

MEMORANDUM



TO: CITY COUNCIL
FROM: MICHEAL R. LOHMEIER, MMAO(4), PPE
SUBJECT: 2017 PROPERTY TAX BASE PROJECTIONS
DATE: JANUARY 9, 2017

INTRODUCTION

The purpose of this presentation is to share my estimated 2017 assessed and taxable values for the City of Novi.

These estimates are aimed at providing staff and City Council with information to assist in developing the 2017-2018 budget and begin fostering future budgets.

ASSESSMENT CHANGE

The assessment increases for 2017 will be similar to the increases experienced prior to the recent recession. Residential assessments will increase approximately 5% on average, while Commercial and Industrial property assessments will average 8% and 5%, respectively. Overall, I expect the City's State Equalized Value for real property to increase 6%, while its personal property may decrease an additional 5%. Overall real and personal property assessments should increase almost 6%.

TAXABLE VALUE CHANGE

True cash values of properties in Novi are expected to continue to recover during 2017, although the overall average IRM has decreased significantly. Taxable value will increase significantly lower than the increase in assessments due to the lower Inflation Rate Multiplier (IRM) of 1.009 or less than 1%. The average overall IRM since 1995 when Proposal A went into effect is 1.022, while the minimum IRM was 0.997 in 2010 and the highest was 1.044 in 2009. The IRM applied for developing the capped values in 2017 is 1.009 or 1.3% less than the historical average. Therefore, taxable value growth, absent any new construction or transfers of ownership are limited to nine tenths of one percent on individual properties.

Novi is expected to benefit from new construction as well as ownership changes. 2017 will be similar to the last couple years. The new construction activity combined with property transfer ownerships is the cause of why the City's overall taxable value is expected to increase above the IRM. From early estimates it is reasonable Commercial and Industrial taxable values will increase 5%, while Residential will increase 4%. Overall real property taxable values should increase approximately 4.5%.

I estimate taxable value may increase around 3% to 4% given the personal property which should still remain.

PERSONAL PROPERTY CHANGE

Legislative changes made during 2012 affected the City's tax base beginning in 2014 and continuing in 2016. In 2014, personal property parcels having less than \$40,000 taxable value could apply for exemption. For 2016, the phasing out, or elimination, of industrial personal property started. The implementation and the full effect of this legislation is still not clear at this point however Novi is expected to experience approximately \$6 million taxable value loss.

HEADLEE AMENDMENT

Taxable value changes from one year to the next year comes from three sources whether you're addressing individual properties or Headlee Amendment (Headlee). The sources include Additions, Losses and the taxable value adjustment. The purpose of Headlee is to measure adjustment. Positive adjustment has two main sources which include the IRM and the uncapping by transfers of owners (e.g., sales).

Positive adjustment in excess of IRM will trigger a millage rollback.

Negative taxable value adjustment also has two main sources which are personal property depreciation and Michigan Tax Tribunal reductions. These negative adjustments will offset all or part of the positive adjustment from uncappings.

The Assessing Department is currently still developing 2017 assessments. However our projections at this point indicated a Headlee rollback of approximately 0.991. Personal property reductions does offset this and if it were not for personal property the calculation would be approximately 0.987.

MICHIGAN TAX TRIBUNAL

The Assessing Department takes professional pride in developing fair and uniform assessments. Therefore it handles any appeal with the utmost due care. Reductions in past couple years have been about 15%. Following the 2017 March Board of Review a new docketing of tribunal will cases will be filed. However in light of the City's recovering economy I don't anticipate as many cases as the City's has experienced during the recessionary years, particularly with a lower than average IRM.

CONCLUSION

In conclusion, the property values in Novi are expected to continue to increase however some of the challenges facing the city's tax roll will continue in the following areas:

- Increasing competition by other states for commercial and industrial growth.
- Increasing requirements imposed by the State Tax Commission.
- Perception of Michigan Tax Tribunal relating to burdens of proof on jurisdictions.
- Inappropriate application of "dark store" theory on property valuations.
- Continued decreases in value by elimination of industrial personal property combined with increased administrative burdens on jurisdictions for same.



2017 Property Tax Base Projections

Calculation of Inflation Rate Multiplier

Based on statutory requirement the calculation is as follows:

- 1. The 12 monthly values for October 2014 through September 2015 are averaged.
- 2. The 12 monthly values for October 2015 through September 2016 are averaged.
- 3. The ratio is calculated by dividing the average of column 2 by the average of column 1.

