

**City Council Agenda Item #14B**  
**Meeting of March 5, 2007**

**Brief Description:** Presentation of the 2007 Assessment Report and property tax information.

**Recommended Action:** Receive the report.

**Background**

The assessing division has completed its work on the 2007 property assessment, and a report on the assessment results is attached for council review. Staff will present a brief summary of this report and 2007 property tax information to afford the council the opportunity to ask questions.

Hennepin County began mailing property tax statements for 2007 on March 1. The city is mailing market value notices on Friday, March 2 with the 2007 market value information, which is applicable to property taxes payable in 2008.

**Recommendation**

Staff recommends the council receive the 2007 assessment report. No formal action is required of the council.

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**YEAR 2007**

**ASSESSMENT REPORT**

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# TABLE OF CONTENTS

	<b>Page</b>
Summary.....	1
Statutory Requirements.....	6
Tax Capacity Rates for Property Taxes Payable in 2007 .....	7
Limited Market Value.....	8
This Old House .....	10
Estimating Market Values.....	11
Historical Changes in Market Value .....	15
The 2007 Residential Assessment.....	17
The 2007 Apartment and Commercial/Industrial Assessment.....	21
Comparisons with Other Cities.....	24
The Appeals Process and History .....	25
Public Information and Citizen Relations.....	27
2007 Assessment Calendar .....	28

## **Tables & Charts**

Total estimated market value by assessment year .....	1
Distribution of 2007 % changes in value by residential property type .....	2
Commercial/industrial and apartment % changes in value by year .....	3
Sales ratio and coefficient of dispersion by assessment year .....	4
Median sale price in Minnetonka .....	5
Limited market value in Minnetonka by year .....	9

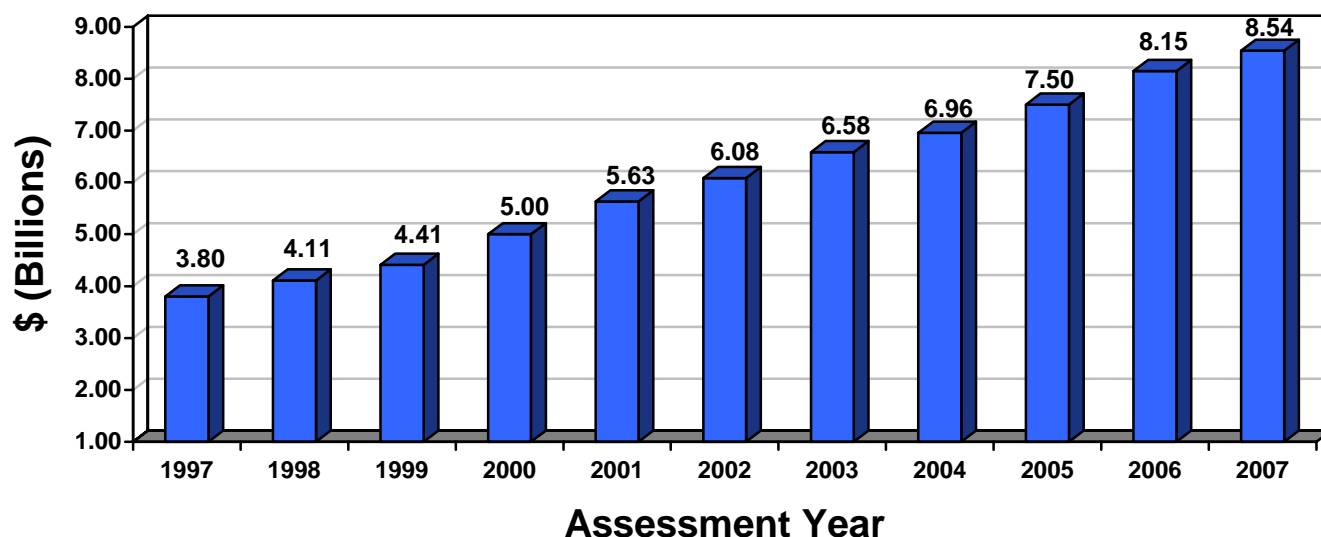
Sales ratio illustration .....	12
Coefficient of dispersion (COD) illustration.....	13
Historical sales ratio and COD for Minnetonka.....	13
Total estimated market value by assessment year .....	15
Market value growth 1996-2006 .....	16
Minnetonka tax capacity by property class.....	16
Residential sales by sales price in Minnetonka 2002-2006 .....	20
Commercial/industrial and apartment % changes in value 1997-2007.....	21
Office, warehouse/industrial, and retail % assessed market value change .....	22
Market value change comparison with other cities 2001-2007 .....	24
Appeals history 2000-2006.....	26

## SUMMARY

The 2006 property assessment has been completed, and property owners will receive a Notice of Estimated Market Value in early March. The 2007 property assessment applies to property taxes payable in 2008 and reflects values between October 2005 and September 2006.

