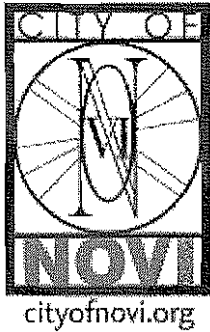


# MEMORANDUM



**TO:** MAYOR AND CITY COUNCIL MEMBERS  
**FROM:** CLAY J. PEARSON, CITY MANAGER  
**SUBJECT:** 2009 TAX BASE PRIMER  
**DATE:** JANUARY 22, 2009

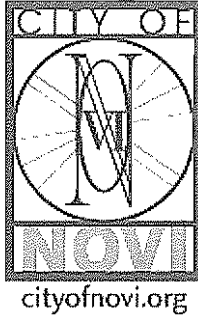
*Clay J. Pearson*  
*For Council Presentation*  
*January 26, 2009*

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The attached material is an update to items distributed last week. A report from Glenn Lemmon, our City Assessor, regarding the projections for Novi's tax base in 2009 which funds the FY 2009/10 Budget is included. The estimated reduction is obviously different from past steady increases, but manageable. We are providing these numbers as an early reference. Obviously, many other things will be built into the complete budget package to you in April. We will be reviewing interest earnings and building permit revenue.

The opportunity to focus on tax base numbers should help frame expectations and deliberations as we go into your February 14 goal setting session.

c: Leadership Group



## MEMORANDUM

January 22, 2009

To: Clay Pearson, City Manager

From: D. Glenn Lemmon, City Assessor

A handwritten signature in black ink, appearing to be "DGL", is written over the name "D. Glenn Lemmon" in the "From:" line.

RE: 2009 City Budget

The purpose of this memorandum is to share estimated 2009 State Equalized Value (SEV) and Taxable Value (TV) for the City of Novi. We also are sharing projected values for 2010 and beyond. All this is aimed to assist staff and the City Council with information to build the 2009-10 Budget, and begin planning for the 2010-11 Budget.

In 2008, the City of Novi experienced considerable reductions to residential property values. However, due to new construction and the gap between assessed and taxable values, the City of Novi was still able to realize a small increase in taxable value over 2007.

Looking ahead, the City of Novi is not immune from the recessionary problems that continue to plague our state and significant reductions to assessed values will continue for 2009. Sales studies are done in neighborhoods and assessed values are adjusted to reflect market conditions. The adjusted assessments are compared to taxable values. Individual properties where 2008 assessed and taxable values were equal will, most likely, see reductions in assessed and taxable values for 2009. Properties having a gap between the 2008 assessed and taxable values may see a reduction in 2009 assessment but an increase in taxable value because of the consumer price index.

Although final adjustments have not been made, existing residential assessments (SEV) will decrease approximately 9.18% (and 8.17% with the inclusion of new construction). Commercial and Industrial assessments will decrease approximately 2.3% but will increase 3.5% with the inclusion of new construction. Overall, 2009 assessments on existing properties in the city will be reduced 6.44%. Due to some of those properties receiving part or all of the 4.4%

CPI, total taxable value will be reduced 3.35%. The good news is that new construction will offset much of the taxable value reduction. Residential new construction will add \$24.1 M for 2009. The C&I sector will add \$61.9 M in new construction. Novi continues to be near the top for new construction in southeast Michigan.

The bottom line is that, thanks to new construction, an overall 1.24% reduction to taxable value is anticipated for 2009. Using the 2008 millage rates, this equates to a \$214,600 reduction in general fund property tax revenue and a \$468,500 reduction in total City property tax revenue (operating and debt millages).

It is anticipated that market value reductions will continue for 2010. Also, it is expected that 2010 new construction will continue to decline. Due to the gap closing between assessed and taxable values, a \$1 reduction in 2010 assessed value will equate to a \$1 reduction in taxable value. In 2010, the consumer price index will have little effect on Novi properties. If market conditions don't drastically improve, the City should expect a 3% reduction in taxable value for 2010. This conservatively accounts for minimal new construction.

