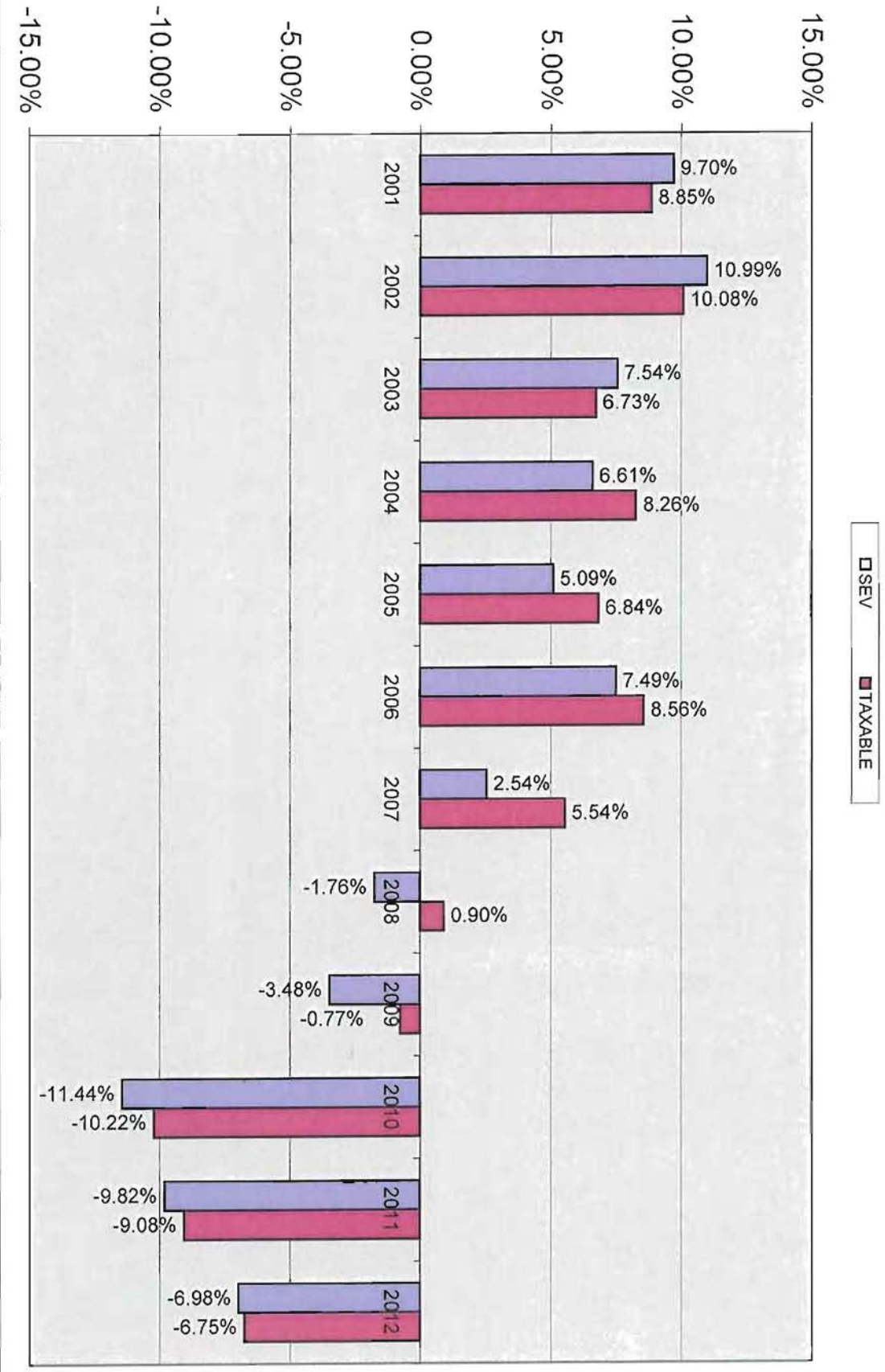
ADDITIONS FROM NEW CONSTRUCTION



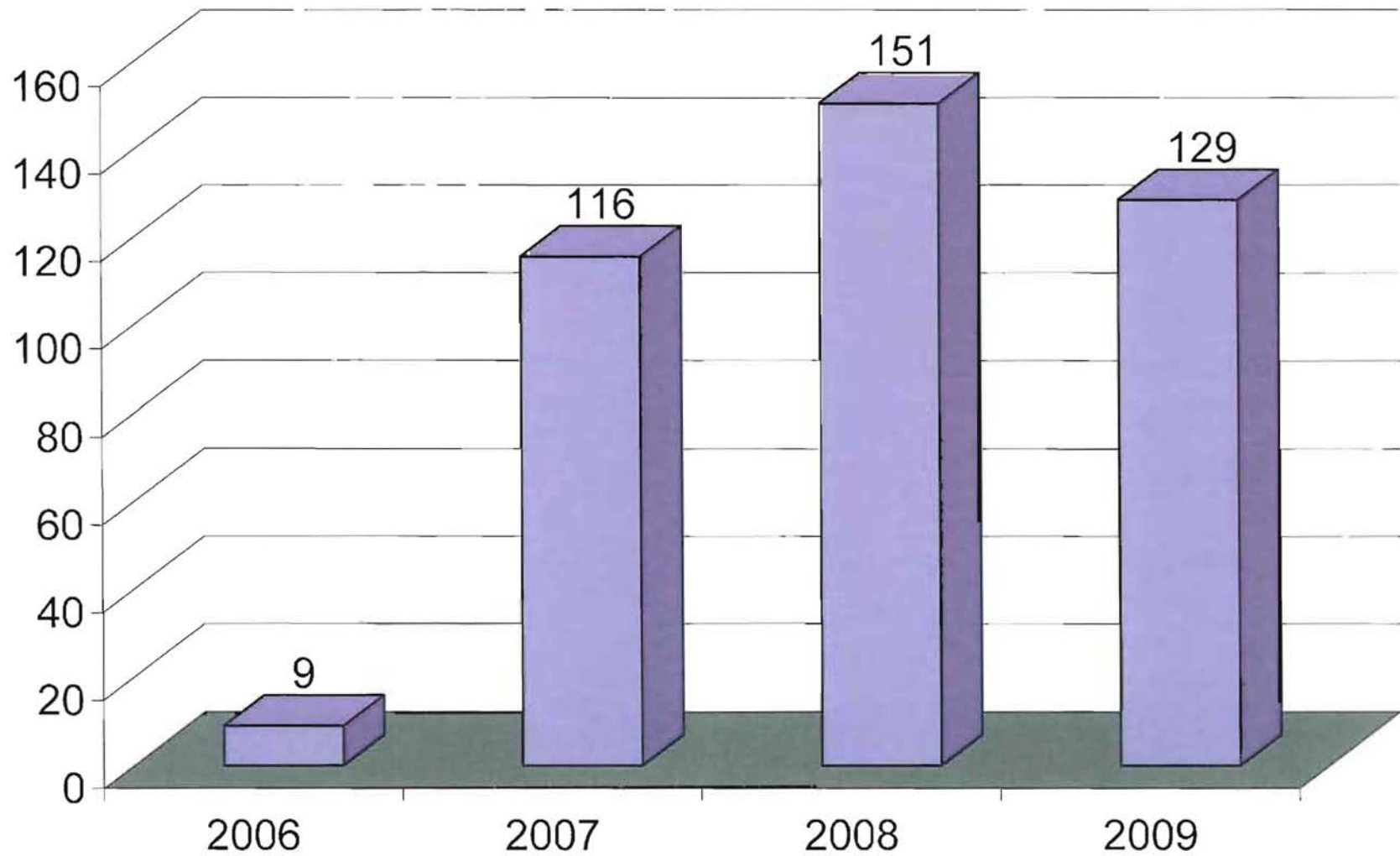
SEV & TAXABLE VALUES 2001 - 2012



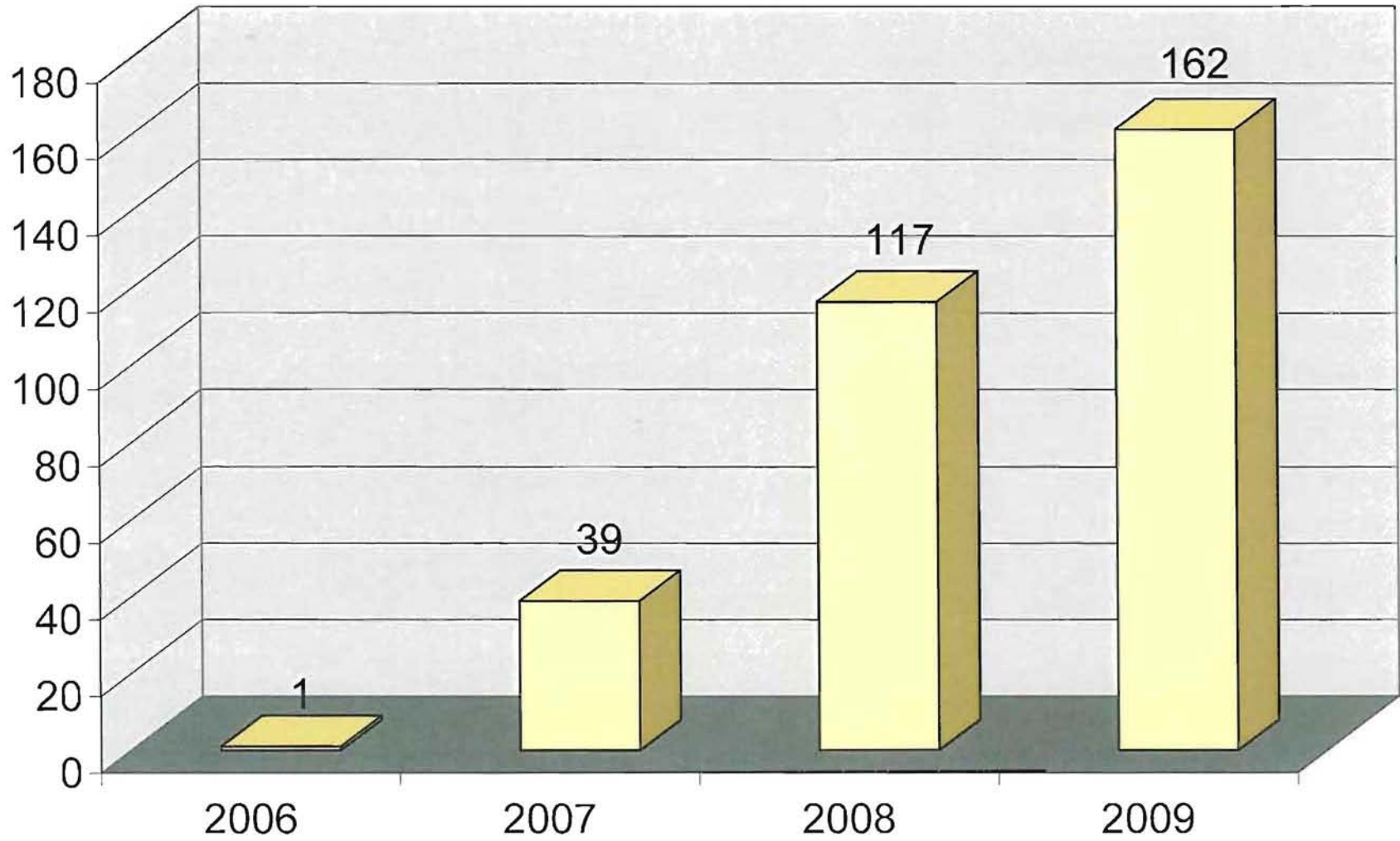
VALUE CHANGE 2001 - 2012



SHERIFF'S DEEDS

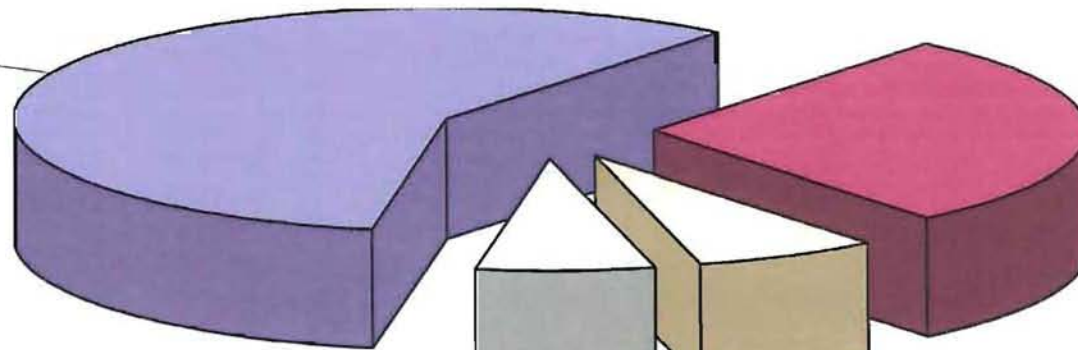


SALES FROM FORECLOSURE



2010 TAXABLE VALUE (EST)

RESIDENTIAL
\$1,852,120,000
58%



COMMERCIAL
\$907,146,360
28%

PERSONAL
\$210,456,740
7%

INDUSTRIAL
\$221,871,020
7%

COMPARISON OF TAX BASE BETWEEN ASSESSOR AND FINAL VALUES

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u> estimated
