Developing for Dollars

The concept of approving new developments to enhance revenue (or not)

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Executive Summary

The City of Troy has seen a rebound in new construction and investment in our community. Both the City Council and Planning Commission have guided development through tough decisions and forward-thinking policy. Yet there are fallacies that persist: 1) as new projects are submitted, approval is eminent due to a desire for new tax revenue; and 2) the City of Troy is now 'flush with cash' because of the abundance of new development.

This report provides answers regarding new development in the City of Troy and analyzes the resulting impacts on valuations and property tax revenues.

1. Taxable Value Changes
    - A. **Total taxable** value *decreased 6%* since 2010

      Residential taxable value *increased 6%* since 2010

      Commercial taxable value *decreased 25%* since 2010
2. Residential Example
    - A. In general, the taxable value of residential homes in northwest , northeast, and central Troy favors the tax paying home owners.
        - West *decreased 6.3%* from 2010-2015
        - Central *decreased 4.5%* from 2010-2015
        - North *increased 1.4%* from 2010-2015
3. Construction Impact on Revenue
    - A. Market Value

      $39,346,792 (2012), $63,331,678 (2013), $36,488,460 (2014)
    - B. Taxable Value of Market Value

      $19,673,396 (2012), $31,665,839 (2013), $18,244,230 (2014)
    - C. General Fund Property Tax Revenue from New Construction

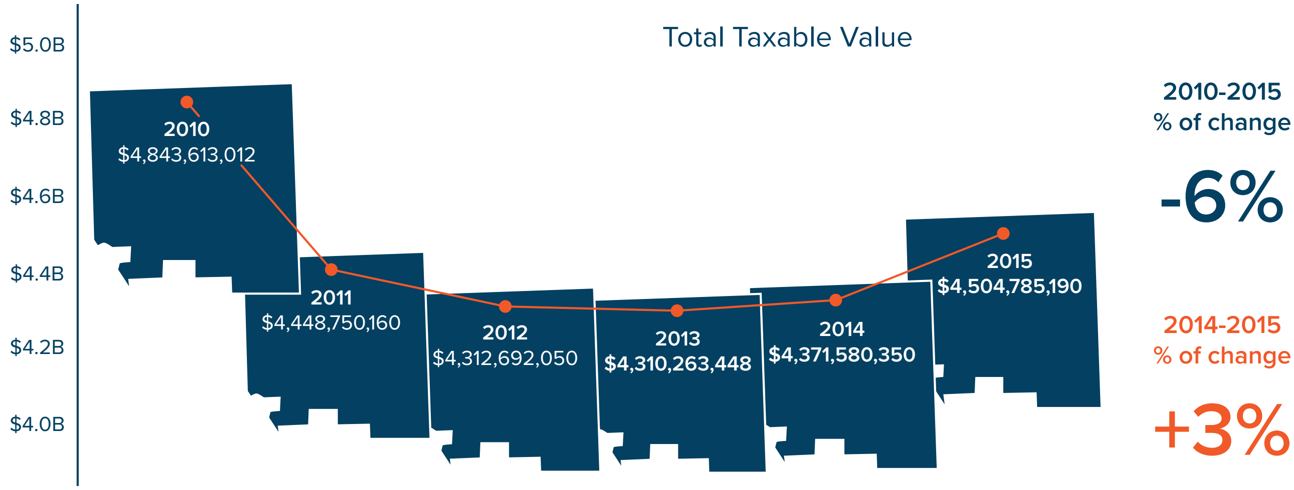
      $127,877 (2012), $205,827 (2013), $118,587 (2014)
4. Commercial Example
    - A. In general, the taxable value of commercial hotels in Troy experienced some of the largest reductions in value in the commercial category.
        - Troy Marriott *decreased 18.4%* from 2010-2015
        - Homewood Suites *decreased 13.4%* from 2010-2015
        - Somerset Inn *decreased 8.7%* from 2010-2015
5. Property Tax Revenue
    - A. General Fund Property Tax Revenue *decreased 18%* from $36,362,515 in 2010 to $29,840,500 in 2015 and is projected at $30,835,600 in 2016.

Simply put, new development generates new property tax valuation but at a level that does not impact a $4.5 billion tax base and in most cases, valuations have not caught up to 2010 levels. So while new developments generate property tax revenue, the increases are de minimis especially when considering the overall property tax revenue stream. The following pages provide data to support this claim and demonstrate why the assumption that approving new developments for the sake of adding new taxable values and the corresponding revenue is flawed.