Key points of the 2007 property assessment include:

- The **total estimated market value** for Minnetonka in 2007 is \$8.54 billion, an increase of \$390 million, or 4.67%, over the \$8.15 billion total in 2006. Approximately 80% of the total market value comes from single-family property, while 20% comes from commercial, industrial, and apartment properties.



- **Average 2007 market value changes** are listed below for the major property classifications:

Single family residential	+ 2.2%
Lakeshore	+ 8.6%
Townhouses	+ 1.0%
Condominiums	+ .5%
Commercial	+ 10.5%
Industrial	+ 6.5%
Apartments	+ 6.0%

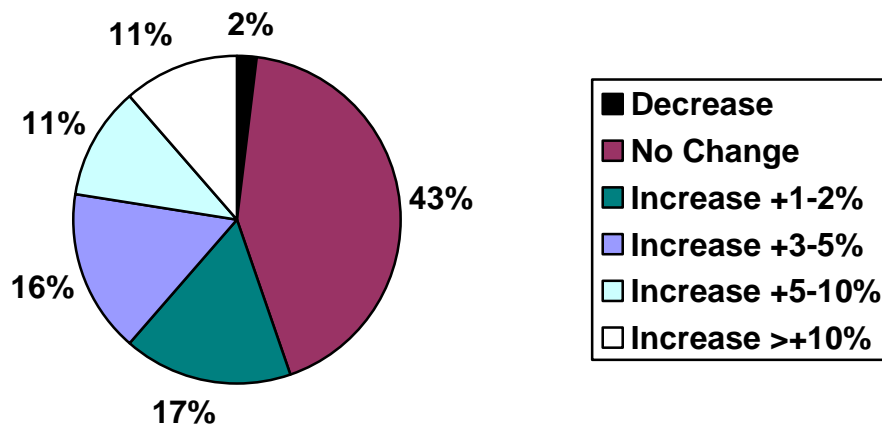
In a recent reversal from the early 2000s, this is the second year where commercial/industrial values have increased by a significantly greater percentage than residential values. The impact of this trend will be to shift back some of the property tax burden to commercial/industrial properties from residential.

- For 2007, most **residential properties** received statistical adjustments of 1% to 3%, a significant decrease when compared to the changes made for the 2006 assessment and recent prior years. These adjustments are based on the specific characteristics of the property, its location, and comparisons to actual selling prices. This approach results in similar market value adjustments for like properties throughout the city.

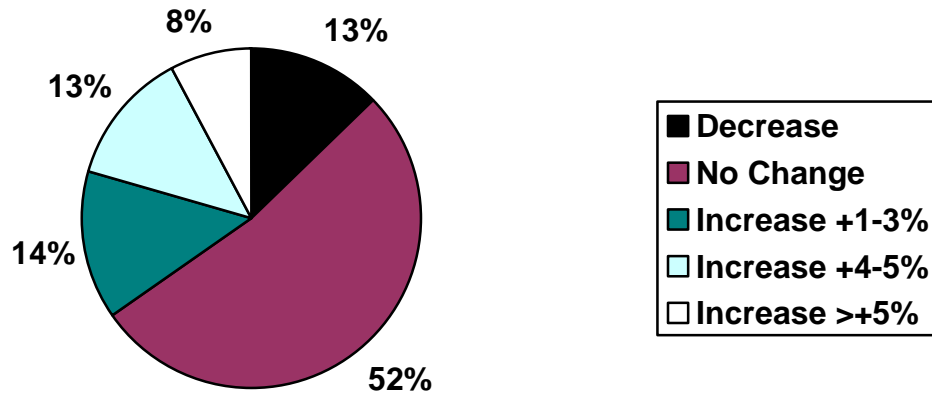
**Comparisons with other cities** for 2007 indicate most of the southwestern suburban cities are adjusting residential properties by 1% to 3%. With an overall estimated average of 2.2%, these comparisons show that Minnetonka's adjustments are consistent with those of most neighboring communities.

