

**City Council Agenda Item #14D
Meeting of March 7, 2011**

Brief Description: 2011 Assessment Report

Recommended Action: Receive the report

Background

The assessing division has completed its work on the 2011 property assessment, and a report on the assessment results is enclosed for council review. Staff will present a brief summary of this report and 2011 property tax information at the March 7 council meeting, to afford the council the opportunity to ask questions.

Hennepin County is expected to start mailing property tax statements for 2011 the first week of March. City staff will mail market value notices to property owners on Monday, March 7, 2011, with the 2011 market value information for property taxes payable in 2012.

Recommendation

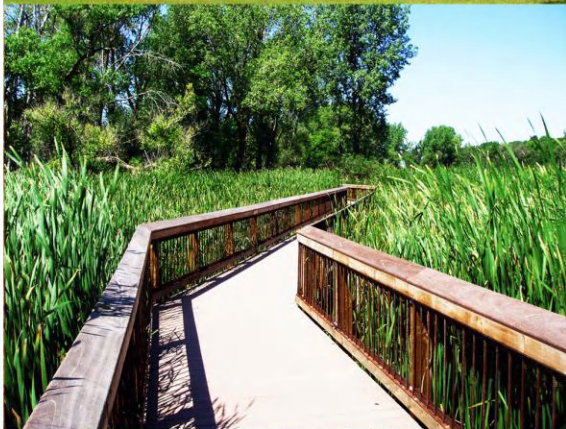
Staff recommends the council receive the 2011 report. No formal action is required of the council.

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2011 ASSESSMENT REPORT

City of
minnetonka

Where quality is our nature



2011 ASSESSMENT REPORT

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SUMMARY

The 2011 property assessment has been completed, and property owners will receive a Notice of Estimated Market Value in early March. The 2011 property assessment applies to property taxes payable in 2012 and reflects market conditions between October 2009 and September 2010.

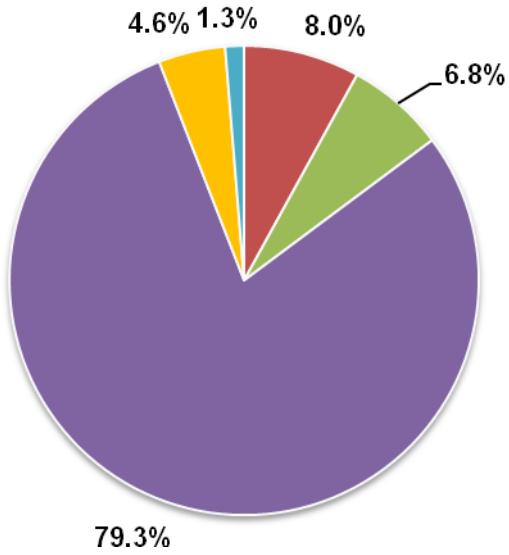
Key points of the 2011 property assessment include:

- The **total estimated market value** for Minnetonka in 2011 is \$7.69 billion, a **decrease of \$116 million, or 1.48 percent**, from the \$7.81 billion total in 2010. Approximately 71 percent of the total market value comes from single-family property, while 29 percent comes from commercial, industrial, and apartment properties.
- **2011 market value changes** are listed below for the major property classifications:

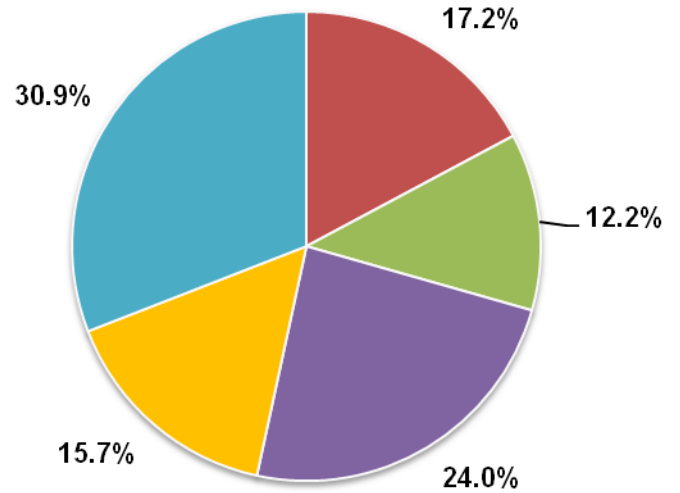
	Average Change	Total \$ (millions)
Single-family residential	- 2.32%	- \$105.5
Lakeshore	- .43%	- \$ 0.6
Townhouses	- 3.89%	- \$ 19.5
Condominiums	- 6.28%	- \$ 21.2
Other Multi-family	- 3.50%	- \$ 2.3
Commercial	+ .19%	+\$ 2.9
Industrial	- 1.40%	- \$ 3.7
Apartments	+2.56%	+\$ 11.5
New Construction	N/A	+\$ 22.4
Total		-\$ 116.0

- Distribution of the 2011 percentage changes in value by residential property type:

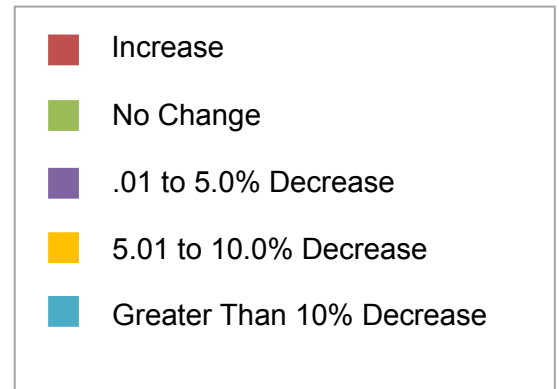
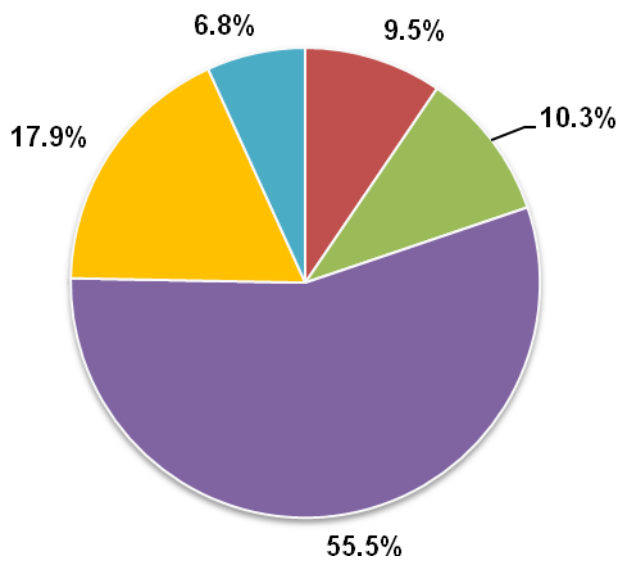
Single-Family