The attached table shows a "Net Tax Base" which includes an allowance (reduction) for board of review, Michigan Tax Tribunal and adjustments in the amount of \$75,000,000 which is the same amount used in the 2008 Property Tax estimates. The City has experienced an increase in values in these cases, as well as a higher percentage in favor of the taxpayer.

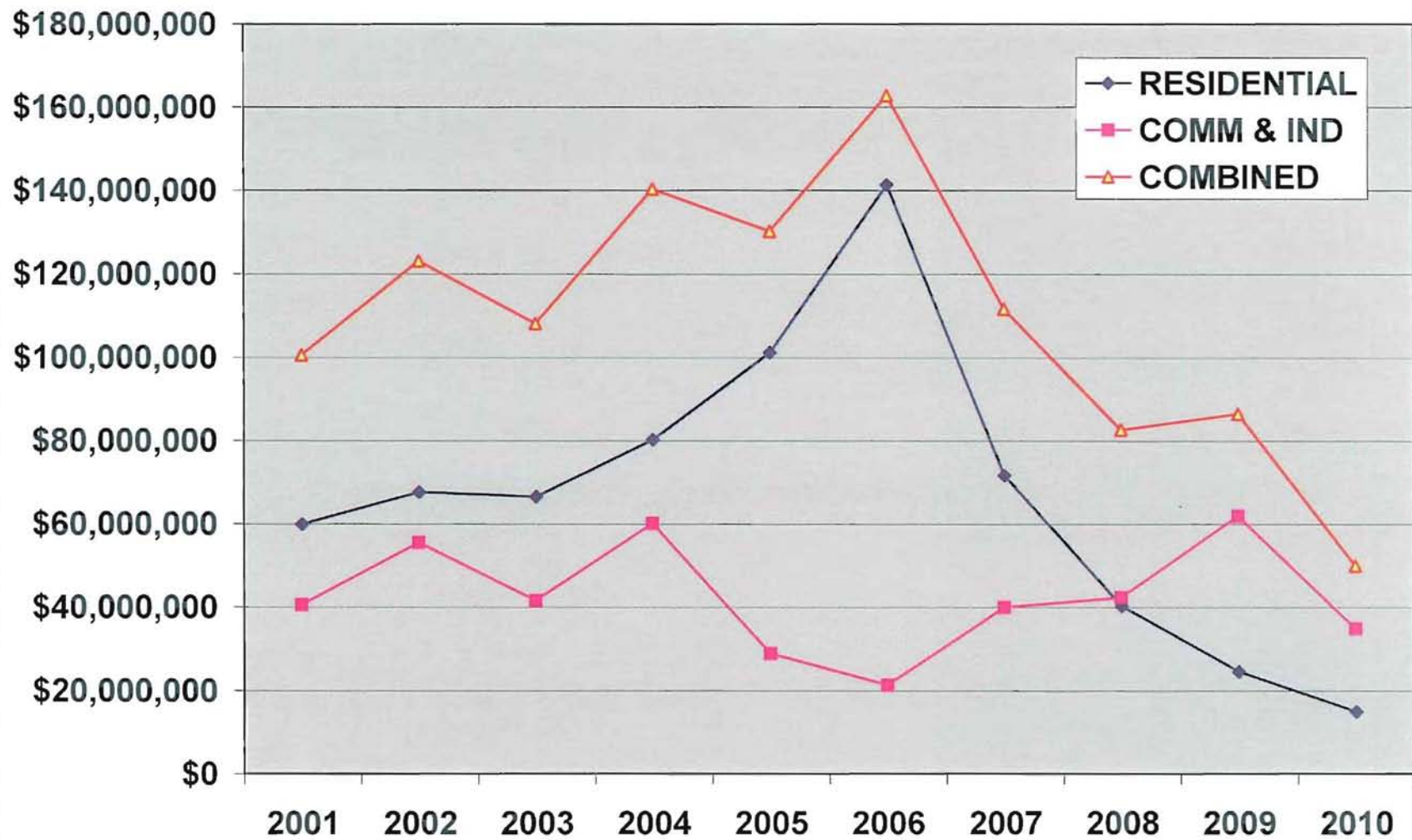
<b>RESIDENTIAL PROPERTIES 17,316 PARCELS</b>	<b>2008 POST MBOR</b>	<b>NEW/ADDNS</b>	<b>LOSS/LOSSES</b>	<b>2009 ESTIMATED</b>	<b>2009 w/o NEW/ADDNS</b>
SEV	\$2,395,555,450	\$24,216,150	\$1,215,700	\$2,199,857,500	\$2,175,641,350
TAXABLE	\$2,238,676,260	\$24,139,300	\$302,737	\$2,123,065,200	\$2,098,925,900
% CHANGE TO ASSESSED				-8.17%	-9.18%
% CHANGE TO TAXABLE				-5.16%	-6.24%
% OF PARCELS WHERE SEV = TAXABLE				78.78%	
% OF VALUE WHERE SEV = TAXABLE				96.51%	