- **Distribution of the 2007 percentage changes in value by residential property type:**

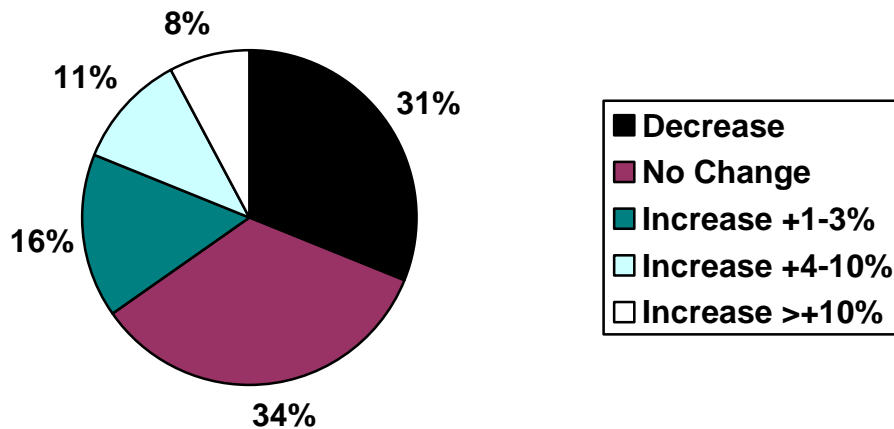
### Single Family



### Townhouses



### Condominiums



- For 2007, **apartment and commercial/industrial properties** were reviewed individually and given appropriate adjustments. Most apartment properties were increased by +6% on average and commercial/industrial properties received an adjustment of +10%.

2002		2003		2004		2005		2006		2007	
C/I	Apts.	C/I	Apts.	C/I	Apts.	C/I	Apts.	C/I	Apts.	C/I	Apts.
+1.0%	+1.0%	-3.0%	+8.0%	-2.5%	+2.0%	+9.3%	+5.0%	+7.1%	+1.0%	+10.0%	+6.0%

- 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 2007, Minnetonka's overall sales ratio is 96.5, indicating a very accurate assessment. The COD measures how far the assessor's market values deviate from the median ratio. For 2007, it is 4.6 demonstrating an equitable assessment.

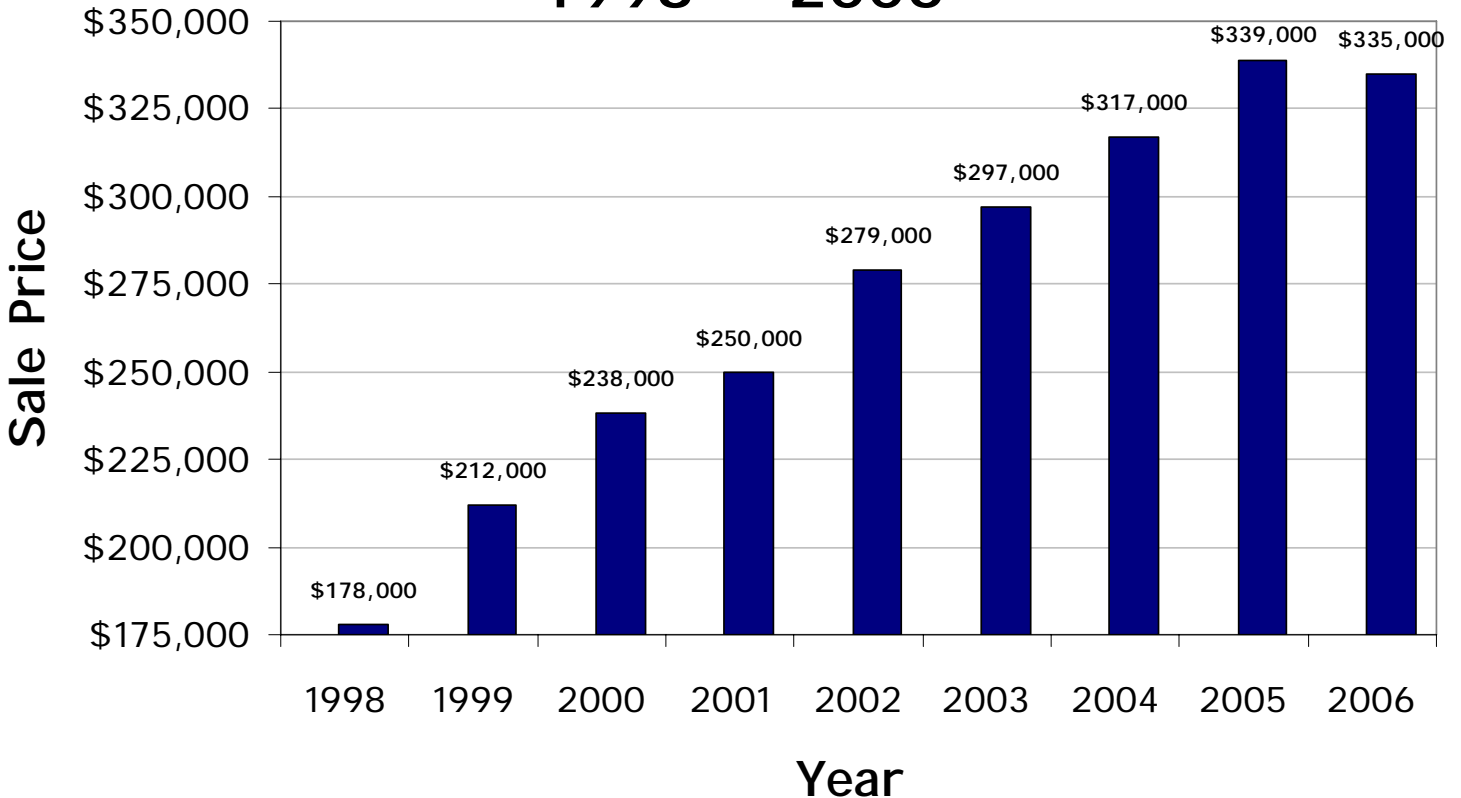
	2002	2003	2004	2005	2006	2007
<b>SALES RATIO</b>	95.4	95.6	95.8	96.0	96.3	96.5
<b>COD</b>	5.4	5.2	4.9	5.2	5.2	4.6