Condo

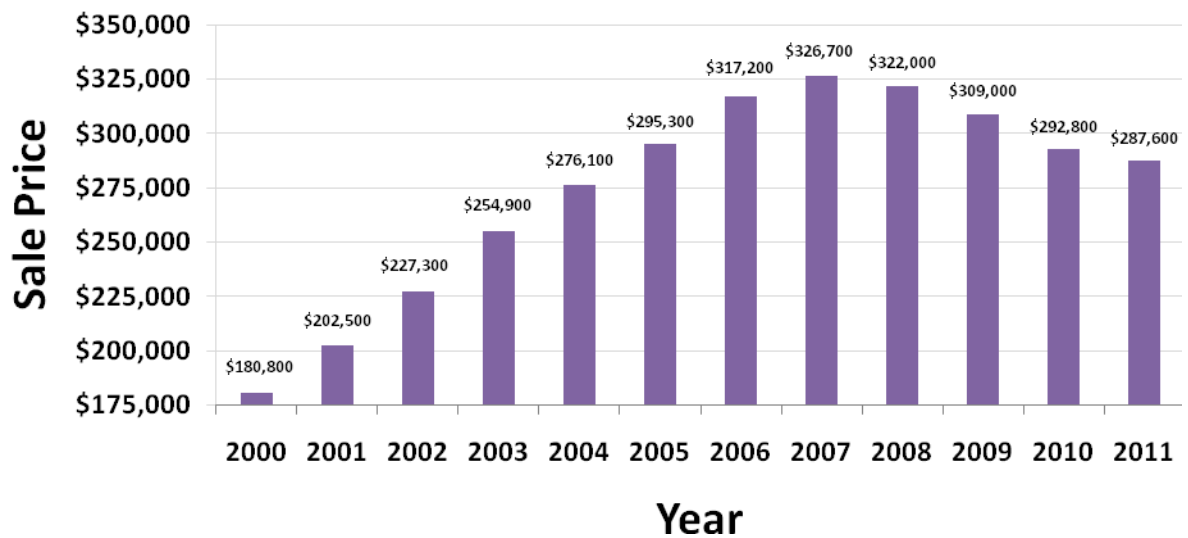


Townhome



- Comparisons with other cities for 2011 indicate **most of the southwestern suburban cities are adjusting residential properties by -2.3 to -3.7 percent**. With an overall estimated average of **-3.0 percent** for the area, Minnetonka's adjustments are consistent with those of most neighboring communities.
- **Historical perspective** - The median value of single-family homes in Minnetonka for the 2011 assessment period decreased by 1.8 percent. The 2010 median value was \$292,800 and dropped to \$287,600 for 2011. Assessment year 2010 represented the largest drop in median value, (5.2 percent), since the market began to decline in 2007. The smaller decline in 2011 may indicate the beginning of a stabilizing market. Homes valued under \$175,000 and over \$1,000,000 saw the largest decreases in value for assessment year 2011.

Minnetonka Median Value 2000 - 2011



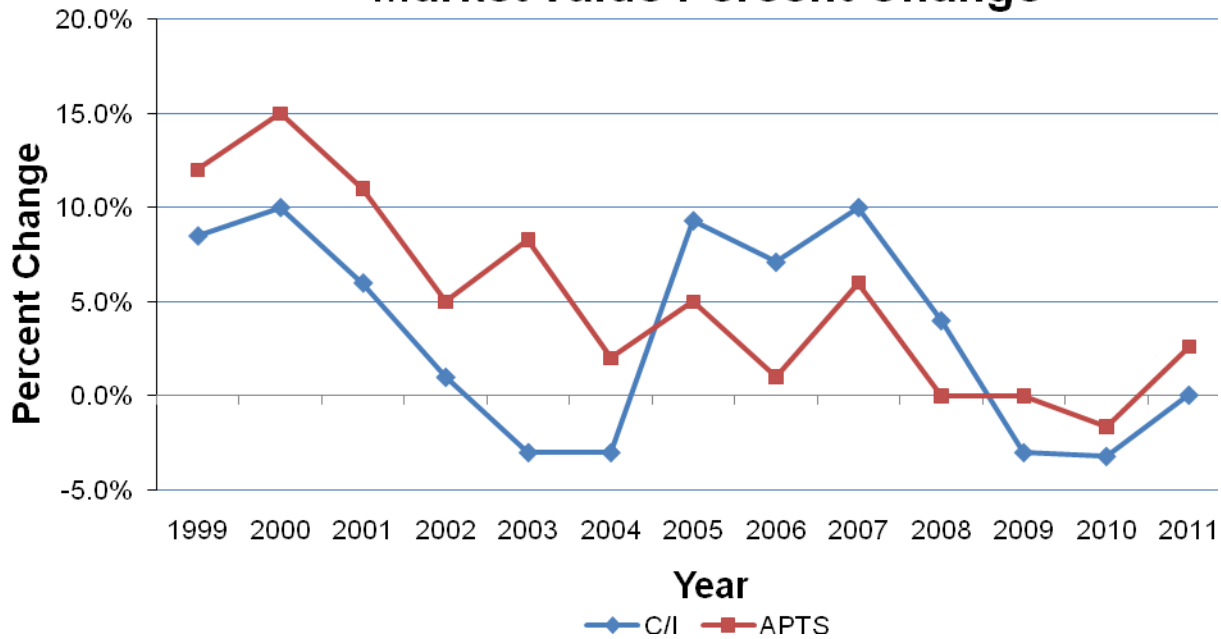
- The volume of sales in the city is down greater than 50 percent from 10 years ago. The decrease in sale volume makes for a more challenging assessment when you have less data to analyze. While properties require longer marketing times, the median sale price has increased from \$295,000 to \$325,000 in 2011.
- **Impact of Foreclosures** - Department of Revenue and Hennepin County standards require that lender-mediated sales such as foreclosures and short sales are excluded from calculating the overall adjustments to the city's property market values.

Nonetheless, lender-mediated or forced sales in Minnetonka comprised 25.9 percent of the market during 2010 as compared with a Twin Cities

metro wide average of 40 percent. For Minnetonka, this is down compared to 30 percent in 2009. **The 161 residential foreclosures in the city**, during last year represent just over one percent of the entire residential housing stock.

- For 2010, **apartment and commercial/industrial properties** as a whole increased in value. After each sector was individually reviewed, apartment properties as a group received a 2.6 percent increase and commercial/industrial remained virtually unchanged with an overall increase of less than 0.1 percent.

Commercial/Industrial and Apartment Market Value Percent Change



- The **accuracy and equity of the property assessment** are evaluated through two statistical measures: the sales ratio and the coefficient of dispersion (COD). The sales ratio is the assessor’s estimated market value divided by the actual selling price. For 2011, Minnetonka’s overall sales ratio is 94.9 percent, indicating a very accurate assessment. The COD measures how far the assessor’s market values deviate from the median ratio. For 2011, the COD is 3.6, which demonstrates an equitable assessment.
- Annual standards of measurement mandated by the Department of Revenue and enforced by Hennepin County tightly **constrain the flexibility staff has to make adjustments** to property values.
- The **appeals process** is a key aspect of the annual property assessment. Residents having questions about their 2011 Notice of Estimated Market Value are urged to contact the assessing division. This allows staff to discuss the

property characteristics and, where needed, conduct an on-site review. Property owners must contact the assessing division by April 1, 2011, to appeal their value to the Local Board of Appeal and Equalization, which convenes April 18, 2011.

While the contents of this report will remain substantially correct, the final assessment will continue to change until all appeals are complete, which may take several years.

- **Public information** about the property assessment process is provided in the March 2011 *Minnetonka Memo*, on the city's web site, and in brochures distributed by the assessing staff, as well as direct discussions during their on-site reappraisal visits. The web site will be updated this spring and will contain information from this report.

STATUTORY REQUIREMENTS

General

Minnesota law establishes specific requirements for the entire property tax system, including the assessment of property (M.S. Chapter 273). These requirements have not changed during the past year. The law requires the following:

1. All real property is to be valued at market value, which is defined as the usual or most likely selling price. Special qualified exclusions such as the veteran's exclusion are subtracted from the market value to arrive at the taxable value.
2. Property is classified according to state law, and the tax capacity amount is calculated. (See table on next page, "Tax Capacity Rates for Property Taxes Payable in 2010.")
3. The tax capacity is multiplied by the tax rate (the total of county, school, city and miscellaneous levies) to determine the amount of property tax.
4. Credits for certain property classifications, such as homestead and agricultural properties, are then subtracted to yield net taxes due.

The annual property assessment focuses on the very first step of this process – establishing an estimated market value for each parcel of property. Market values are assessed locally by the city or township assessor, if there is one, or by the county assessor. The work of the local assessor is monitored by the county assessor, whose work is in turn monitored by the Minnesota Department of Revenue. The monitoring agency is authorized by law to adjust the property assessment to help ensure county-wide and state-wide equalization of property assessments.

As a result, Minnetonka and other Hennepin County cities must regularly report to the county assessor, who has established the standard that local property assessments reach at least 95 percent target ratio of actual market values to sale prices. At times, local assessments have been adjusted by the county assessor or the State of Minnesota to meet this standard.

State law also requires that each individual property be inspected by the assessor at least once every five years. As a result, Minnetonka and other cities set up rotating appraisal schedules to ensure that this requirement is met.