<b>COMMERCIAL &amp; INDUSTRIAL PROPERTIES 1,084 PARCELS</b>	<b>2008 POST MBOR</b>	<b>NEW/ADDNS</b>	<b>LOSS/LOSSES</b>	<b>2009 ESTIMATED</b>	<b>2009 w/o NEW/ADDNS</b>
SEV	\$1,270,942,600	\$73,682,000	\$17,995,500	\$1,314,911,850	\$1,241,229,850
TAXABLE	\$1,133,315,240	\$61,918,050	\$2,611,243	\$1,204,572,800	\$1,142,654,750
% CHANGE TO ASSESSED				3.46%	-2.34%
% CHANGE TO TAXABLE				6.29%	0.82%
% OF PARCELS WHERE SEV = TAXABLE				57.66%	
% OF VALUE WHERE SEV = TAXABLE				91.61%	

<b>PERSONAL PROPERTY - ESTIMATED 2,497 PARCELS</b>	<b>2008 POST MBOR</b>	<b>NEW/ADDNS</b>	<b>LOSS/LOSSES</b>	<b>2009 ESTIMATED</b>	<b>2009 w/o NEW/ADDNS</b>
SEV & TAXABLE	\$210,456,740	\$0	\$0	\$210,456,740	\$210,456,740

<b>ALL PROPERTIES 20,897 PARCELS</b>	<b>2008 POST MBOR</b>	<b>NEW/ADDNS</b>	<b>LOSS/LOSSES</b>	<b>2009 ESTIMATED</b>	<b>2009 w/o NEW/ADDNS</b>
SEV	\$3,876,954,790	\$97,898,150	\$19,211,200	\$3,725,226,090	\$3,627,327,940
TAXABLE	\$3,582,448,240	\$86,057,350	\$2,913,980	\$3,538,094,740	\$3,452,037,390
% CHANGE TO ASSESSED				-3.91%	-6.44%
% CHANGE TO TAXABLE				-1.24%	-3.64%
% OF PARCELS WHERE SEV = TAXABLE				75.53%	
% OF VALUE WHERE SEV = TAXABLE				94.98%	