- Minnetonka has **greatly expanded its use of the computer-aided assessment (CAA) system**, to improve the accuracy of the annual assessment. All residential property is now valued via the CAA system, and whether compared by housing type, value or age, properties have received an accurate assessment.
- The **appeals process** is an important part of the annual property assessment. Residents having questions about their 2007 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. **By March 28**, property owners may appeal the market value set by the Assessing division to the Local Board of Review, which meets on April 11, 2007.
- **Public information** about the property assessment process is provided in the March 2007 *Minnetonka Memo*, at the city's Web site, and through 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 contain information and excerpts from this assessment report.
- **The Real Estate Market Historical Impact** - These changes implemented for the 2007 assessment reflect market conditions present throughout the ratio study time frame from October, 2005 through September, 2006. During this time frame the residential real estate market experienced a significant cool down in sales volume and appreciation rates when compared with the hyperactive markets of the previous ten years. In Minnetonka, the median *sales price* of single-family homes declined from \$339,000 in 2005 to \$335,000 in 2006, which represents a change of negative 1.18%.

The recent five-year run-up in prices had apparently satisfied future demand and resulted in a dearth of buyers and an oversupply of housing product. This was particularly noticed in the condominium market where a large number of new projects were constructed in the past two years and the excess supply of units was most pronounced. For example, in Minnetonka the Cloud Nine conversion added 165 new units, and the conversion of the former apartment complex of Chasewood Gates has added another 188 units to date.

As a result of these changing market conditions, it was necessary for staff to respond by decreasing some values for the 2007 assessment, particularly in the townhouse and condominium classifications. It is expected that the conditions that have created this stagnation in the market will continue throughout 2007 and only a modest appreciation of 1%-2% is anticipated in the next assessment for 2008.

## Median Sale Price in Minnetonka 1998 - 2006



## STATUTORY REQUIREMENTS

Minnesota law establishes specific requirements for the entire property tax system, including the assessment of property. 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.
2. Property is classified according to State law, and the tax capacity amount is calculated.
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 the net tax amount.

**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 94.5% of actual market values, with a target ratio of 95.0%. 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 four 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 2007**

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%

## LIMITED MARKET VALUE

State law provides a limited market value for most residential property. For 2007, this imposes a 15.0% cap on the annual increase in market value from the previous market value, or 33% of the difference between the current market value and the previous taxable value, whichever is greater, excluding improvements.

### **Example #1: 15% is applicable**

2006 Market Value:	\$280,000
2007 Market Value:	\$340,000
2007 Limited Market Value:	\$322,000

### **Example #2: Both factors are the same**

2006 Market Value:	\$280,000
2007 Market Value:	\$407,300
2007 Limited Market Value:	\$322,000

### **Example #3: 33% is applicable**

2006 Market Value:	\$280,000
2007 Market Value:	\$470,000
2007 Limited Market Value:	\$342,700

For taxes payable in 2008 (2007 assessment), 1,016 parcels will have a limited market value, representing almost 5.5% of all residential parcels in the city, down from the high level of 79% of residential parcels in 2004.