Tax Capacity Rates for Property Taxes Payable in 2012

Residential Homestead:	
First \$500,000 of value	1.00%
Amount over \$500,000	1.25%
Rental Housing:	
First \$500,000 of value	1.00%
Amount over \$500,000	1.25%
4 or more units	1.25%
Commercial/Industrial:	
First \$150,000 of value	1.50%
Amount over \$150,000	2.00%
Seasonal Residential:	
First \$500,000 of value	1.00%
Amount over \$500,000	1.25%

Veterans Exclusion

The 2008 State legislature amended the homestead law that provides a market value exclusion for all or a portion of property used as a homestead by a military veteran who has a service-connected disability of 70 percent or more. To qualify, a veteran must have been honorably discharged from the United States armed forces and must be certified by the United States Veterans Administration as having a service-connected disability. A veteran who has a disability rating of 70 percent or more qualifies for a \$150,000 market value exclusion

A veteran who has a total (100 percent) and permanent disability, qualifies for a \$300,000 market value exclusion. To receive this valuation exclusion, a property owner must apply to the assessor by July 1 of the assessment year. The exclusion is a one-time application, and the property continues to qualify until there is a change in ownership. If a disabled veteran qualifying for a valuation exclusion predeceases the veteran's spouse, and if upon death of the veteran the spouse holds the legal or beneficial title to the homestead and permanently resides there, the exclusion shall carryover to the benefit of the veteran's spouse for one additional assessment year or until such time as the spouse sells, transfers, or otherwise disposes of the property, whichever comes first.

Currently, for the 2011 assessment, there are 52 properties in Minnetonka that have made application for this exclusion, with a total of over \$6.0 million in market value being excluded for taxes payable in 2012.

This Old House

Since 1993, state law had provided for a deferral of a portion of the market value added to older homes through new improvements. Since its inception, the “This Old House” law underwent many revisions. The law was phased-out beginning with the 2003 assessment, and no additional properties can be enrolled in “This Old House.” The last version allowed deferrals for:

- 50% of the first \$50,000 of improvements to homes over 45 years old.
- 100% of the first \$50,000 of improvements to homes over 70 years old.
- Total market value of the property must have been less than \$400,000 at the time the permit was issued.

In the fall of 2002, the staff of the Minnetonka assessing division notified all eligible property owners that had building permit activity of this change, and reminded them that the projects needed to be complete as of January 2, 2003, the sunset date.

For the 2011 assessment, 211 properties still have qualifying improvement amounts totaling \$2,595,200 that will be deferred. Properties that had previously qualified and received a deferral will remain in the program until their 10-year exemption is complete.

The 2011 assessment year is the seventh year for phasing-in the excluded values on properties that were eligible for the This Old House program in 1993. For properties with exclusions over \$10,000, the excluded value is phased in over a five-year period, at 20 percent per year. For improvements less than or equal to \$10,000, the excluded value is phased back in over two years, at 50 percent per year. For the 2011 assessment 51 properties were eligible for the first year phase-in, resulting in the amount of their exclusion for 2011 being adjusted accordingly. By 2013, all of the properties with deferred values will have started being phased back in, and in 2017, all of the excluded value will have been added back.

ESTIMATING MARKET VALUES

The purpose of the assessment process is to make an accurate estimate of the market value of each parcel of property, every year. Doing so requires current information about the properties being assessed and the local real estate market.

Property Data

The Minnetonka assessing division maintains a record of every property in the city, including its size, location, physical characteristics, and condition. This record is updated whenever new information becomes available – as the result of the five-year reappraisal, when improvements are made to the property, or when a physical review is requested by the property owner. This information is electronic, allowing statistical comparisons of properties by type and location.

It is important to know that assessors must, out of necessity, use a **mass appraisal process** for valuing residential property, and the mass appraisal process is different from the individual appraisal system used by banks, mortgage companies and others. The mass appraisal system used in Minnetonka involves the comparison of thousands of properties with the actual residential market sales from the same district, and market sales of the same quality and type of property throughout the city. New houses, additions, and remodeling are valued based on their individual characteristics and the current costs of construction.

Sales Data

Having the local assessment system operate effectively requires as much information about the local real estate market as possible. The assessing division makes a record of all property sales, using the Certificate of Real Estate Value (CRV) filed at Hennepin County for each property sale. This information is augmented with sales information obtained regularly from the Multiple Listing Service (MLS) and other sources.

The assessing staff also examines multiple sales – properties that have sold more than once over a period of years. After taking into account any physical changes that may have occurred, the assessor is able to determine what is happening to the real estate market over that period of time. In all cases, the sales information collected by the assessing division is closely scrutinized. Evidence suggesting a forced sale, foreclosure, a sale to a relative, or anything other than an arms-length transaction requires the sales to be discarded from the sales study. This is important, because the real estate sales information constitutes the database for the statistical comparisons necessary to make the property assessment.

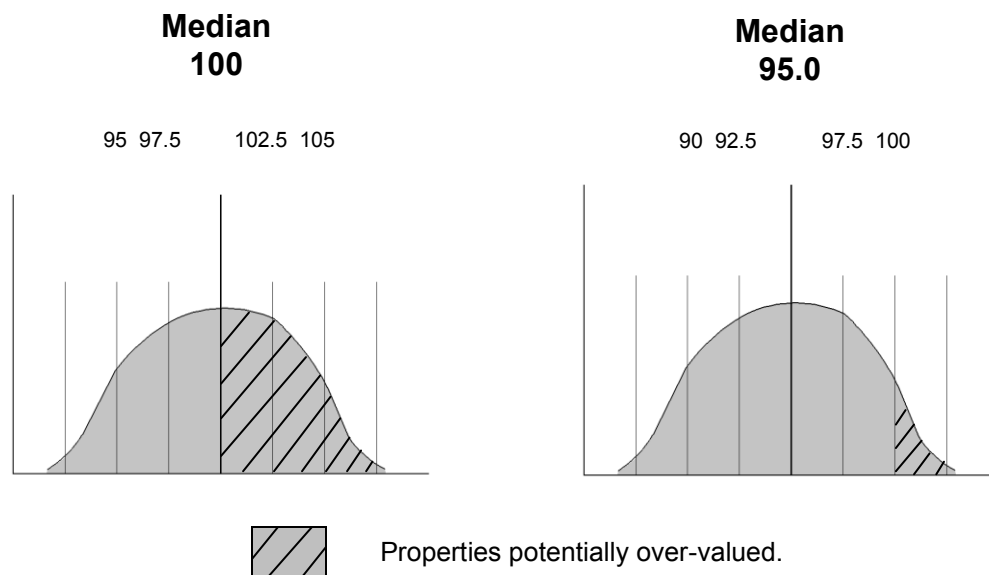
Sales Ratio Standard

The accuracy of the assessing division's estimated market values is measured by the **sales ratio**, which is simply the assessor's **estimated market value divided by the actual selling price**. For example, a house having its estimated market value assessed at \$285,000 and an actual selling price of \$300,000 gives a sales ratio of 95 percent ($\$285,000 / \$300,000 = 0.95$). For cities in Hennepin County, the accepted

range for the median sales ratio measurement is 90 to 105 percent. In other words, the median (or midpoint) of the sales ratios for all properties sold should fall within 90 to 105 percent. **Minnetonka's 2011 assessment results in a sales ratio of 94.9 percent.** The target ratio defined by Hennepin County for each residential property type over the past decade has been 95 percent. **For 2011, Hennepin County set the median ratio target at 95 percent, allowing an additional slight deviance if necessary.**

A sales ratio of slightly less than 100 percent is desirable in order to avoid having a great many properties valued at more than their actual market value. If the median sales ratio were at 100 percent, as shown at the left below, it would mean that half the properties were assessed at less than market value and half were higher, with too many over the actual market value. On the other hand, as shown at the right below, a sales ratio of 95 percent means half the properties are below 95 percent of actual market value, half are higher, and a relative low number are valued by the assessor at more than actual market value. Therefore, the acceptable range is 90 to 105 percent, with a target of 95 percent.

