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2010 Budget and Tax Levy Questions and Answers

Property Taxes and Market Value

If my property value goes down, why are my taxes going up?

If my taxes go down why don't they decline at the same rate as my value?

- ❖ There is not a direct correlation between the market value of your property and your property's share of the City's property tax levy. As such, the property tax functions differently than some other taxes such as sales tax and income tax. Rather, the market value is only one of several factors established by state law to be used in determining your appropriate share of the overall property tax, including:
 - State Property Tax Classification Rate (single-family residential, commercial/industrial, multiple residential)
 - State Aids to Local Governments
 - Fiscal Disparities
 - Your value change in relationship to all other properties

- ❖ A property's market value represents the owner's proportional share of the overall tax by determining the relative value of that property compared to all other values in that tax jurisdiction or district.

- ❖ In Bloomington the median value home had a 5.8% decrease in market value, a 1% increase in total tax and a 3.4% increase in City tax. If your home's value dropped less than the 5.8%, your total taxes would go up more than 1% and your City taxes would go up more than the 3.4%.
 - For example, an actual home in Bloomington valued at \$288,200 for 2009 property taxes had a value decrease to \$274,100.
 - The value decrease was about 4.9%.
 - The proportional share of the property tax levy for that home, however, **INCREASED** from .00247% to .00253%, a 2.44% increase.
 - If the City adopted a levy at 2.98%, the City portion of taxes would increase about 4.60%.
 - If the City adopted a levy at 0.0%, the City portion would still increase by 1.2%.
 - On the other hand, an actual home in Bloomington valued at \$191,100 for 2009 property taxes had a value decrease to \$172,300.
 - The value decrease was about 9.8%.
 - The proportional share of the property tax levy for that home, however, decreased from .00164% to .00159%, a -2.89% decrease.
 - That property's 2010 property tax would decrease 4.0%.
 - If the City adopted a levy at 2.98%, the City portion of taxes would decrease about 1.8%.
 - If the City adopted a levy at 0.0%, the City portion would decrease by 5.0%.
- ❖ What this one-year comparison does not show is that in the early part of the decade, when the lower price range of home values were increasing at a faster rate than the higher valued homes, is that their property tax share was increasing while those on the upper end tax share were decreasing.
- ❖ The attached [Star Tribune article](#) helps to see that this decrease in value, yet increase in taxes, is not just something that is unique to Bloomington. As noted in the chart, the cities in Hennepin County shows, generally:
 - If a median single-family residential property in a community declined less than 6%, there was an increase in property taxes.
 - For those that declined at a greater rate than 6%, there was a decline in property taxes but at a significantly lesser rate than the property value.
- ❖ *For the median value home, if the City set the final levy increase at zero %:*
 - *Total taxes on a median-value home would stay approximately the same as 2009.*
 - *The City tax portion on a median-value home would increase about 0.1%.*
- ❖ **State Aids and Fiscal Disparities:**

- Because of the large commercial/industrial component of its tax base, Bloomington is the largest contributor to the fiscal disparities pool and receives no state aids.
- This is not by choice; it is a consequence of state law.
- Property taxes in communities benefiting from state aids or are either positively or negatively affected by fiscal disparities contributions need to be adjusted for those communities in order to better compare the property tax costs across communities.
- Without those adjustments, a direct comparison between property taxes of cities that benefit from these programs with those that do not is not one that presents an accurate picture.

Why did my taxes increase 22 TIMES after I refused to let the City Assessor into view my property?

- ❖ Since 1995, the median value home in Bloomington has realized a compound annual average increase in market value of 5.7%. While the property the speaker was referring to is somewhat unique as it is a single-family home in a commercially zoned area, its property has had an average annual increase that is less than the median value home and has not even doubled in value let alone the multiple the presenter stated.

What about the aggressive property tax increase proposed for the future?

- ❖ Within the print and online versions of the 2009 Budget document, there is a specific section that illustrates staff projections of potential levies in future years.
- ❖ These projections reflect worst case trends and assumptions. Over the next five years, they project an average annual increase of 6.77%, or a total increase of 27% over the next four years.
- ❖ This is part of the long-term modeling the City does to anticipate revenue shortfalls that helps achieve the low annual average historical change.
- ❖ This was illustrated in the presentation on Monday, December 7, 2009 when the staff projected 2010 levy of 11.58% one year ago was reduced by the City Council in September 2009 to a preliminary levy of 2.98%.
- ❖ The best evidence of what will occur prospectively is what the City Council has done historically. The City Council's track record over the past fifteen years is an average property tax levy of 3.68%.