Developing for Dollars; an in-depth analysis

Taxable Value Changes

It is important to start with an understanding of the magnitude of the city's overall taxable value and changes over the past six years. Note the drop in valuation from 2010 to 2015 resulting from the 2008 crash. Assessing in Michigan requires two year sales data so there is a lag before the tax valuations feel the affects of a weakening housing or commercial market.



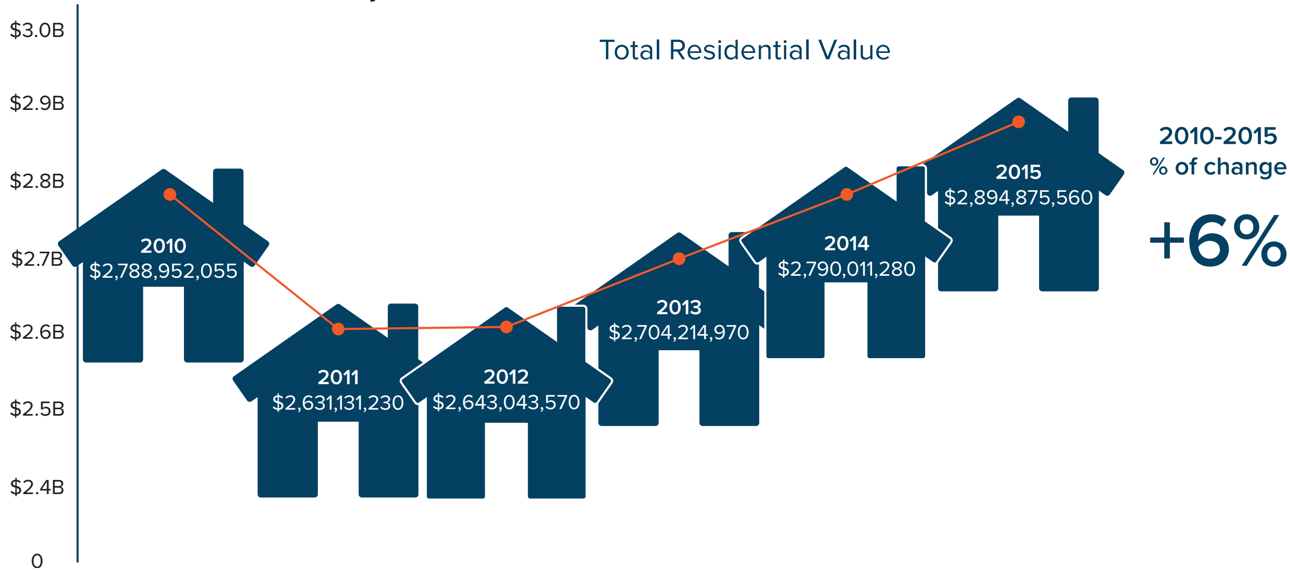
The table demonstrates 2015 valuations are still 6% less than 2010 valuations. Although not depicted, when looking further back, 2015 values are equal to 2001 values ($4,686,250,942). Bottom line, the city is operating (taxing) valuations equivalent to 2001 values. The data from 2014 to 2015 shows a 3% increase which means we are experiencing an upward trend.

Valuation Classifications

Total taxable value is developed by the summation of the following four classifications: 1) residential; 2) commercial; 3) industrial; and 4) personal property. For purposes of importance and brevity, only commercial and residential will be further depicted. These two classifications make up 84% of the total taxable value.