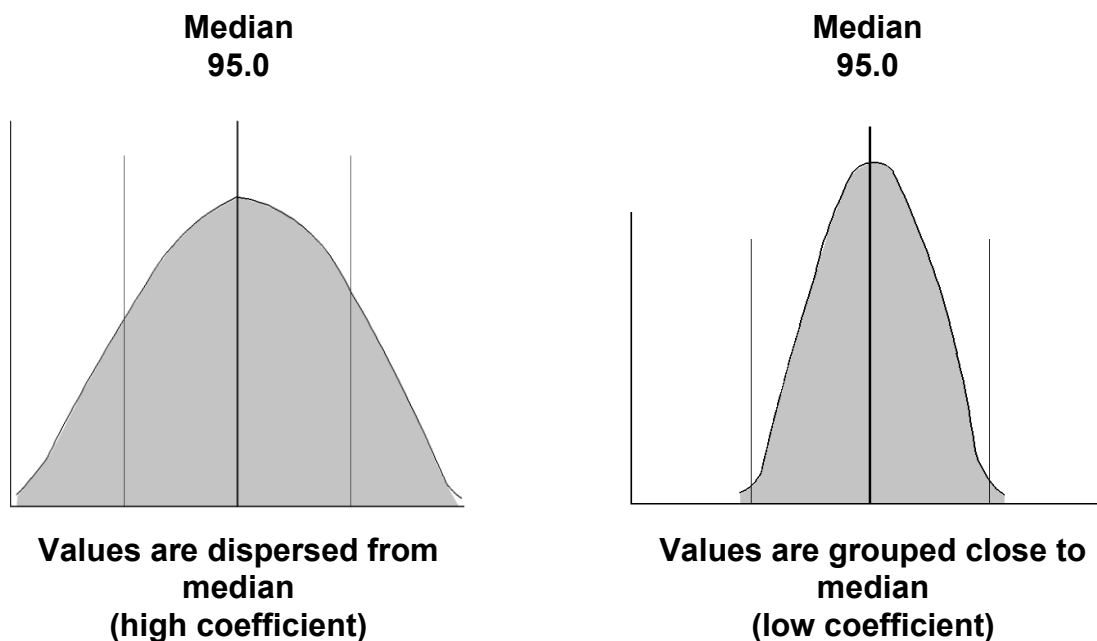
Sales Ratio



Coefficient of Dispersion Standard

A measure of the equity of the property assessment is the **coefficient of dispersion**, which measures **the average deviation or dispersion from the midpoint, or median.** The more closely the assessor's values are grouped around the midpoint, the more equitable the assessment. This is true because relatively few properties have been valued too high, or too low, compared to actual selling prices. For the annual property assessment, a coefficient of dispersion of less than 15 is deemed acceptable and less than 10 is considered excellent. **Minnetonka's 2011 assessment reflects a coefficient of dispersion of 3.6.**

Coefficient of Dispersion



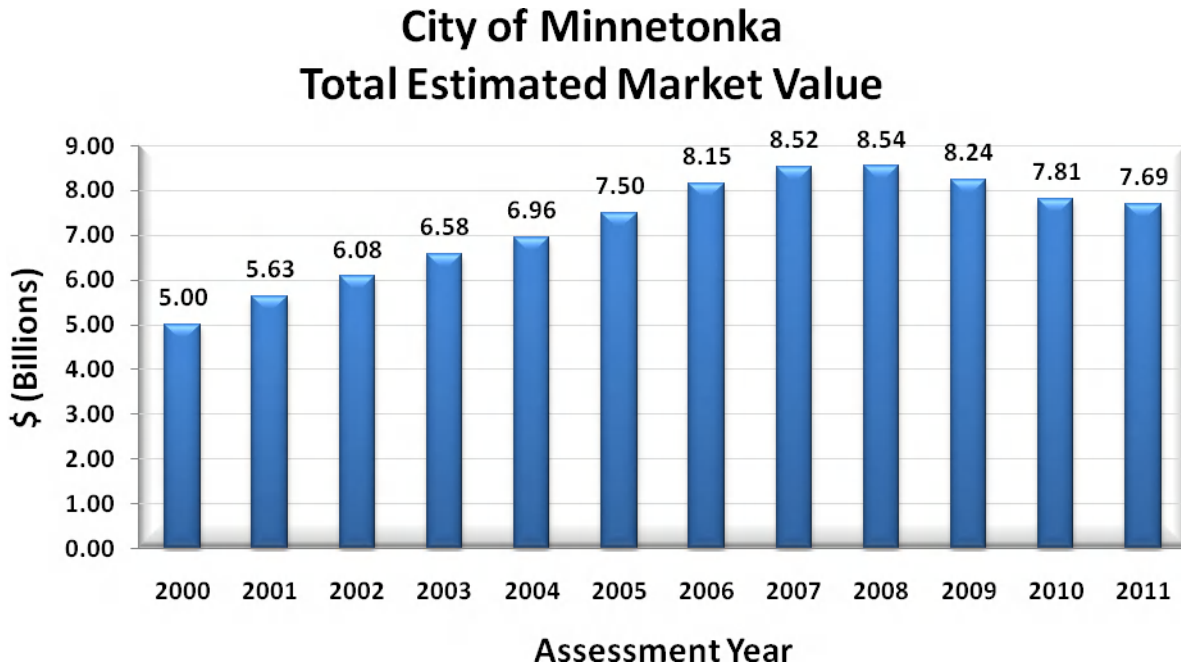
Minnetonka Historical Sales Ratios and Coefficients of Dispersion											
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sales Ratio	95.3	95.4	95.6	95.8	96.0	96.3	96.5	96.5	94.7	95.0	94.9
COD	5.3	5.4	5.2	4.9	5.2	5.2	4.6	4.4	4.2	4.1	3.6

Review Process

The review process is a key aspect of the mass appraisal system. Because some properties receive statistic-based adjustments to market value, the review allows the assessing staff the opportunity to individually examine certain properties. Where there is evidence a property has been overvalued or valued inequitably, its market value can be readjusted to an appropriate amount.

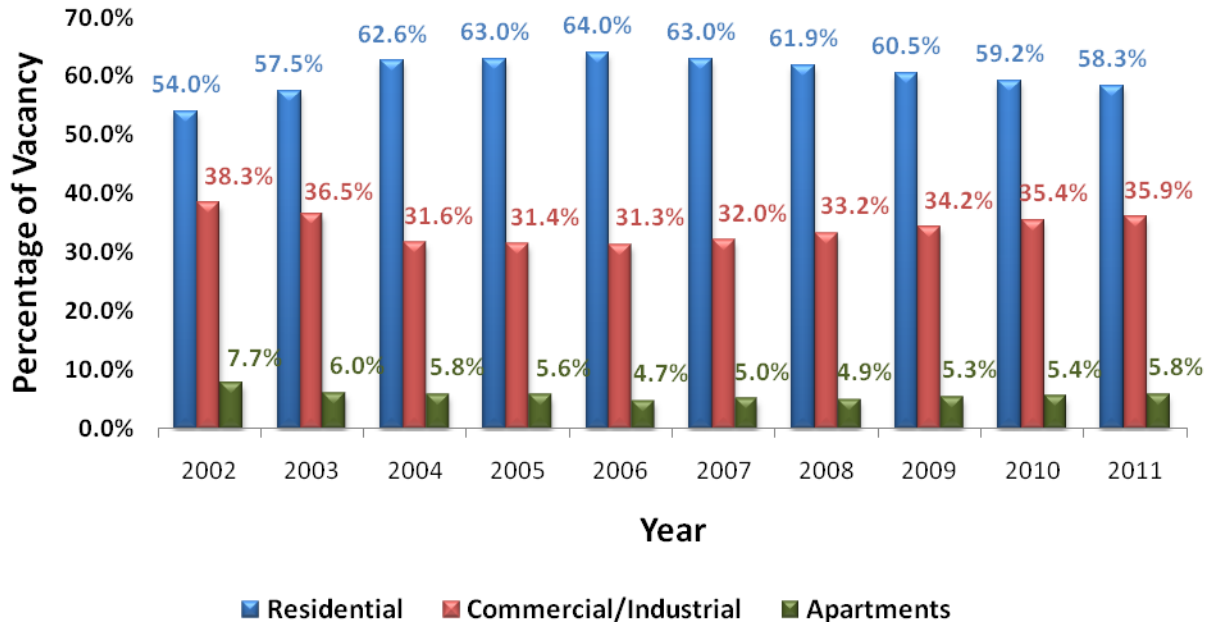
HISTORICAL CHANGES IN MARKET VALUE

Minnetonka has typically experienced steady growth in the market value of real property in the community since the early 1990's. This has occurred through the construction of new single-family, multi-family and commercial properties as well as the appreciation of existing properties. As depicted in the chart below, the city's 2009 assessment market decline was the first time this has occurred and is a direct reflection of the difficult economic climate, which continued into 2010 and 2011.