Specific numbers from the US Dept of Labor, Bureau of Labor Statistics are as follows:

Oct-14	237.433	Oct-15	237.838
Nov-14	236.151	Nov-15	237.336
Dec-14	234.812	Dec-15	236.525
Jan-15	233.707	Jan-16	236.916
Feb-15	234.722	Feb-16	237.111
Mar-15	236.119	Mar-16	238.132
Apr-15	236.599	Apr-16	239.261
May-15	237.805	May-16	240.229
Jun-15	238.638	Jun-16	241.018
Jul-15	238.654	Jul-16	240.628
Aug-15	238.316	Aug-16	240.849
Sep-15	237.945	Sep-16	241.428
Average	236.742	Average	238.939
		Ratio	1.009
		% Change	0.9%

Inflation Rate Multiplier History	
Year	IRM
1995	1.026
1996	1.028
1997	1.028
1998	1.027
1999	1.016
2000	1.019
2001	1.032
2002	1.032
2003	1.015
2004	1.023
2005	1.023
2006	1.033
2007	1.037
2008	1.023
2009	1.044
2010	0.997
2011	1.017
2012	1.027
2013	1.024
2014	1.016
2015	1.016
2016	1.003
2017	1.009

Average	1.022
Minimum	0.997
Maximum	1.044
Median	1.021

ASSESSED AND TAXABLE VALUE PROJECTIONS FOR 2017

RESIDENTIAL PROPERTIES 17,785 PARCELS	2016 ACTUAL	EST NEW/ADDNS	EST LOSS/LOSSES	2017 PROJECTED	2017 ADJ ONLY
SEV	\$2,711,324,770	\$39,561,490	\$4,632,550	\$2,846,891,009	\$100,637,299
TAXABLE	\$2,169,188,620	\$32,759,380	\$1,253,517	\$2,255,062,650	\$57,066,816
% CHANGE TO ASSESSED				5.00%	3.71%
% CHANGE TO TAXABLE				3.96%	2.63%
TAXABLE AS A % OF SEV				79.21%	

COMMERCIAL & INDUSTRIAL PROPERTIES 1,083 PARCELS	2016 ACTUAL	EST NEW/ADDNS	EST LOSS/LOSSES	2017 PROJECTED	2017 ADJ ONLY
SEV	\$1,003,473,250	\$59,950,961	\$24,651,850	\$1,108,373,800	\$69,601,439
TAXABLE	\$916,563,180	\$40,273,781	\$7,545,593	\$962,921,140	\$29,472,086
% CHANGE TO ASSESSED				10.45%	6.94%
% CHANGE TO TAXABLE				5.06%	3.22%
TAXABLE AS A % OF SEV				86.88%	

PERSONAL PROPERTY 2,612 TOTAL PARCELS	2016 ACTUAL	EST NEW/ADDNS	EST LOSS/LOSSES	2017 PROJECTED	2017 ADJ ONLY
SEV & TAXABLE	\$237,292,830	\$0	\$5,862,270	\$225,121,800	-\$6,298,730

ALL PROPERTIES 20,951 TAXABLE PARCELS (21,480 TOTAL PARCELS)	2016 POST MBOR	EST NEW/ADDNS	EST LOSS/LOSSES	2017 PROJECTED	2017 ADJ ONLY
SEV	\$3,952,090,850	\$99,512,451	\$35,146,670	\$4,180,386,609	\$163,940,008
TAXABLE	\$3,323,044,630	\$73,033,161	\$14,661,380	\$3,443,105,590	\$80,240,172
% CHANGE TO ASSESSED				5.78%	4.15%
% CHANGE TO TAXABLE				3.61%	2.41%
TAXABLE AS A % OF SEV				82.36%	

State Equalized Valuation

ESTIMATE OF 2016 SEV AND TWO YEAR PROJECTION

	ACTUAL					ESTIMATED	PROJECTED	
	2012 for FY 2012/2013	2013 for FY 2013/2014	2014 for FY 2014/2015	2015 for FY 2015/2016	2016 for FY 2016/2017	2017 for FY 2017/2018	2018 for FY 2018/2019	2019 for FY 2019/2020
Commercial & Industrial	928,809,850	893,516,550	918,429,850	945,036,120	1,003,473,250	1,108,373,800	1,164,000,000	1,222,200,000
Residential	1,855,175,200	1,982,518,310	2,221,694,700	2,519,615,900	2,711,324,770	2,846,891,009	2,989,235,000	3,138,696,750
Personal Property	220,345,290	223,698,750	225,066,560	239,836,740	237,292,830	225,121,800	220,000,000	215,000,000
TOTAL SEV	\$3,004,330,340	\$3,099,733,610	\$3,365,191,110	\$3,704,488,760	\$3,952,090,850	\$4,180,386,609	\$4,373,235,000	\$4,575,896,750