Residential Valuation

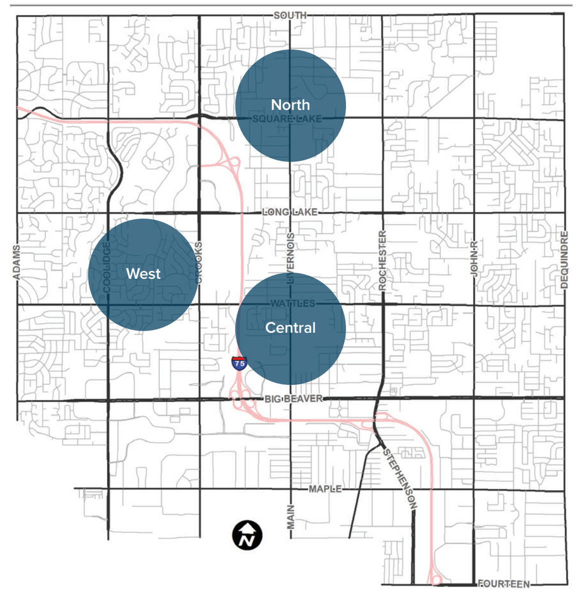
Residential valuation, which makes up 64% of the total taxable value, experienced a small increase since dipping in 2011 and at this time the city is seeing values comparable to those from 2005. For example, the total residential taxable value in 2005 was $2,892,925,590 and in 2015 it was $2,894,875,560. The following table illustrates the residential value's slow recovery.

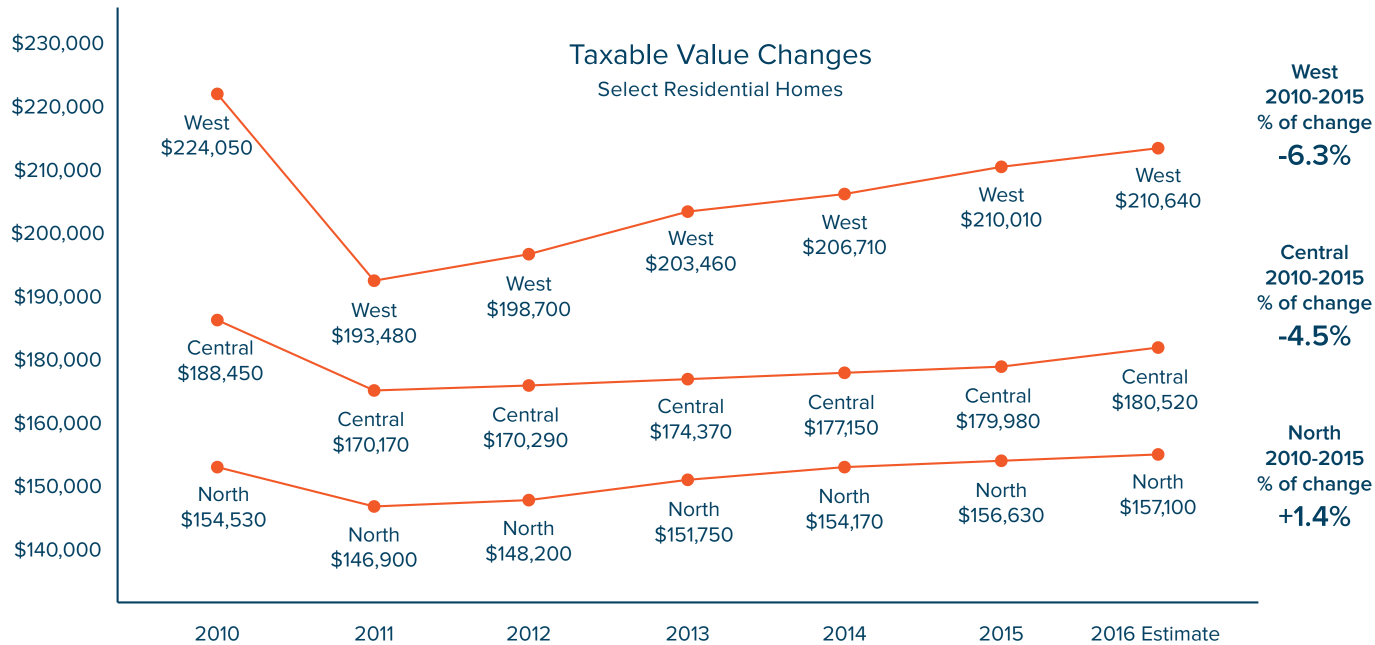


Residential Example

What is the impact on the valuation of an individual's residential property in Troy? The following three randomly identified residential properties in Troy demonstrate the reality. Examples of residential properties were taken from the north, west, and central sections of the city.

Note: This does not answer the belief held by some that they pay too much in taxes. That is a separate issue and would require a comparative analysis.