Revenue Changes and Service Demands

Why doesn't the City live within its means and not raise taxes like private business does when demand decreases?

- ❖ In the private sector, reduced revenue directly reflects a decrease in demand for products and services.
- ❖ For City services, when the demand decreases the City reduces the corresponding costs regardless of whether the economy is improving or declining.
- ❖ For the property tax supported services, a decrease in general taxes does not necessarily reflect a decrease in demand. For instance:
 - The demand for Police and Fire services does not decrease in an economic downturn and may increase.
 - The demand for Public Works type services is a function of weather and maintaining the quality of the infrastructure.
 - Capital and Debt is set over a long period of time.
 - The demand for community services is a function of usage and often goes up during a downturn.

These categories represent over 75% of the City's property tax costs.

- ❖ The City Council routinely reviews the demand and property cost of all its services and prioritizes them.
- ❖ It is the City Council's responsibility to balance the many competing interests across the community to provide the mix of services funded through the budget that, in their majority judgment, is in the long-term best strategic interest of the community as a whole.

Specific Budgets

What is included in the Council's budget?

- ❖ *Included are wages and benefits for:*
 - *City Council*
 - *City Council Secretary (only full-time position)*
 - *Appropriate cost accounting of various staff members for work done to support the Commissions. The Commissioners are volunteers and are not paid a wage for their considerable services.*

- ❖ The balance of materials and supplies are for their pro-rated share of other internal costs as well as various professional organizational memberships to which the City belongs.
- ❖ The City Council budget also includes an allocation of their costs out to non-tax supported funds to reflect the City Council's oversight of those activities. These reimbursed expenditures reduce the General Fund expenses and in turn the property tax levy.
- ❖ *The total City Council budget is less than one percent of the total General Fund Budget.*

Why is Council's line item going up 30%?

- ❖ Costs from other activities have been shifted to better reflect actual City Council activities. This is a zero balanced accounting entry across all budgets.
- ❖ The General Government category, which City Council's 2010 Budget is a part, is down overall in the general fund compared to 2009.

What are reimbursed expenditures?

- ❖ This category of negative expenditures, as shown in the budget document, represents costs in the General Fund charged out to other funds. These costs represent the other funds use of time or supplies originally allocated in the General Fund, which can be appropriately charged to other funds.
- ❖ These "reimbursed expenses" reduce the General Fund expenses and in turn the property tax by this amount.

What positions are included in the City Manager's Budget?

- ❖ There are three positions:
 - *City Manager*
 - *Assistant City Manager*
 - *Administrative Assistant*
- ❖ The Assistant City Manager position has remained vacant for part of 2008 and all of 2009 as part of the downturn strategies.
- ❖ The total City Manager budget is about one-half of one percent of the total General Fund Budget.

What about grant or federal stimulus money?

- ❖ The majority of the grants the City receives from Federal and State governments are not located in the General Fund.
- ❖ They are required to be spent on a reimbursement basis.
- ❖ They generally are for new or specific activities and are not to be used to supplant local tax revenues.

Compensation

What are City employees compensated?

- ❖ The Human Resources Department prepares an annual compensation plan. This document lists all positions and the wage range of each position. As listed within the [Corporate Report](#), the top three paid employees of the city in 2009 were:
 - City Manager \$154,569
 - Public Works Director \$144,616
 - Community Development Director \$140,188
- ❖ [Attached is a listing of the salary ranges](#) by job title that are the basis for employee pay for 2009.
- ❖ The City Council approved a 2010 Preliminary Budget with no general wage increase for 2010.
- ❖ About one-third of City employees bargain collectively with the City for their wages and benefits. They do so by belonging to one of four bargaining units.

What is in the Salaries category?

- ❖ Included in this category are the wages for full-time and part-time employees, and overtime.

What is in the Fringe Benefits category?

- ❖ Included in this category are health, dental, life, disability insurances, State and Federal required pension obligations including Social Security, and the funding of compensated absences. Compensated absences are earned but unused vacation and personal leave accruals.

What has staff done about health costs?