The property tax capacity of a city is strictly structured by state law and is the basis for determining property taxes to be paid by each parcel. Therefore, the proportions of total tax capacity divided among the major property classes determine the distribution of property tax burden. Single-family residential property represents by far the major portion of total tax capacity in Minnetonka, followed by commercial/industrial, multi-family, and other classes of property. As depicted in the following chart, this will be the fifth consecutive year that there will be a slight shift in the tax burden from residential properties to commercial, industrial, and apartment properties.

City of Minnetonka Tax Capacity by Property Class



THE 2011 RESIDENTIAL ASSESSMENT

In the city of Minnetonka, 96 percent of the 19,643 assessed parcels are residential. The assessing staff uses city-wide comparisons of similar styles, quality, and classes of homes in making the annual property assessment. As described below, this comparison results in the same market value adjustment being made to like properties throughout the city. For example, a moderately-sized, three-bedroom rambler in the northeastern part of the city is valued based on the actual sale prices of similar ramblers throughout the city, rather than solely by the sale prices of all types of homes in its geographic area.

This system can be applied to all styles of houses (rambler, two-story, etc.) and allows the appraiser a substantial range of judgment in setting the quality/class for a particular house. When the quality/class has been determined, the appraiser applies a prescribed dollar rate to the square footage of the house, and then adds or subtracts other amounts depending upon the specific features and characteristics of the house.

Most single-family properties are grouped into geographic districts for the purpose of conducting the periodic physical appraisal of properties. Quality/class features are re-examined at that time, along with other characteristics of the house. In some cases, markets within specific homogeneous neighborhoods in a district can be studied as discrete markets. This permits improved accuracy in the assessment.

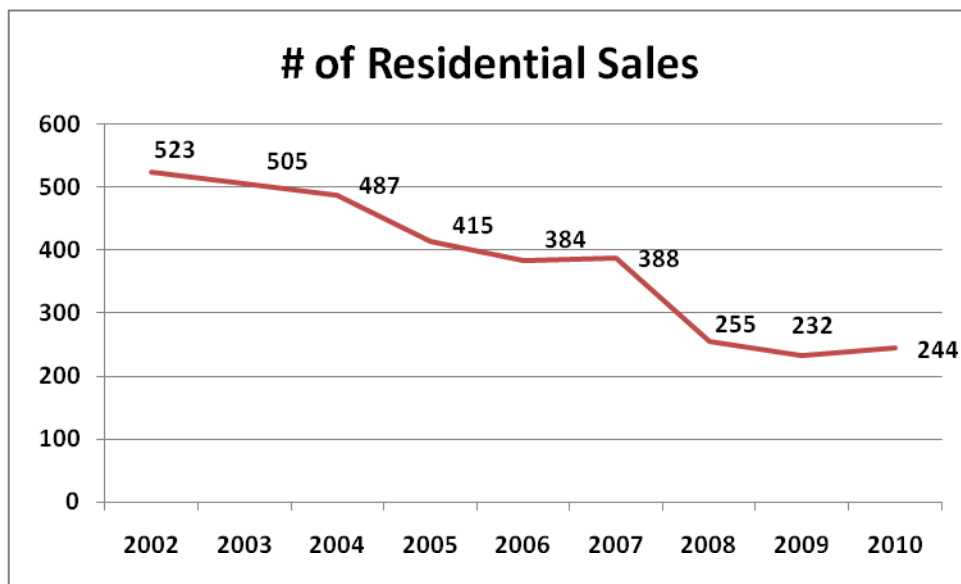
Special city-wide districts have been established for other types of residential property, such as houses having market values over \$732,700, and for townhouses, condominiums, and duplexes. This permits the city-wide study of the markets for these types of housing, as well as the study of a particular building complex or neighborhood.

Staff uses a property data system (PDS) computer-aided mass appraisal (CAMA) system to determine the market value for each residential property. Prior to the 2003 assessment, Minnetonka and other cities used trending factors to revalue all the properties (approximately 80%) not in the quintile districts that are physically reviewed each year. Staff believes that by now revaluing both land and improvements on an annual basis, it adds to the accuracy and equity of the assessment process.

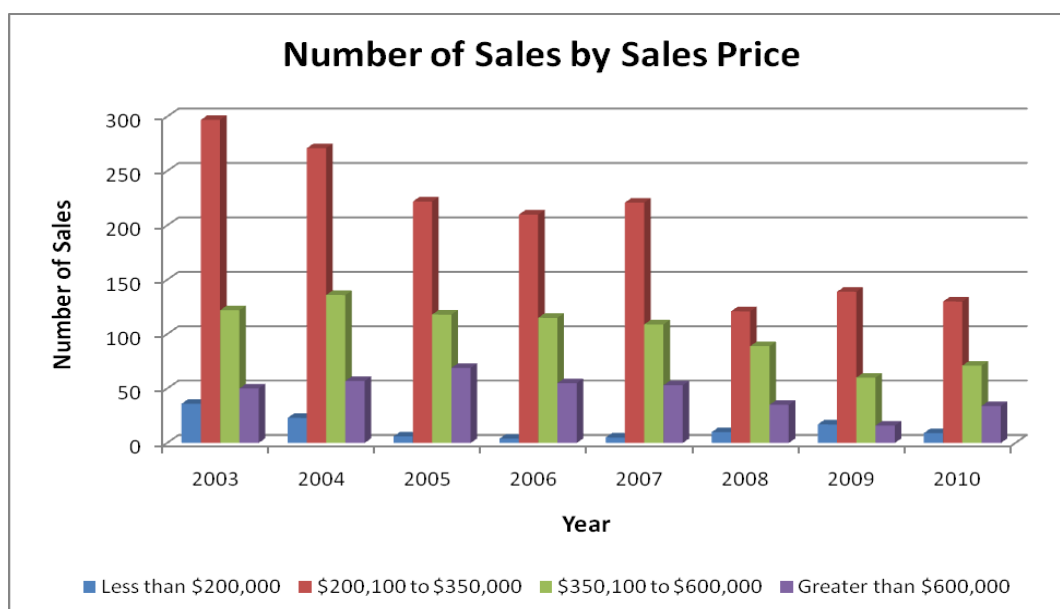
Recent Changes

In the spring of 2005, LOGIS, the city's technology consortium, launched a new PDS that is regularly updated with features added quarterly. Staff is hopeful that as the new system is completed and updated, it will provide more tools for enhanced sales analysis (multiple regression analysis) that will allow staff to improve the equity of the mass appraisal process. The system continues to be a work in progress for the 2011 assessment. Staff is currently assisting LOGIS staff in developing a module for tracking valuation changes and inquiries to the division throughout the year. These kinds of modules assist staff in tracking changes as well as enhancing customer service.

Beginning with the 2008 assessment, staff started using the CAMA system for land valuation in an effort to provide greater equalization throughout the city. The project required changing all of the land values for the 12,800 single-family residential properties in Minnetonka. Staff continued to fine tune land values for the current 2011 assessment.