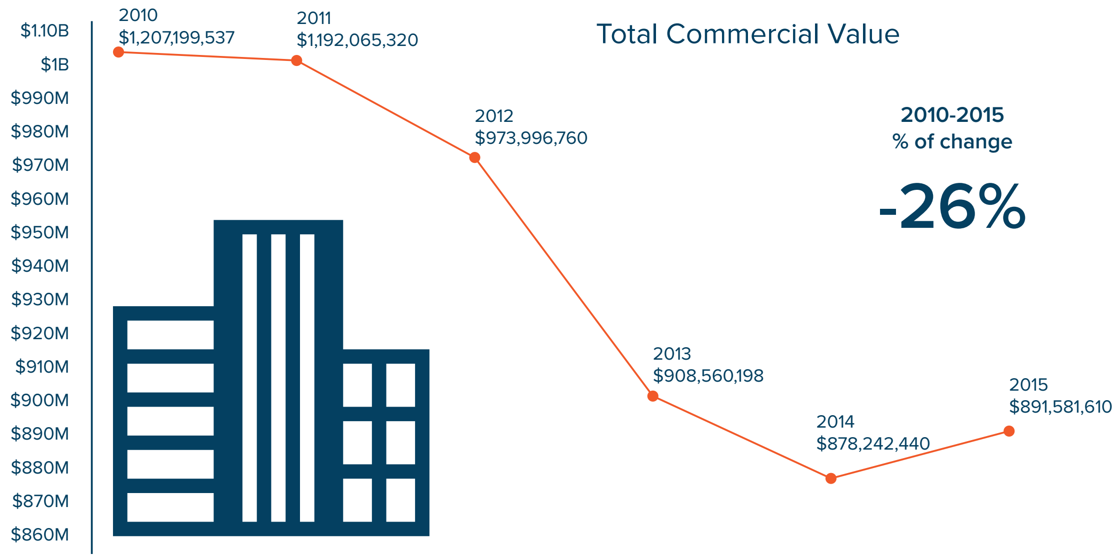
Residential homeowners who did not move during the 2010–2016 years have not seen significant changes in taxable value in a way that would significantly affect the property owners tax bill. The following table shows what each of these homes paid in City of Troy taxes in 2010 and 2016.

City of Troy Taxes			
	2010 *(9.28 Mils)*	2016 Estimate *(10.50 Mils)**	Change
West	$2,079.18	$2,211.72	+ $132.54
Central	$1,748.82	$1,895.46	+ $146.64
North	$1,434.04	$1,649.55	+ $215.51