- ❖ Over the years the City has moved from a set formula to a specific dollar amount contribution to employee health care premiums. In other words, health care coverage is not carte blanche. The City contributes a specific dollar amount and if employees choose to have greater coverage, they have to pay for it. It is deducted from their paychecks.
- ❖ The City implemented a high deductible plan in 2007, which works to make individual employees more fiscally responsible for their health care and lifestyle choices. This type of coverage over the long-term works to reduce the employer's overall cost of providing coverage.

Comparisons

Why does the City use the CPI (Consumer Price Index) when it may overstate the rate of inflation?

- ❖ There is a variety of indices that organizations (like the U.S. Bureau of Labor Statistics) have developed and use to measure inflation.
- ❖ The Consumer Price Indexes (CPI) and Urban and Wage indexes are the ones that are generally referred to as the "inflation rate".
- ❖ The CPI is a widely accepted index and is the standard rate for adjusting Social Security.
- ❖ Given its wide acceptance in both the private and public sectors, as well as for wages and Social Security adjustments, the City of Bloomington has used the CPI for our comparisons.
- ❖ Use of other indices would need to demonstrate their acceptability and applicability to these comparisons.

Why isn't taking the same "value" across communities and years by using the League of Minnesota Cities (website calculator) the most valid comparison?

- ❖ *As the League of Minnesota Cities indicated in a correspondence on November 25, 2009:*

The League of Minnesota Cities' Property Tax Calculator provides an accurate property tax calculation for the city portion of the tax bill for a specific property valuation based on each year's actual city tax rate. The overall tax calculation (for the combined city, county, school and special district levies) for a property may reflect weighted school and county tax burdens if the city is covered by more than one school district, more than one county or more than one special district.

The League's Property Tax Calculator may be of limited use if the goal of the user is to directly compare city budgets or to measure the city's efficiency or effectiveness relative to a group of cities.

This is due to several important factors:

1. **The market valuation of homes can vary dramatically from city to city.** For example, you can enter a \$250,000 home in Blackduck, MN, which will report a tax burden of \$1,572. However, there are probably few, if any \$250,000 homes in Blackduck, which makes the result from the League's property tax calculator relatively meaningless. Although that is an extreme example, multi-city comparisons could benefit by controlling for these market differences among cities. One way to accomplish this would be to use an average or median value home for each community.
2. **Local market fluctuations or value appeals can influence the taxes paid by an individual property owner, even if the city freezes its property tax levy.** For example, in a city with a large industrial facility whose owner successfully challenges the assessor's estimate of the property's value, the city's property tax rate would rise and tax burdens to other properties would increase solely because of the revaluation of the industrial facility. Likewise, market valuation fluctuations beyond the control of a city can influence on a year-to-year basis the tax burden comparisons among cities.
3. **The state intervenes in the property tax system.** Programs like Fiscal Disparities effectively redistribute local tax base. For some cities, this redistribution increases the effective tax base upon which a city can spread its tax levy and as a result, the city taxes on individual properties are lower. For other cities, such as Bloomington, Fiscal Disparities reduces the city's tax base which has the effect of increasing the city's tax rate and therefore increases the taxes paid by an individual property owner within the city. Controlling for the effects of programs such as Fiscal Disparities can improve the comparison of multiple city clusters.
4. **The state intervenes in budgets of local governments via state aid programs.** Some cities receive a large percentage of their general fund resources from programs like LGA, which allows the city to reduce the property tax levy paid by property owners for the services provided by the city. Other cities like Bloomington, receive little state assistance and therefore fund the vast majority of their operations from property taxes. Controlling for the distribution of state aids among cities can improve the comparison of multiple city clusters.

Why does the City use different types of comparison – average versus median?

❖ ***The Measurement of Central Tendency can have different meanings including mean and median:***

- **Mean: A measure of central tendency. The result of adding all the values of a variable and dividing by the number of values. Also called the "arithmetic mean" and is commonly referred to as the "average".**