The 2001 Legislature extended the Limited Market Value law for five more years. Limited Market Value had been scheduled to expire in payable 2002, so property would have been taxed at its full market value beginning with taxes payable in 2003. This new law stated that all property would be taxed at its full estimated market value beginning with taxes payable in 2008, using estimated market value established in 2007.

Then in 2005, the legislature once again extended the Limited Market Value law for another year and it now should sunset with taxes payable in 2009.

Assessment year 2006, the increase could not exceed the greater of:

- 1) 15 percent of the value in the preceding assessment, or
- 2) 25 percent of the difference.

Assessment year 2007, the increase cannot exceed the greater of:

- 1) 15 percent of the value in the preceding assessment, or
- 2) 33 percent of the difference.

Assessment year 2008, the increase will not exceed the greater of:

- 1) 15 percent of the value in the preceding assessment, or
- 2) 50 percent of the difference.

Assessment year 2009-Limited Market Value scheduled to expire.

Nonetheless, this schedule may change, because the state legislature is currently entertaining a bill to extend the law for another two years.

### Impact of Limited Value Law on Minnetonka Total Taxable Market Value

Assessment Year	Estimated Market Value	Limited Market Value	Lost Value Due to Ltd Market Value	Percent Lost Due to Ltd Market Value	Less Qualifying Improvement (This Old House)	Total Taxable Market Value
2001	\$5,643,229,200	\$5,364,607,000	\$278,622,200	4.94	\$5,567,600	\$5,359,039,400
2002	\$6,084,564,600	\$5,374,843,200	\$349,722,300	5.75	\$6,150,400	\$5,728,691,900
2003	\$6,582,919,100	\$6,200,018,300	\$382,900,800	5.82	\$7,320,300	\$6,196,698,000
2004	\$6,969,891,100	\$6,604,510,200	\$365,381,700	5.24	\$6,973,300	\$6,597,536,900
2005	\$7,504,319,700	\$7,373,338,900	\$130,980,800	1.75	\$6,395,100	\$7,366,943,800
2006	\$8,152,444,000	\$8,033,943,400	\$118,500,600	1.45	\$5,747,400	\$8,028,196,000
2007	\$8,540,823,000	\$8,479,466,500	\$61,356,500	.78	\$4,733,100	\$8,474,733,400

## 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 could be enrolled in “This Old House.” The latest 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 Assessor’s office 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 2007 assessment, 454 properties still have qualifying improvement amounts totaling \$4,733,100 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 2007 assessment year is the third 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 5-year period, at 20% per year. For improvements less than or equal to \$10,000, the excluded value is phased back in over 2 years, at 50% per year. For the 2007 assessment, 64 properties were eligible for the first year phase-in, resulting in the amount of their exclusion for 2006 being adjusted accordingly.

## 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 about the local real estate market.

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 four-year reappraisal, or when improvements are made to the property, or when a physical review is requested by the property owner. This information is computerized, allowing statistical comparisons of properties by type and location.

It is important to know that assessors must 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.