*1 Mil for Troy Public Library operations starting in 2011

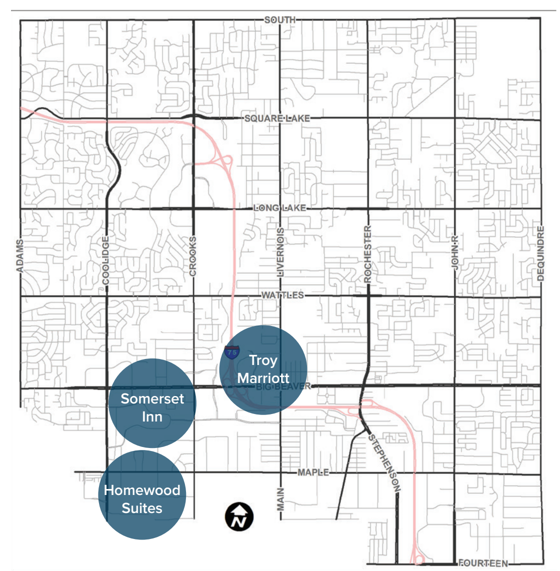
Commercial Valuation

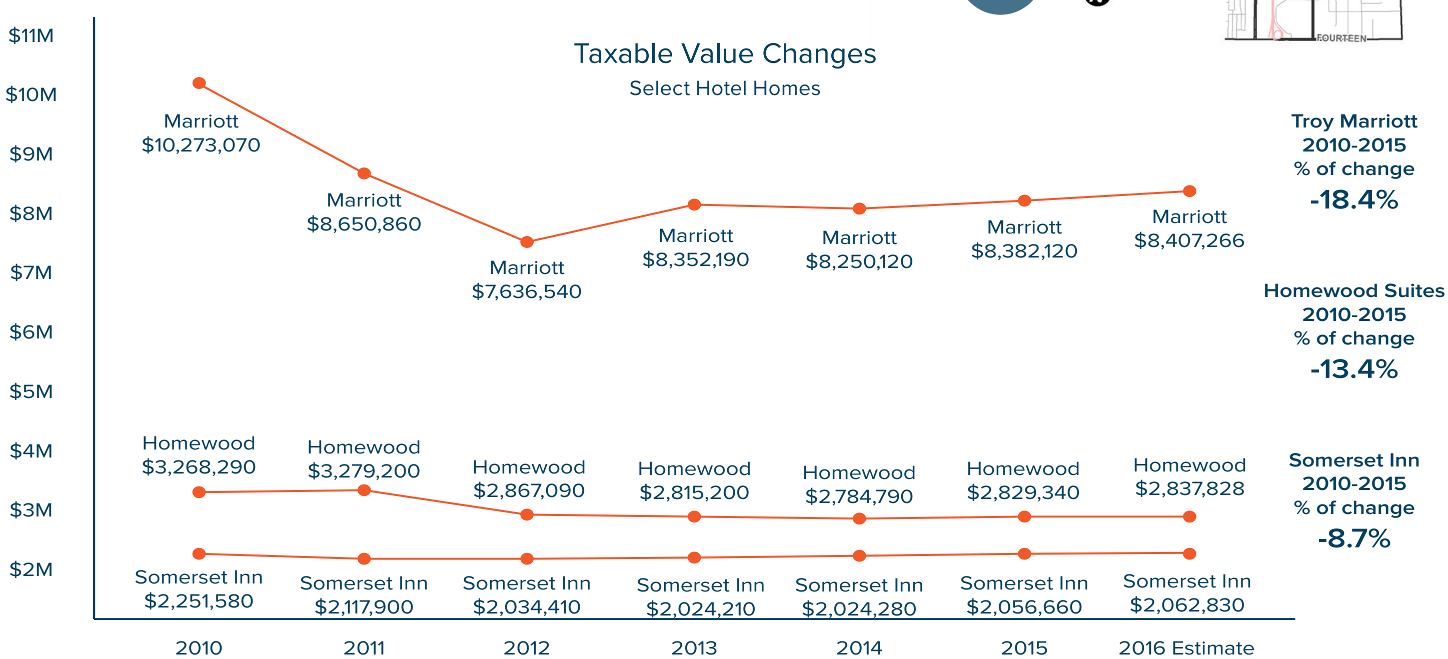
The largest reduction in taxable valuation is in commercial property, which makes up 20% of total taxable value. Interestingly, the city's commercial taxable value for 2015 of $891,581,610 is close to 1997 levels of $893,495,360. At the height of the city's commercial taxable value in 2008 the valuation was $1,399,118,520. The following graph depicts the major drop in commercial valuation. Currently, the commercial vacancy rate in Troy is 20%. However, as office space fills up, the added value may only increase 5% or the rate of inflation, whichever is less. In 2016, the rate of inflation is .3 of 1%, or virtually no increase at all. Note: the same .3 of 1% applies to residential property.



Commercial Example

Like the residential market, the landscape of Troy's hotel market has experienced change. The following three randomly identified hotel properties in Troy investigate the flux.





With the exception of one measurable drop over a two year period there have been no significant changes in hotel valuation from 2010–2016. The overall impact on City of Troy paid taxes is shown in the table below.