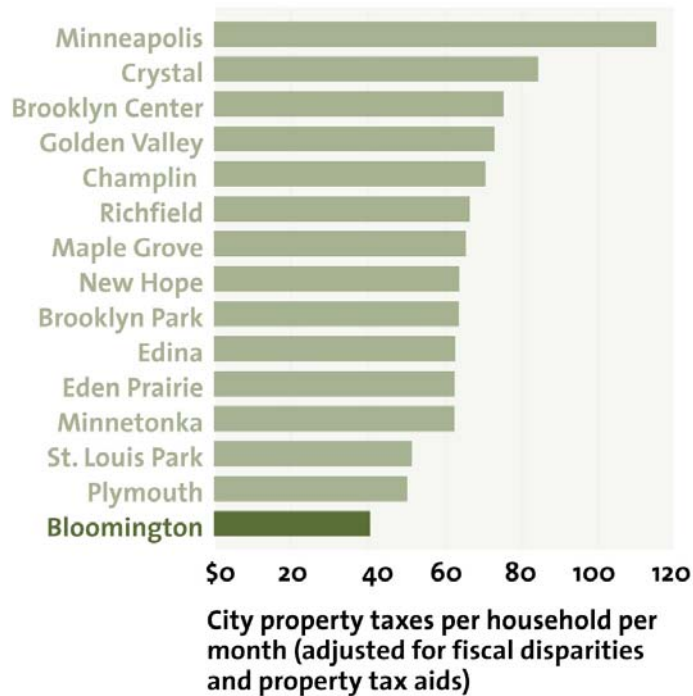
- **Median:** While also a measure of central tendency, it does so in a different manner. The value of the middle item in an uneven number of items arranged or arrayed according to size; a positional average that is not affected by the size of extreme values.

(Both definitions are from the Glossary for Property Appraisal and Assessment, International Association of Assessing Officers.)

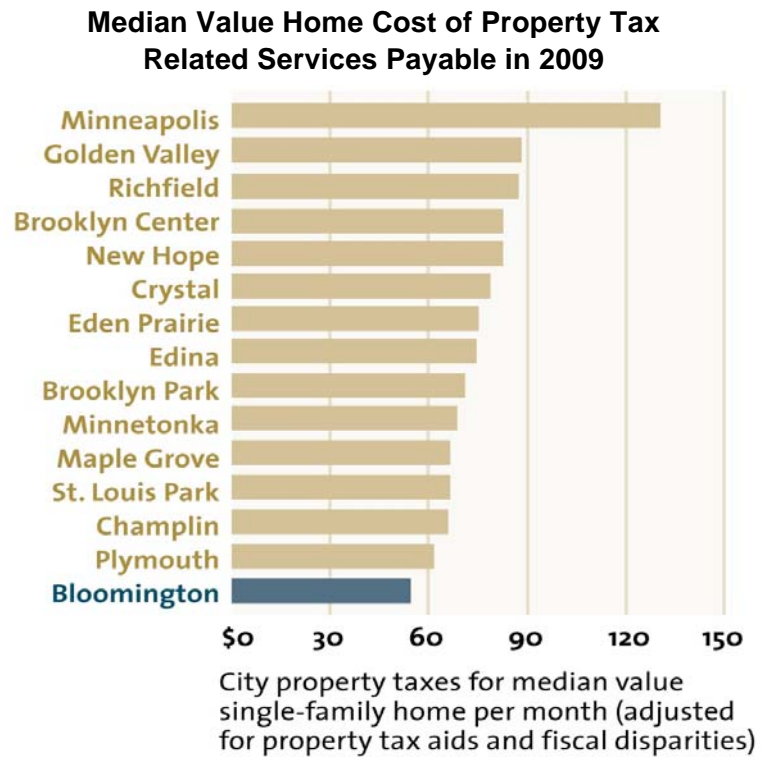
❖ *The City has used four different comparisons utilizing both of these measurements of central tendency as shown online:*

- **“Average Household, Adjusted for Property Tax Aids”** (the longest-used graph). This is a “mean” comparison that is calculated by:
 - Taking the total share of each city’s net tax levy paid by the residential portion (all singles and multiples) of the City’s tax base.
 - Dividing by the number of total households.
 - Adjusting it for property tax aids and fiscal disparities since they also impact the amount of property taxes paid in the community.
 - See State Aids and Fiscal Disparities under the Property Taxes and Market Value section of this document.
 - The cities compared are all within Hennepin County with populations over 20,000.