% Change by Category	ACTUAL					ESTIMATED	PROJECTED	
	2012 for FY 2012/2013	2013 for FY 2013/2014	2014 for FY 2014/2015	2015 for FY 2015/2016	2016 for FY 2016/2017	2017 for FY 2017/2018	2018 for FY 2018/2019	2019 for FY 2019/2020
Commercial & Industrial	-9.2%	-3.8%	2.8%	2.9%	6.2%	10.5%	5.0%	5.0%
Residential	1.9%	6.9%	12.1%	13.4%	7.6%	5.0%	5.0%	5.0%
Total Real Property	-2.1%	3.3%	9.2%	10.3%	7.2%	6.5%	5.0%	5.0%
Personal Property	-0.2%	1.5%	0.6%	6.6%	-1.1%	-5.1%	-2.3%	-2.3%
CHANGE FROM PREVIOUS	-1.9%	3.18%	8.56%	10.1%	6.7%	5.8%	4.6%	4.6%

TAXABLE VALUE

ESTIMATE OF 2016 TV AND TWO YEAR PROJECTION

	ACTUAL					ESTIMATED	PROJECTED		
	2012 for FY 2012/2013	2013 for FY 2013/2014	2014 for FY 2014/2015	2015 for FY 2015/2016	2016 for FY 2016/2017	2017 for FY 2017/2018	2018 for FY 2018/2019	2019 for FY 2019/2020	
Commercial & Industrial	890,883,160	855,546,320	861,684,810	878,128,690	916,563,180	962,921,140	972,500,000	982,225,000	
Residential	1,809,105,200	1,892,836,510	1,984,120,840	2,087,604,500	2,169,188,620	2,255,062,650	2,277,613,277	2,300,389,410	
Personal Property	220,345,290	223,698,750	225,066,560	239,836,740	237,292,830	225,121,800	220,000,000	215,000,000	
TOTAL Taxable Value	\$2,920,333,650	\$2,972,081,580	\$3,070,872,210	\$3,205,569,930	\$3,323,044,630	\$3,443,105,590	\$3,470,113,277	\$3,497,614,410	
LOSS PROVISION FOR Board of Review, Michigan Tax Tribunal cases, etc.				\$25,000,000	\$10,000,000	\$10,000,000	\$15,000,000	\$15,000,000	
					NET TAX BASE	\$3,313,044,630	\$3,433,105,590	\$3,455,113,277	\$3,482,614,410
INFLATION RATE MULT.	2.7%	2.4%	1.6%	1.6%	0.3%	0.9%	1% Est	1.0% Est	

% Change by Category	ACTUAL					ESTIMATED	PROJECTED	
	2012 for FY 2012/2013	2013 for FY 2013/2014	2014 for FY 2014/2015	2015 for FY 2015/2016	2016 for FY 2016/2017	2017 for FY 2017/2018	2018 for FY 2018/2019	2019 for FY 2019/2020
Commercial & Industrial	-8.8%	-4.0%	0.7%	1.9%	4.4%	5.1%	1.0%	1.0%
Residential	1.5%	4.6%	4.8%	5.2%	3.9%	4.0%	1.0%	1.0%
Total Real Property	-2.1%	1.8%	3.5%	4.2%	4.0%	4.3%	1.0%	1.0%
Personal Property	-0.2%	1.5%	0.6%	6.6%	-1.1%	-5.1%	-2.3%	-2.3%
CHANGE FROM PREVIOUS	-2.0%	1.8%	3.32%	4.4%	3.7%	3.6%	0.8%	0.8%

PERSONAL PROPERTY TAX

- Beginning in 2016, industrial personal property machinery had begun to phase out.
- All acquisitions and installations prior to 2006 and after 2012 are exempted.
- Each year thereafter, the oldest remaining year will be exempted until all industrial machinery and equipment is exempted after 2022.

2017 HEADLEE CALCULATION

2016 Taxable Value - Losses x IRM
2017 Taxable value - Additions

BASED ON CURRENT PROJECTIONS:

$$\begin{aligned} \frac{\$3,323,044,630 - \$14,661,380 \times 1.009}{\$3,443,105,590 - \$73,033,161} &= \frac{\$3,338,158,699}{\$3,370,072,429} \\ &= 0.991 \end{aligned}$$

For numbers of 1.0000 or higher - no millage rollback

WITHOUT PERSONAL PROPERTY ONLY:

$$\begin{aligned} \frac{\$3,085,751,800 - \$8,799,110 \times 1.009}{\$3,217,983,790 - \$73,033,161} &= \frac{\$3,104,645,264}{\$3,144,950,629} \\ &= 0.987 \end{aligned}$$