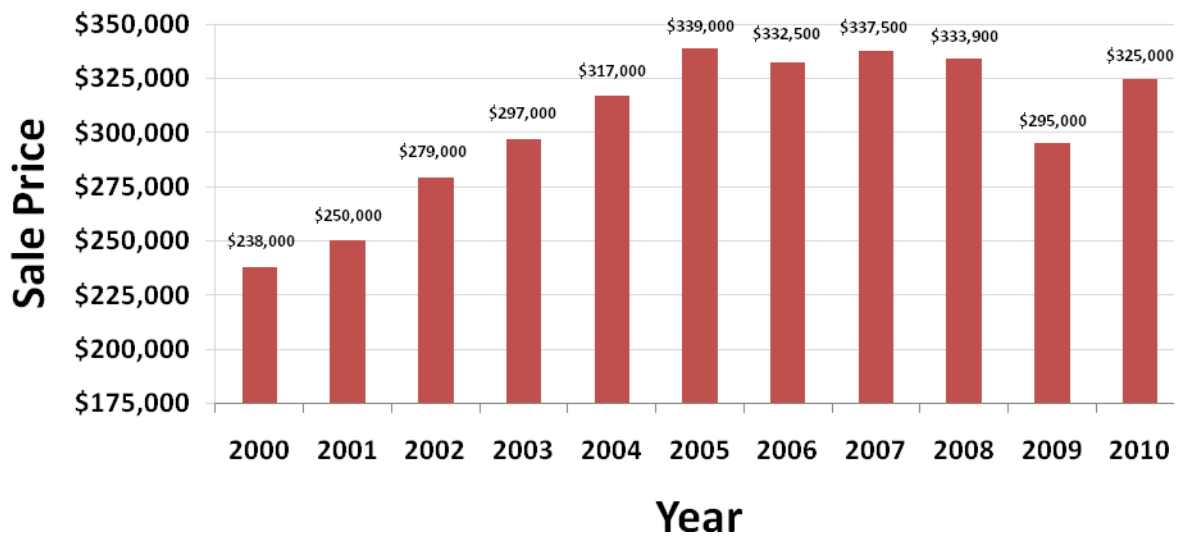


As illustrated above, the number of residential sales in Minnetonka decreased dramatically from 2007 to 2009. In 2010, there was only a slight increase in sales. While there was a slight increase in sales volume, there are still significantly fewer sales than previous years to be used to determine the 2011 market values. While a larger sample set generally provides greater precision in calculating the market value, staff carefully considers all factors that could affect current market conditions and makes adjustments accordingly.



When sales are stratified by price, the first two lower priced tiers saw a decrease in sales volume, while the second two higher priced tiers saw an increase in volume, which is the reverse of the previous year. The sales on the outer parameters with prices less than \$200,000 and greater than \$600,000 saw the most dramatic change in sales volume, changing by approximately fifty percent in one year. The increase in the volume of sales in the third and fourth, higher priced tiers is primarily responsible for a significant increase in median sale price in 2010.

Minnetonka Median Sale Price 2000 - 2010



COMMERCIAL/INDUSTRIAL AND APARTMENT ASSESSMENT

While only three percent of the assessed parcels in Minnetonka are apartments, commercial or industrial, these property types have historically comprised a significant share of the tax base. For taxes payable in 2012, their share is greater than 41 percent.

Changes in market values for these real estate sectors have varied in the last several decades. In the late 1990's, these property classifications experienced significant appreciation due to a strong economy and low unemployment. The value increases moderated greatly beginning with the recession in 2002 and continued some declines through 2004. Despite the 2009 and 2010 assessments reflecting the weakened commercial market, and the economic downturn, for the current 2011 assessment, these real estate sectors are relatively stable.

Commercial Market Value Change by Submarket

	2005	2006	2007	2008	2009	2010	2011
Office	-5.0%	11.0%	12.0%	3.5%	-3.5%	-4.1%	.2%
Warehouse/Industrial	6.0%	1.0%	6.0%	4.0%	0.0%	-1.9%	-0.9%
Retail	3.7%	2.0%	12.0%	4.0%	-7.5%	-1.2%	.1%
Apartments	5.0%	1.0%	6.0%	0.0%	0.0%	-1.6%	2.6%

Office Market

Increasing supplies of office space in recent years is directly affecting its market value. After the office market experienced a nine-year high in space absorption in 2006, new development constructed in 2007 pushed the vacancy rate in the west suburbs to 17.5 percent in 2010 as compared with the 7.7 percent rate in 2006.

Although market activity for office space was very strong in early 2007, the subprime crisis that materialized in August of 2007 led to tighter underwriting standards which in turn resulted in commercial real estate investment slowing to a crawl.

The west market has 9.1 million square feet of office space. According to Cassidy Turley¹, this sector saw negative absorption (vacant leasable space coming back into the market) of 93,188 square feet for 2010. A review of the transactions competed in the market showed that half were renewals and the other half were new leases with

¹ Cassidy Turley, *Market Snapshot – Minneapolis - St. Paul*, Fourth Quarter 2010

reduced rates. The current vacancy rate for the western suburbs is 17.5 percent compared with this time last year at 16.2 percent and the oversupply of space is magnified by less demand.

The current Minnetonka office market experience reflects these events. For example, Cargill vacated three office buildings in the Minnetonka Corporate Center (12800 & 12900 Whitewater, 6000 Clearwater) in 2010 to occupy their new space at Excelsior Crossings in Hopkins. This added another 259,000 square feet of vacant office space to the Minnetonka market. These properties were purchased in 2010 from the lender. Staff continues to monitor the impact of this sale on the market value of surrounding properties.

In 2010, there was very little new construction. The only major office building under construction is the new United Health Group building. This building will be 340,488 square feet.

It is predicted for 2011 that shadow spaces (unutilized leased space), will be converted to direct vacancy as leases mature and tenants can downsize. There are no expectations of new developments. Astute landlords will make deals that previously would have seemed unreasonable, but will now be reasonable given market conditions.

Within the next five years, the entire Opus area is likely to see increased development activity, if planned construction of light rail comes to fruition.

Industrial Market

The economy has also had an effect on the industrial real estate market, as is reflected in Minnetonka's assessment. Landlords know that the upcoming years may continue to be difficult, so when they are restructuring leases they are not focusing on the short term. For example, market rent may not be achieved until year three in a five year or longer lease.

The Southwest market has 24.6 million square feet of space and vacancy for 2010 remained relatively flat at 14.6 percent compared to 14.7 percent in 2009. This vacancy is a result of business consolidation, downsizing, and space reduction.

Industry experts expect to see an increase in activity in 2011 as larger tenants look for space. This is a result of the prediction of greater consumer and business spending.

Retail Market

The retail economy improved in 2010, but still remained weak overall. In conversations with landlords, staff has learned that tenants are asking for rent reductions, additional contributions towards tenant improvements, and some free rent. Because tenants are difficult to come by, some have had to offer these concessions.

The Minnetonka trade area had a positive absorption in 2010. The new restaurant concept BLVD occupied the former Don Pablo's space. Goodwill signed a lease and occupied the former Home Valu property. Total Hockey occupied the space formerly occupied by Schmidt Music who moved further to the east along the 394 corridor. Len Durskin occupied the former Linens-N-Things space. And, Panera moved into the former Boston Market area.

Looking forward, the former Circuit City location was purchased and is expected to be occupied by the end of 2011 by Whole Foods Co-Op. In addition, the Babies 'R Us property is under remodel and will also expand into the Office Max space. Noodles and Company is in the process of completing renovations to the former Creative Kidstuff location.

The west market sector has seen vacancies remain flat with an overall vacancy of 4.7 percent compared to 4.5 percent the previous year.

The retail economy may be showing signs of recovery, however still remains unpredictable. Economists conclude that the combination of a down housing market and rise in gas prices has affected consumer spending and this trend will continue. As a result, core city and first ring suburbs will recover more quickly than second and third ring suburbs.

Apartment Market

The fundamental indicators for apartment properties continued to show improvement throughout 2008 with vacancy rates declining to about four percent from the 2003 high level of 7.6 percent and market rents increasing by a little over three percent. However, income and expense information filed on several apartment complexes in Minnetonka as part of the petition process indicate that the established 2008 market values were close to or exceeding the economic performance of each complex. The majority of the apartment properties received no adjustment for the 2009 assessment as was true for 2010.