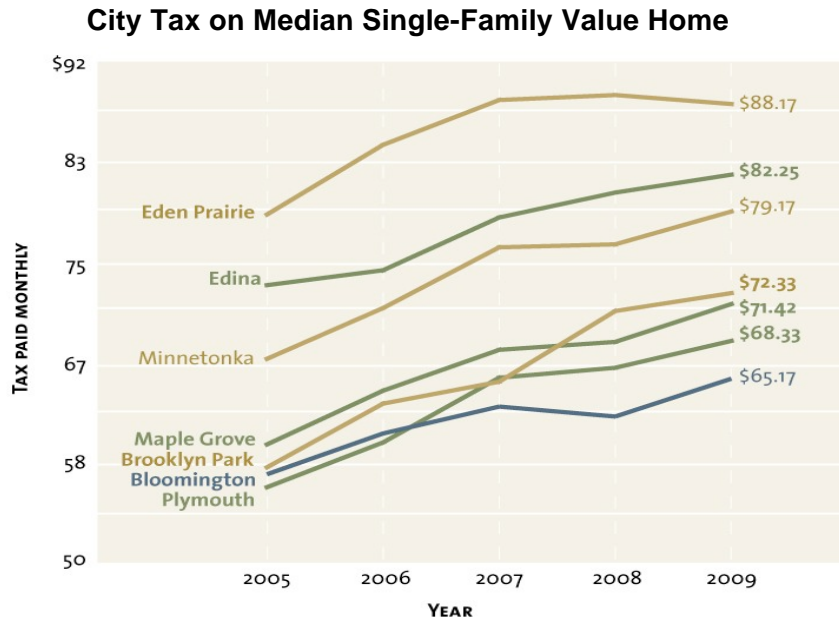
Average Household Cost of Property Tax Related Services in 2009



- **“Median Single-Family Home, Adjusted for Property Tax Aids” (used as of 2008). - This “median” method:**
 - **Uses the value of the home that is in the middle of all the values**
 - **It then adjusts it for property tax aids and fiscal disparities that also impact the amount of property taxes paid in the community.**

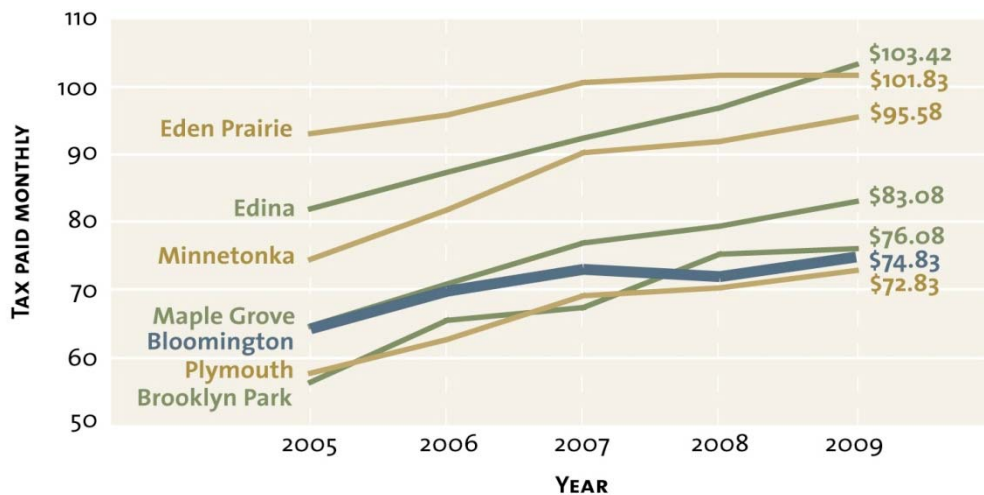


- **“Median Value, Unadjusted for Property Tax Aids”.** This is identical to the one immediately above – just not adjusted for property tax aids or fiscal disparities – so it is comparable to the amount the city uses for its “checkbook” example, a comparison that the City has used since the mid 1990’s.



- **“Average Single-Family City Property Tax”, also unadjusted.** This “mean”:
 - Takes the total share paid by all SINGLE- FAMILY properties in the community
 - It then divides that share by the total number of SINGLE-FAMILY homes in the community.

**Average Single-Family City Tax
Share Comparison**



- This is what each single-family home would pay in property taxes to the City if all were charged the same and really reflects the property tax costs to serve each property.
- ❖ Given the complexity of the Minnesota Tax system, the City uses several methods of central tendency, not to confuse but rather to determine if there is one that differs from the others. Given that all four of these community comparisons correlate well with each other, attest to their greater comparative validity across communities.

Aren't per capita and per household comparisons more appropriate than the City's comparisons?

- ❖ Per Capita Expenditures:
 - Another approach is to compare per capita expenditures from one community to the next. While this may be somewhat relevant if both communities composed solely of single-family residential properties, this approach fails to take into account differences:
 - When communities have a very significant commercial-industrial base, commercial-industrial uses result in additional costs to provide services but they do not add to the population used to allocate the additional costs.
 - It also does not reflect that the majority of property tax costs of city services are a function of a house being on the property and not the number of people who live there.
 - A community with a significant commercial-industrial base (such as Bloomington) may actually have lower single-family residential costs than a community without such commercial-industrial activity – although this would not be apparent in a per capita comparison.