# ADDITIONS FROM NEW CONSTRUCTION



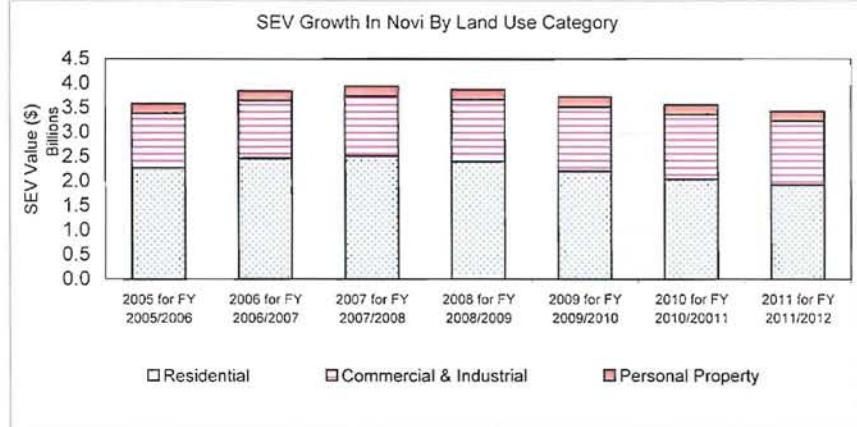
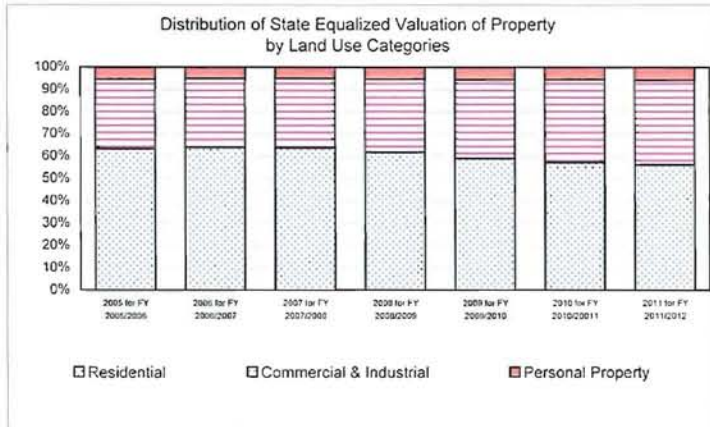


# Five-Year State Equalized Valuation (SEV) HISTORY

01/22/2009

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

	ACTUAL				ESTIMATED	PROJECTED		
	2005 for FY 2005/2006	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
Commercial & Industrial	1,116,089,000	1,190,982,800	1,237,272,500	1,270,942,600	1,314,911,850	1,323,613,613	1,303,905,205	1,303,905,205
Personal Property	194,212,130	195,189,850	200,617,830	210,456,740	210,456,740	200,000,000	200,000,000	200,000,000
<b>Total Non-Residential Property</b>	<b>\$1,310,301,130</b>	<b>\$1,386,172,650</b>	<b>\$1,437,890,330</b>	<b>\$1,481,399,340</b>	<b>\$1,525,368,590</b>	<b>\$1,523,613,613</b>	<b>\$1,503,905,205</b>	<b>\$1,503,905,205</b>
Total Non-Residential as % of Total	36.6%	36.0%	36.4%	38.2%	40.9%	42.8%	43.8%	43.8%
Non-Residential Real Change from Previous Year	-2.0%	5.8%	3.7%	3.0%	3.0%	-0.1%	-1.3%	0.0%
Residential	2,270,250,250	2,462,392,450	2,508,351,450	2,395,555,450	2,199,857,500	2,038,868,900	1,926,536,766	1,926,536,766
<b>TOTAL SEV</b>	<b>\$3,580,551,380</b>	<b>\$3,848,565,100</b>	<b>\$3,946,241,780</b>	<b>\$3,876,954,790</b>	<b>\$3,725,226,090</b>	<b>\$3,562,482,513</b>	<b>\$3,430,441,971</b>	<b>\$3,430,441,971</b>
Change from Previous Year	13.7%	7.5%	2.5%	-1.8%	-3.9%	-4.4%	-3.7%	0.0%