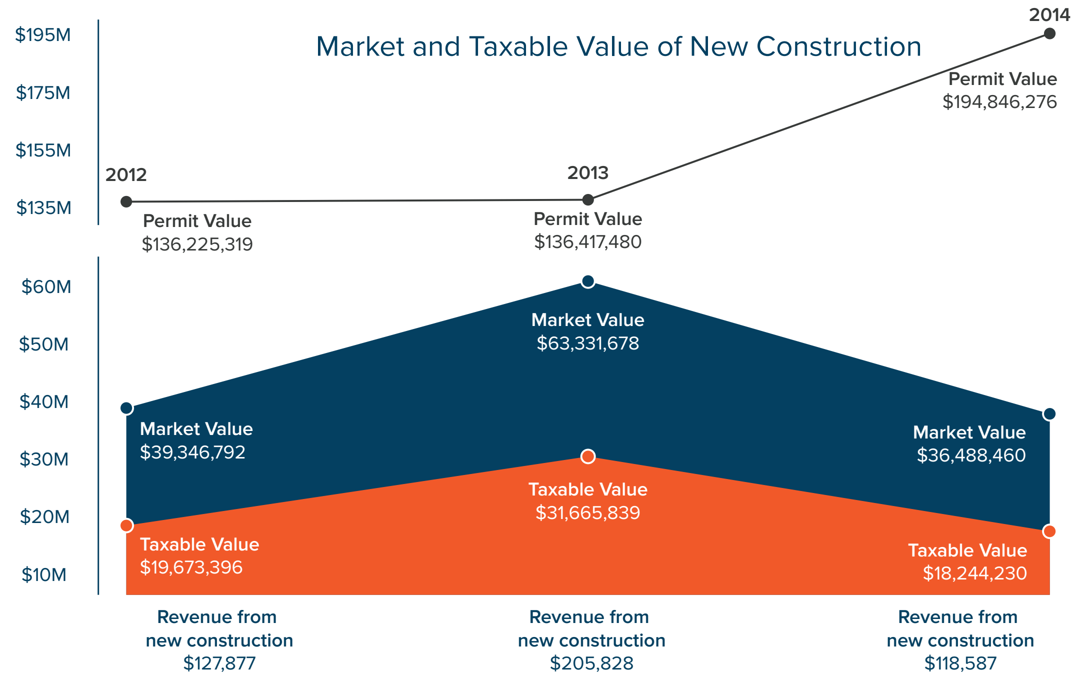
City of Troy Taxes			
	2010 *(9.28 Mils)*	2016 Estimate *(10.50 Mils)**	Change
Troy Marriott	$95,334.09	$88,276.29	- $7,057.80
Homewood Suites	$30,329.73	$29,797.19	- $532.54
Somerset Inn	$20,894.66	$21,659.72	+ $765.06

*1 Mil for Troy Public Library operations starting in 2011

Financial Impact of New Development

Now that we have an understanding of the valuation limits the city has to work under, we have to test the premise of how new development moves the needle on the city's $4.5 billion total taxable value.

New building construction valuation during 2015 through September is $135,138,351. With the history of construction valuations, we will look at the market and taxable values from an approximate value of $150,000,000 in new construction.



In 2012, of the approximate $150,000,000 in new construction, only $39,000,000 were improvements that are classified as market value improvements. Of the $39,000,000 in market value improvements only half is taxable value and therefore taxed by the city. So why the discrepancy between building construction value and market value?

Many permitted constructions costs do not generate taxable value in a mass appraisal system. For example; residential replacement items such as hot water tanks, furnaces, air conditioning, roofs, driveways, fences, certain types of sheds, patios without footings, remodeled kitchens and baths, siding, new windows, some types of flooring, updated electrical systems. There are many similar items on commercial or industrial building that must have a permit for work to be done and yet they do not generate taxable value.

In 2012, a $19,673,396 taxable value from new construction represents .4% of $4.5 billion. The 2013 taxable value of $31,665,839 represents .7% and finally in 2014 a $18,224,230 taxable value represents only .4% of the total

$4.5 billion total taxable value of the City of Troy. The table also depicts the range of new revenue generated from construction from $115,000 — $205,000. The question is, "at these percentage increase, does the new value move the total taxable value needle?"

Property Tax Revenue

In 2010, the General Fund property tax revenue was $36,362,515 and in 2015 property tax revenue was $28,006,400. This is a difference of $8,356,115 or a 23% reduction.

General Fund Property Tax Revenue					
2010	2011	2012	2013	2014	2015
$36,362,515	$32,550,859	$30,424,031	$27,635,285	$27,759,372	$28,006,400

The total General Fund budget is $55,000,000, thus property tax revenue makes up 54% of the total General Fund. A significant decrease in property tax revenue greatly impacts the overall total General Fund budget and ability to provide current and higher levels of service.

If we examine the tax revenue generated from new construction as a percentage of the $55,000,000 General Fund budget we see the following:

General Fund New Construction Tax Revenue		
2012	2013	2014
.2% ($127,877)	.3% ($205,828)	.2% ($118,587)

Findings

As the data proves, the general perception that all the new construction in Troy is generating significant amounts of spendable income is not represented by the tax revenue generated from new construction.

Residential valuations dropped in 2010 but are recovering slowly. Commercial properties saw the largest reduction in taxable valuation with a significant decreases from 2010 to 2014.

Developing for dollars is not the reason new projects are approved because new building construction has little impact on property tax revenue.