The 2010 apartment market showed positive signs with market activity and new construction. There was one Class A (higher quality) apartment transaction in the city as well as a Class B (average quality) transaction indicating a stable to improving market. The construction of the new senior housing development in Glen Lake began at the end of 2010.

COMPARISONS WITH OTHER CITIES

The assessing division contacted other southwest suburban communities to determine the overall adjustment they have made to the market values of existing residential properties for their 2011 assessment. These amounts do not include increases in value due to new construction. As shown, Minnetonka has market value adjustments for 2011 that are consistent with other municipalities in western Hennepin County.

Residential Market Adjustments			
Jurisdiction	2009	2010	2011
Bloomington	-5.5%	-5.6%	-3.6%
Eden Prairie	-4.7%	-6.1%	-3.4%
Edina	-1.9%	-4.8%	-2.7%
Maple Grove	-5.0%	-5.4%	-3.5%
Minnetonka	-4.3%	-6.4%	-2.3%
Plymouth	-4.6%	-5.8%	-2.4%
St. Louis Park	-2.3%	-4.6%	-2.5%
Average	-4.0%	-5.6%	-3.0%

Commercial Market Adjustments	
Jurisdiction	2011
Bloomington	+0.6%
Eden Prairie	-1.2%
Edina	-0.8%
Maple Grove	-4.0%
Minnetonka	+0.4%
Plymouth	+0.2%
St. Louis Park	+0.4%
Average	-3.0%

FORECLOSURE DATA

While it is important to monitor the foreclosures taking place in the City of Minnetonka, as these properties need to be considered on an individual basis for valuation, these properties are not used when determining overall assessment value changes. Department of Revenue and Hennepin County standards require these lender-mediated sales, such as foreclosures as well as short sales, be rejected from the sales study to determine property valuation.

Foreclosure is a legal process that allows a lender/bank to take possession of and sell a property due to non-payment of a loan that is secured by that property. After the completion of the foreclosure process, the lender/bank has title to the property. The foreclosure process begins when a borrower/owner defaults on loan payments, and the lender files a Notice of Default. In Minnesota, the Notice of Default is referred to as Lis Pendens. Lis Pendens is a publicly recorded notice of a pending lawsuit against a property owner that may affect the ownership of the property.

The Sheriff's Sale, as it is called in Minnesota, is the event where the property is sold to the highest bidder. The notice of pending Sheriff's Sale is published for six weeks prior to the sale, and the sheriff or designee will serve notice to the occupant one month prior to the sale. Typically at the Sheriff's Sale, the lender/bank will open bidding with the exact amount due at the time of sale. Following this opening bid, other bidders are given an opportunity to bid at higher amounts. The successful bidder will receive a Sheriff's Certificate of Sale.

After the Sheriff's Sale the borrower has the right to redeem the property by paying the successful bidder at the sheriff's sale the amount of the successful final bid plus interest and applicable fees. This is referred to as the redemption period. For most properties, this is six months in length. During the redemption period, the original owner of the property may continue to live in the property and the successful bidder at the Sheriff's Sale may not enter the property without permission of the original owner.

If, after six months, the property is not redeemed, the highest bidder at the Sheriff's Sale is the undisputed owner of the property. At this time, if the lender/bank is the owner of the property, the property is typically listed for sale. The sale that transpires is the sale that is rejected from the sales study used in analysis to calculate market value.

Another type of sale that the staff has studied is a short sale. Short sales are special arrangements where the financial institution and the in-default homeowners attempt to sell the property before the foreclosure process, generally for an amount less than the current mortgage obligation. These sales can be more difficult to track because there is no recording of this type of sale; it must be monitored searching sales on the Multiple Listing Service or through sales verification.

The foreclosures listed throughout the county in the chart below are those that have actually gone through the sheriff's sale proceedings.

Foreclosure Count by Jurisdiction					
Jurisdiction	2006	2007	2008	2009	2010
Bloomington	117	198	274	234	279
Brooklyn Park	322	614	1,005	720	723
Eden Prairie	64	162	186	145	132
Edina	37	70	79	84	110
Hopkins	36	66	90	76	89
Maple Grove	79	176	281	224	349
Minnetonka	38	88	175	126	161
Plymouth	72	124	165	159	210
Richfield	66	115	230	150	110
St. Louis Park	76	90	143	92	201

The 161 foreclosures in Minnetonka in 2010 represented just over one percent of the housing stock in the city. Approximately 75 percent of the total numbers were homestead properties, while the remainder was non-homestead, such as rental properties. It is also important to note that 40 of the foreclosures in 2008 were located within a single condominium development. Except for these 40 condominiums, the foreclosures in Minnetonka were located disparately throughout the city.

THE APPEALS PROCESS

The property appraisal system depends upon an effective opportunity for appeals by individual property owners. Minnetonka's assessment procedures provide this opportunity through inquiries to, and reviews by, the assessing staff, and formal appeals to the Local Board of Appeal and Equalization, County Board of Appeal and Equalization, and State Tax Court.

Key steps in the market value appeals process are:

1. **Staff Review** – It is important for anyone having questions about their market value or the assessment process to contact the assessing staff. The large majority of property owners' concerns can be resolved through this administrative review.
2. **Local Board of Appeal and Equalization** – The Local Board of Appeal and Equalization will meet on April 18 and May 2, 2011. Staff will again attempt to provide complete information regarding each property that is the subject of appeal. This process is greatly helped if property owners contact the assessing division in advance of the meeting if they intend to make an appeal. The Minnetonka City Council appoints several local real estate professionals as advisors to the Board of Appeal and Equalization. A property owner who is not satisfied with the assessing staff's review may make an appeal to the Local Board of Appeal and Equalization. Property owners can reach the assessing division by phone at 952.939.8220 or by email at assessor@eminnetonka.com. They should contact the division by April 1, 2011, in order to notify staff of their intent to appeal.
3. **County Board of Appeal and Equalization** – Property owners may appeal the decision of the Local Board of Appeal and Equalization to the County Board of Appeal and Equalization which meets on June 13, 2010.
4. **State Tax Court** – Property owners may appeal the decision of the County Board of Appeal and Equalization to the State Tax Court. Petitions regarding the 2011 Assessment can be filed until April 30, 2012. Petitioners may choose to appeal directly to the Minnesota Tax Court, and it is common practice for commercial/industrial property owner to take this approach due to the complexity of the issues.

In order to provide a more complete understanding about the appeals process, the assessing staff has developed a brochure to be given to property owners. The brochure provides a description of the process, and urges residents to contact the assessing staff with any questions or concerns they may have. Staff may be contacted at 952.939.8220.

Appeal History

Below is a recap of recent results of market value inquiries and appeals. As shown, the number of properties involved has been a relatively small number of the total parcels in the city.