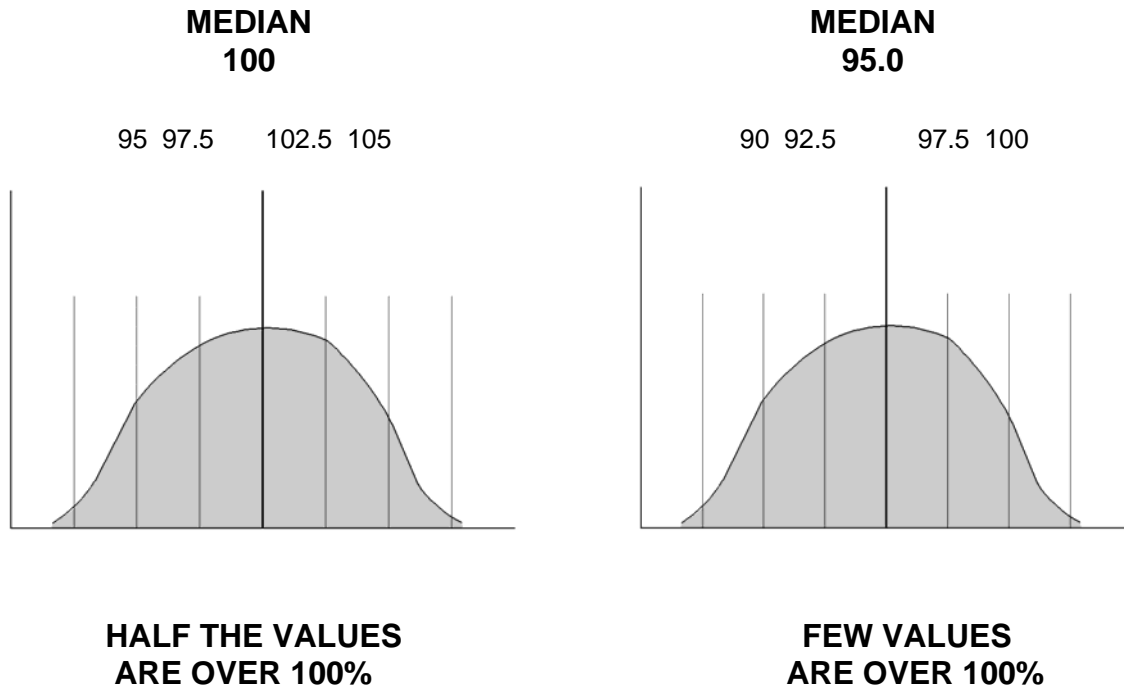
Having the local assessment system operate effectively requires as much information about the local real estate market as possible. The assessing division makes a record of all property sales, using the Certificate of Real Estate Value (or CRV) filed at Hennepin County for each property sale. This information 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 a few 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 but an arms-length transaction results in the sales information is discarded. This is important, because the real estate sales information constitutes the database for the statistical comparisons necessary to make the property assessment.

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 95.0. For cities in Hennepin County, the accepted range for the median sales ratio measurement is 90 to 105. In other words, the median (or midpoint) of the sales ratios for all properties sold should fall within 90 to 105. **Minnetonka's 2006 assessment results in a sales ratio of 96.5.**

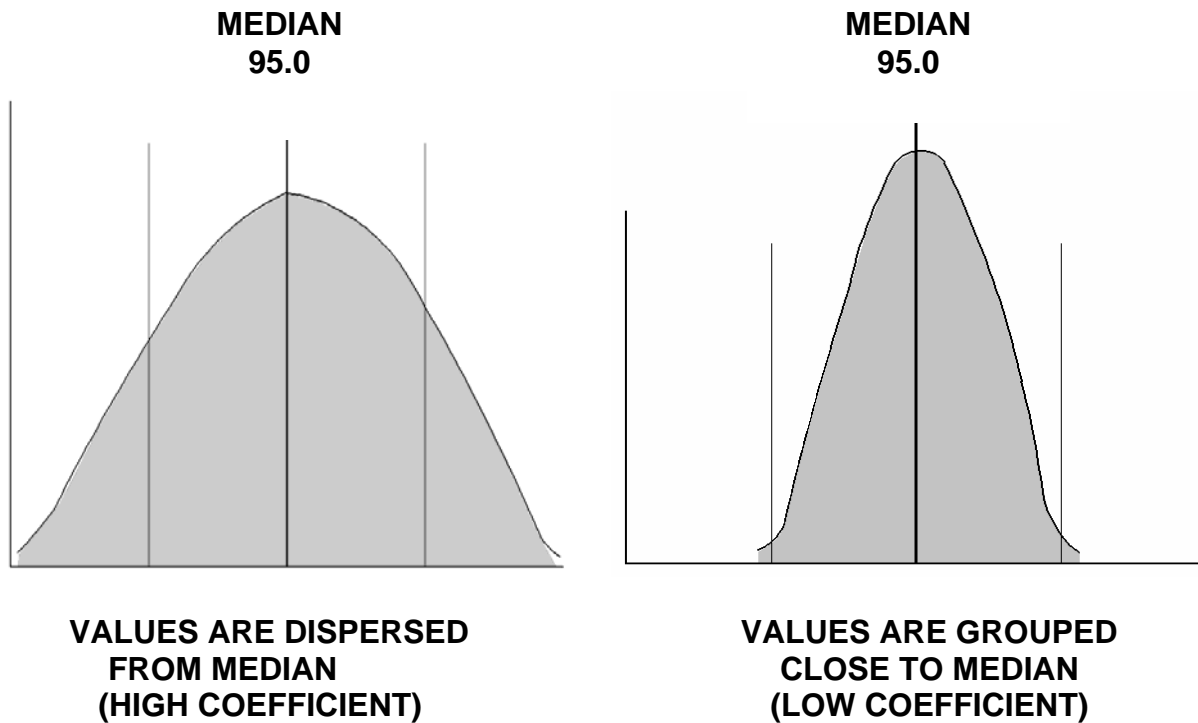
A sales ratio of slightly less than 100 is desirable in order to avoid having a great many properties valued at more than their actual market value. If the median sales ratio were at 100, as shown at the left below, it would mean that half the properties were assessed at less than market value and half were higher, with too many over the actual market value. On the other hand, as shown at the right below, a sales ratio of 95.0 means half the properties are below 95.0% 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, with a target of 95.0.