SEV						
Assessor Initial Value	\$3,582,130,470	\$3,842,176,380	\$3,949,919,700	\$3,877,573,270	\$3,745,319,210	\$3,313,956,740
Change from Previous MBOR		7.26%	2.80%	-1.83%	-3.41%	
FINAL (J&D BOR, MTT, STC)	\$3,580,551,380	\$3,845,565,100	\$3,946,241,780	\$3,876,954,790	\$3,742,061,910	
	\$3,578,262,530	\$3,835,538,020	\$3,927,852,390	\$3,874,450,340	\$3,731,266,400	
Difference (Initial to Final)	\$	-\$3,867,940	-\$6,638,360	-\$22,067,310	-\$3,122,930	-\$14,052,810
	%	99.89%	99.83%	99.44%	99.92%	99.62%
TV						
Assessor Initial Value	\$3,099,173,120	\$3,360,539,470	\$3,553,421,730	\$3,582,783,460	\$3,557,780,100	\$3,313,956,740
Change from Previous MBOR		8.43%	5.74%	0.83%	-0.70%	
FINAL (J&D BOR, MTT, STC)	\$3,098,817,510	\$3,364,061,500	\$3,550,406,740	\$3,582,448,240	\$3,554,943,630	
	\$3,097,440,190	\$3,358,289,934	\$3,532,229,270	\$3,580,269,790	\$3,542,655,460	
Difference (Initial to Final)	\$	-\$1,732,930	-\$2,249,536	-\$21,192,460	-\$2,513,670	-\$15,124,640]*
	%	99.94%	99.93%	99.40%	99.93%	99.57%
# of MBOR Petitions	951	1,068	1,367	829	1,189	*