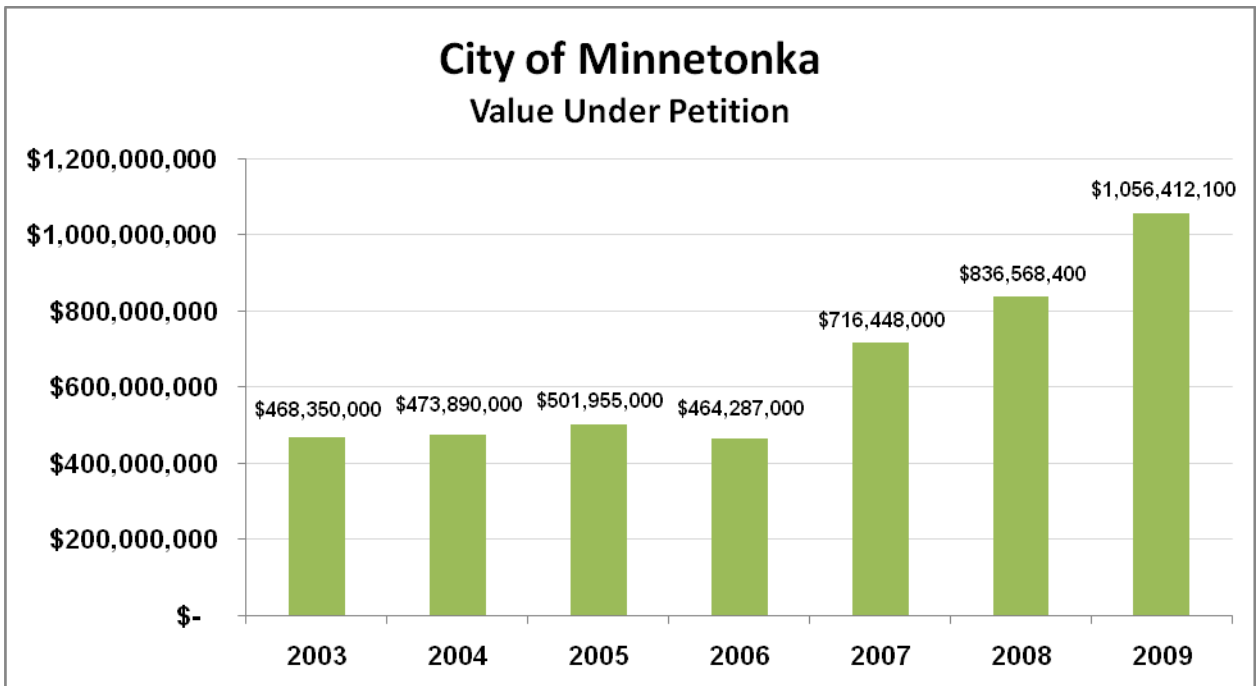
Appeal History						
	2005	2006	2007	2008	2009	2010
Total Parcels	20,204	20,396	20,631	20,670	20,526	20,518
Staff Inquiries	900	1000	900	850	780	700
Staff Reviews Change/No Change	295 60/235	310 102/208	280 72/208	275 105/170	405 155/300	300 125/175
Appeals to LBAE Change/No Change	9 1/8	19 5/14	22 2/20	11 2/9	8 1/7	9 5/4
Appeals to CBAE Change/No Change	4 1/3	8 1/7	6 1/5	1 1/0	0 NA	1 1/0
Tax Court Petitions	52	55	65	105	134	N/A

Tax Court

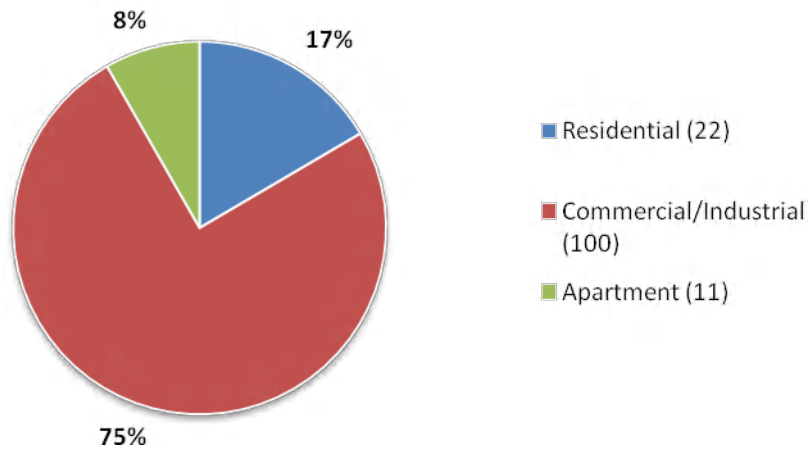
In the past seven years, over \$4.5 billion in tax petitions on Minnetonka properties have been filed with the Minnesota Tax Court. These petitions require a substantial amount of time and resources to resolve. Many of these cases may remain on the tax court calendar for multiple years. During the interim, the property owners must continue to pay taxes. If a reduction in value is stipulated, typically years after the initial petition is filed, they receive a refund plus interest.

Commercial Petition Activity

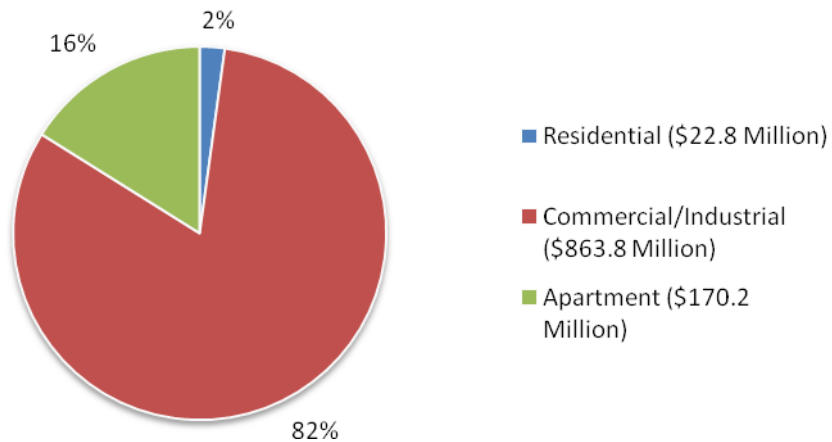
As anticipated, there was a significant increase in petitions filed on the 2008 and 2009 values for commercial, industrial, and apartment properties based on the current recession. This has been an historical pattern associated with both the recessions that occurred in 1992, 2002, and 2008. Because economists forecast a slow recovery, staff in Minnetonka, as well as those in surrounding communities, are again anticipating another increase in petitions for 2010.



Petition Count by Property Type



Petition Value by Property Type



Residential Petition Activity

While in previous years there have always been a few residential petitions filed, the numbers have increased significantly in 2008. There are two categories of filing in tax court. The first is small claims, which is reserved for properties valued less than \$300,000. The other division in tax court is the regular division. Of the residential petitions filed, three was in small claims and 19 were in the regular division.

Many times a homeowner files on their property because they missed the window of opportunity to follow the LBAE and CBAE process. The residential cases are scheduled before the commercial properties on the tax court calendar. The city's trial dates for the 2009 pay 2010 residential petitions begin in May 2011.

Many of Minnetonka's cases have been resolved with the staff appraisers and often stipulated to an agreed value. Staff is in the early stages of writing an appraisal for tax court on a residential property for a March setting. Like negotiations with commercial properties, development of judicial-ready appraisals for tax court is critical.

PUBLIC INFORMATION AND CITIZEN RELATIONS

The city provides public information in a number of ways to keep Minnetonka residents informed about the market value process, methods for appeal, and current property tax rates. An article in the March 2011 *Minnetonka Memo* provides information on market values and property taxes. Staff regularly updates the city's web page with current information and annually posts the assessment report on the City of Minnetonka website. Information regarding the Property Tax Refund, the Senior Citizens Property Tax Deferral, as well as information on foreclosure prevention counseling can be found on the City's website.

The assessing division staff uses several methods to ensure that all who contact the city about market values or property taxes receive a prompt, courteous response. A record-keeping system tracks inquiries about market values to see that those inquiries are appropriately guided through the review process. Every property owner that requests a staff review of their market value receives a response from the city assessing staff.

The assessing staff has worked diligently to provide clear information to property owners about a property tax system that is complex and often difficult to understand. Each spring, assessing staff sends introductory letters to residents in reappraisal neighborhoods. These have been well received by property owners and help increase the number of reappraisals the assessing division is able to conduct in these neighborhoods.

2011 ASSESSMENT CALENDAR

DATE	ACTION
March 7	City Council receives the 2011 Assessment Report
March 1	Informational articles distributed as part of the March <i>Minnetonka Memo</i>
March 1	County Auditor's target date for mailing 2011 property tax statements
March 7	City Assessor's target date for mailing the 2011 value notices
March 28	City Council appoints advisors to the Local Board of Appeal and Equalization
April 1	Last day for property owners to file a formal appeal to appear at the Local Board of Appeal and Equalization
April 18 to May 2	Local Board of Appeal and Equalization
May 2	Last day for property owners to file State Tax Court petitions for the 2010 assessment
June 13	Hennepin County Board of Appeal and Equalization