**SALES RATIO:**



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 2006 assessment reflects a coefficient of dispersion of 4.6.**

**COEFFICIENT OF DISPERSION:**



Historical sales ratios and coefficients of dispersion for Minnetonka are as follows:

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>SALES RATIO</b>	94.2	94.4	94.5	94.7	95.3	95.4	95.6	95.8	96.0	96.3	96.5
<b>COD</b>	6.7	6.6	5.6	5.5	5.3	5.4	5.2	4.9	5.2	5.2	4.6

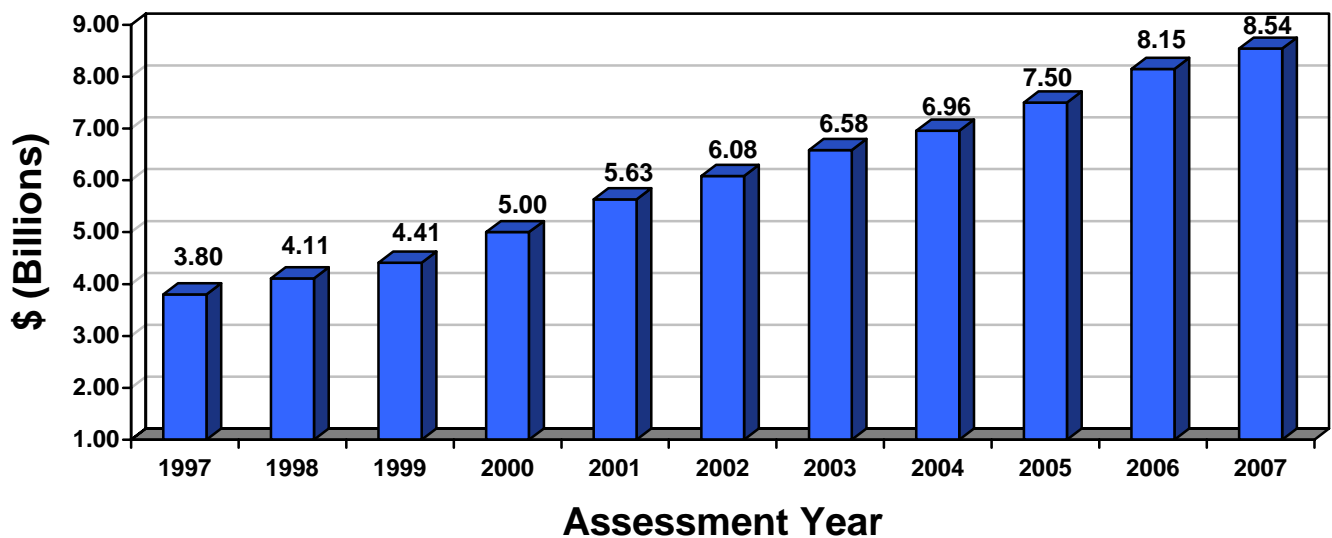
The review process is a key aspect of the mass appraisal system. Because some properties receive statistic-based adjustments to market value, the review allows the assessing staff the opportunity to individually examine certain properties. Where there is evidence a property has been overvalued or valued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

A property owner who is not satisfied with the assessing staff's review may make an appeal to the Local Board of Review, which meets on April 11, or make an appeal directly to state tax court. Property owners can reach the assessing division by phone at 952-939-8200 and should **call the division by March 28 in order to notify staff of their intent to appeal.**

## 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 2007 assessment market growth of 4.76% is the lowest overall annual growth rate in the last eleven years.