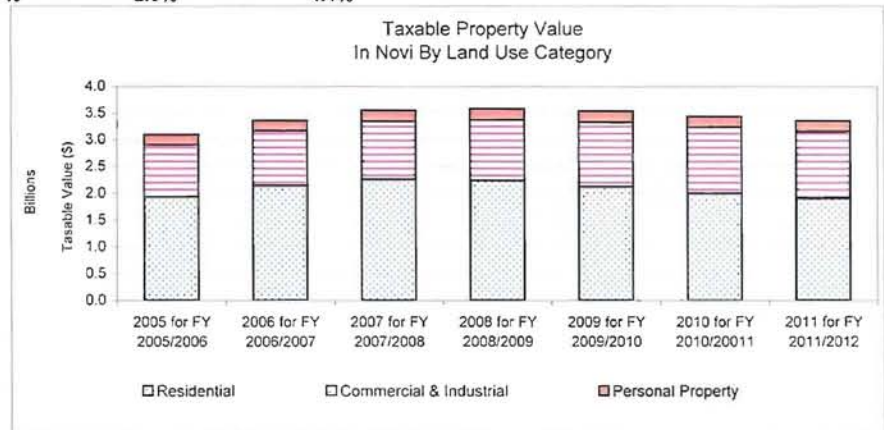
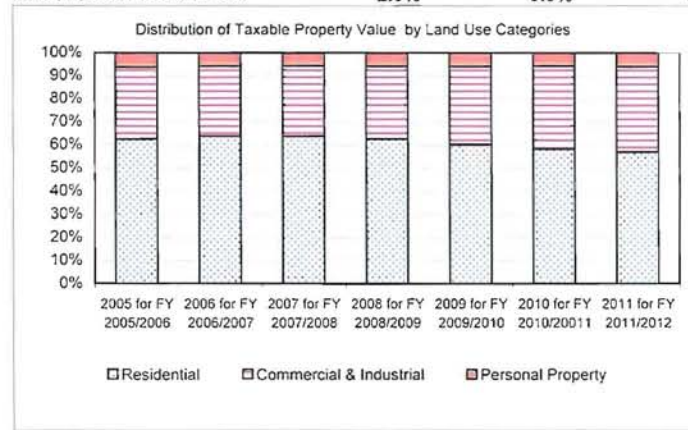
## % Change by Category

	ACTUAL				ESTIMATED	PROJECTED		
	2005 for FY 2005/2006	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
Commercial & Industrial	2.6%	6.7%	3.9%	2.7%	3.5%	0.7%	-1.5%	0.0%
Residential	9.7%	8.5%	1.9%	-4.5%	-8.2%	-7.3%	-5.5%	0.0%
Total Real Property	16.8%	7.9%	2.5%	-2.1%	-4.1%	-4.3%	-3.9%	0.0%
Personal Property	-6.4%	0.5%	2.8%	4.9%	0.0%	-5.0%	0.0%	0.0%
<b>TOTAL SEV</b>	<b>13.7%</b>	<b>7.5%</b>	<b>2.5%</b>	<b>-1.8%</b>	<b>-3.9%</b>	<b>-4.4%</b>	<b>-3.7%</b>	<b>0.0%</b>

# Five-Year Taxable Value HISTORY

	ACTUAL				ESTIMATED	PROJECTED		
	2005 for FY 2005/2006	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
Commercial & Industrial	971,860,510	1,024,363,150	1,089,805,110	1,133,315,240	1,204,572,800	1,239,572,800	1,247,177,072	1,247,177,072
Personal Property	194,212,130	195,189,850	200,617,830	210,456,740	210,456,740	200,000,000	200,000,000	200,000,000
<b>Total Non-Residential Property</b>	<b>\$1,166,072,640</b>	<b>\$1,219,553,000</b>	<b>\$1,290,422,940</b>	<b>\$1,343,771,980</b>	<b>\$1,415,029,540</b>	<b>\$1,439,572,800</b>	<b>\$1,447,177,072</b>	<b>\$1,447,177,072</b>
<b>Total Non-Residential as % of Total</b>	<b>37.6%</b>	<b>36.3%</b>	<b>36.3%</b>	<b>37.5%</b>	<b>40.0%</b>	<b>41.9%</b>	<b>43.1%</b>	<b>43.1%</b>
<b>Non-Residential Real Change from Previous Year</b>	<b>1.1%</b>	<b>4.6%</b>	<b>5.8%</b>	<b>4.1%</b>	<b>5.3%</b>	<b>7.1%</b>	<b>0.5%</b>	<b>0.0%</b>
Residential	1,932,744,870	2,144,508,500	2,259,983,800	2,238,676,260	2,123,065,200	1,997,305,977	1,907,440,678	1,907,440,678
<b>TOTAL Taxable Value</b>	<b>\$3,098,817,510</b>	<b>\$3,364,061,500</b>	<b>\$3,550,406,740</b>	<b>\$3,582,448,240</b>	<b>\$3,538,094,740</b>	<b>\$3,436,878,777</b>	<b>\$3,354,617,750</b>	<b>\$3,354,617,750</b>
LOSS PROVISION FOR Board of Review, Michigan Tax Tribunal cases, etc.					\$75,000,000	\$75,000,000	\$75,000,000	\$75,000,000
<b>NET TAX BASE</b>					<b>\$3,463,094,740</b>	<b>\$3,361,878,777</b>	<b>\$3,279,617,750</b>	<b>\$3,279,617,750</b>