❖ *Household property tax costs:*

- A more accurate approach to compare property taxes and related aids is to determine the cost of City services that the typical single-family property taxpayer pays in each of the communities being compared – BUT ONLY to the extent that it uses the expenditures or property taxes THAT ARE PAID for by those households – not the expenses or property taxes borne by other non-residential properties.

Why does the home value in Council Member Peterson's campaign literature differ from what the City used?

- Council Member Peterson used data from payable 2008 from the Citizen's League that used AVERAGE Single-Family home values.
- In payable 2008 the City of Bloomington used \$247,900 as the MEDIAN and the Citizen's League used \$263,234 as the AVERAGE. The difference is the result of property value distributions in the community.

Community Development Policies

What is the Port Authority and why are they not part of the City Budget?

The Port Authority is the economic development arm of the City and implements the redevelopment and economic development goals established by the City Council. Although the Port Authority has levy authority, it does not levy, nor does it receive funds from the City's general fund levy. The Port Authority is a separate political subdivision established under Minnesota Statutes and is governed by a seven-member commission appointed by the Mayor. Because the Port Authority is a separate political subdivision and it does not receive any support from the City's general fund, the Port Authority is not part of the City's General Fund budget.

Why does the Port Authority have a \$35 million budget?

In 2009 the Port Authority received revenues from tax increment proceeds, lease payments from the City and the Metropolitan Council, and interest earned on fund balances. The Port Authority made expenditures for improvements and bonded debt for public infrastructure at the Mall of America, Bloomington Central Station, American Boulevard LRT station, and 28th Avenue park and ride. The Port Authority budget also includes expenses for staff costs, professional services, interest on internal loans, and the Airport South District Plan.

The 2009 approved budget was larger than actual expenditures since some large projects including a potential hotel at the Mall of America, Mall of America Phase II, and additional residential development at Bloomington Central Station were anticipated when the budget was set but due to economic conditions these projects did not occur in 2009.

***What is the Housing and Redevelopment Authority (HRA)?
Why are they part of the City Budget?***

The HRA is a housing and redevelopment arm of the City engaged in affordable housing programs, neighborhood preservation and commercial and residential redevelopment. The City Council appoints members to the HRA Board to direct these activities.

The HRA budget is not a part of the City's General Fund budget (see additional detail in the answer below).

Why does the Housing and Redevelopment Authority (HRA) have a budget?

Over 55% of the HRA's budget is funded by the Department of Housing and Urban Development for rental assistance to very low income households. Approximately 12.5% is for operating costs such as salaries, benefits, and space and occupancy charges paid to the City. Most of the budget reflects rehabilitation loans, HRA rental home maintenance, rental assistance to low income households and redevelopment activities such as acquisition of blighted properties and properties within redevelopment areas.

Why is there a demand for senior housing in the community?

As part of its comprehensive and strategic planning, the City regularly asks residents for their input on the City's future. For at least the past two decades, a large number of Bloomington residents have indicated they want a range of housing choices in Bloomington when they can no longer want to or are not capable of maintaining their property or navigating such things as the stairs in their single-family homes. Equally, younger Bloomington residents responsible for caring for their parents want senior housing options nearby so that they can do a better job of assisting with their parents' care.

As such, the market for various types of senior housing is a response to the demand of seniors who want or need a different living arrangement. Every senior housing facility constructed in Bloomington has found that a majority of its residents either lived in Bloomington before they moved to the senior housing or the resident has family care givers who live in Bloomington. Usually units in these buildings are completely reserved before the building opens.

There are many reasons why retaining a community's senior population is good for the community and good for them. Organizations such as VEAP, Meals on Wheels, Bloomington Public Schools and Bloomington's religious congregations

rely heavily on senior volunteers and members. Seniors are an important part of the customer base for Bloomington service and retail businesses. Many people who have lived their whole lives in Bloomington have a strong preference for staying in their old neighborhoods when they choose to move into a condo, assisted living or congregate care because it helps them stay connected to their social support networks.

Providing housing options for seniors adds to the City's tax base and provides a home that another, often younger, family with children may move into. This provision of a range of housing types in a city is called life-cycle housing.