Change from Previous Year	6.8%	8.6%	5.5%	0.9%	-1.2%	-2.9%	-2.4%	0.0%
MI Consumer Price Index	2.3%	3.3%	3.7%	2.3%	4.4%			



## % Change by Category

	2005 for FY 2005/2006	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
Commercial & Industrial	38.2%	5.4%	6.4%	4.0%	6.3%	2.9%	0.6%	0.0%
Residential	10.6%	11.0%	5.4%	-0.9%	-5.2%	-5.9%	-4.5%	0.0%
Total Real Property	18.6%	9.1%	5.7%	0.7%	-1.3%	-2.7%	-2.5%	0.0%
Personal Property	-5.8%	0.5%	2.8%	4.9%	0.0%	-5.0%	0.0%	0.0%
<b>TOTAL Taxable Value</b>	<b>6.8%</b>	<b>8.6%</b>	<b>5.5%</b>	<b>0.9%</b>	<b>-1.2%</b>	<b>-2.9%</b>	<b>-2.4%</b>	<b>0.0%</b>



## Ten Year Taxable Value Actual Plus Projection compared to State Equalized Valuation (SEV)

Tax Liability Year	State Equalized Valuation (50% of market value)		Taxable Value		% Taxable Value of SEV
	Amount	% Change	Amount	% Change	
2000	\$2,440,876,450		\$2,095,003,220		85.8%
2001	\$2,677,663,040	9.7%	\$2,280,396,170	8.8%	85.2%
2002	\$2,971,901,040	11.0%	\$2,510,281,740	10.1%	84.5%
2003	\$3,196,088,910	7.5%	\$2,679,216,000	6.7%	83.8%
2004	\$3,407,206,840	6.6%	\$2,900,548,534	8.3%	85.1%
2005	\$3,580,551,380	5.1%	\$3,098,817,510	6.8%	86.5%
2006	\$3,848,565,100	7.5%	\$3,364,061,500	8.6%	87.4%
2007	\$3,946,241,780	2.5%	\$3,550,406,740	5.5%	90.0%
2008	\$3,876,954,790	-1.8%	\$3,582,448,240	0.9%	92.4%
2009 Estimated	\$3,725,226,090	-3.9%	\$3,538,094,740	-1.2%	95.0%
2010 Projected	\$3,562,482,513	-4.4%	\$3,436,878,777	-2.9%	96.5%

The 1994 SEV established the base for taxable value calculations beginning in 1995. In addition to SEV, a taxable value was determined for each property. Taxable value is the lower of either capped value or SEV. Capped value increases are limited to the lesser of 5% or the rate of inflation. Although SEV continues to be based on market conditions, taxable value is thus in place to control property tax increases. Additions or losses to a property will increase or reduce the taxable value of that property. In the year following a property transfer, the taxable value of that property will uncap to the SEV. Novi's total taxable value rate of change moves larger than the SEV (e.g., 6.8% increase in 2004, SEV increased by 5.1%) largely due to the uncapping of properties from sales and the addition of new construction. In the coming decades, as Novi reaches build-out and ages, under current rules, yearly increases in taxable value will be closer to capped consumer price index (termed Inflation Rate Multiplier by the State of Michigan).

Local Board of Review Amounts (established in March each year)

\* = Preliminary 2009 Estimated includes 9.18% residential reduction, 4.4% Inflation Rate Multiplier)

## Ten Year Taxable Value Compared to State Equalized Valuation - City of Novi, Michigan