**City of Minnetonka  
Total Estimated Market Value**



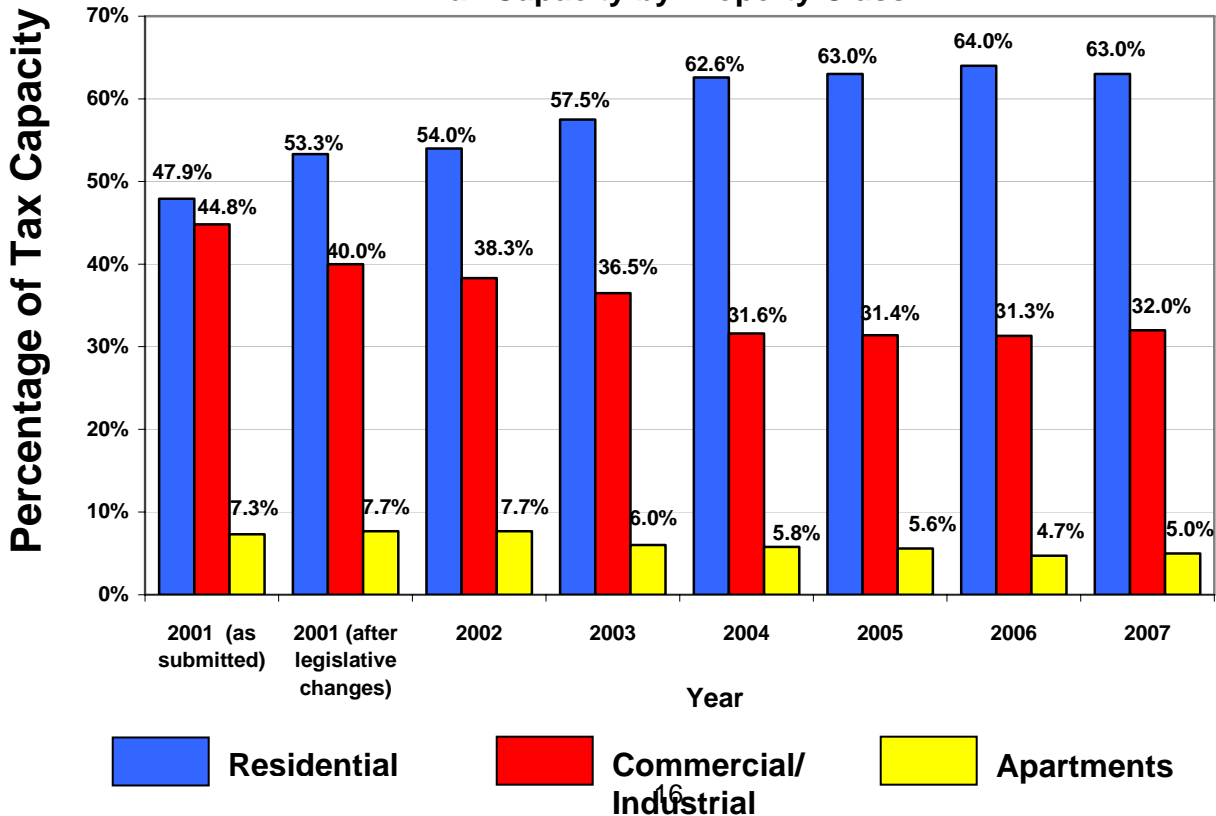
The second chart on the next page shows the amount of market value change from year to year, and the proportions of the change attributable to new construction and appreciation. As indicated, the city's total market value shows continuing increases for the 2007 assessment.

And, the final chart on the next page illustrates the total 2001 – 2007 tax capacity divided among major property classes. Single-family residential property represents by far the major portion of total tax capacity, followed by commercial/industrial, multi-family, and other classes of property

**City of Minnetonka  
Market Value Growth 1997-2007**

YEAR	MARKET VALUE	NEW CONSTRUCTION	VALUE INCREASE	TOTAL GROWTH
<b>2007</b>	<b>\$ 8,540,823,000</b>	<b>1.10%</b>	<b>3.60%</b>	<b>4.76%</b>
2006	\$ 8,152,444,000	1.40%	7.27%	8.67%
2005	\$ 7,504,319,700	0.86%	6.81%	7.67%
2004	\$ 6,969,891,100	0.62%	5.26%	5.88%
2003	\$ 6,582,919,100	1.10%	7.10%	8.20%
2002	\$ 6,080,800,000	1.70%	6.30%	8.00%
2001	\$ 5,630,700,700	2.73%	9.82%	12.55%
2000	\$ 5,002,728,300	2.67%	10.63%	13.30%
1999	\$ 4,414,383,600	2.18%	5.12%	7.30%
1998	\$ 4,117,395,400	1.69%	5.55%	7.24%
1997	\$ 3,803,415,600	2.36%	5.23%	7.59%

**City of Minnetonka  
Tax Capacity by Property Class**



## THE 2007 RESIDENTIAL ASSESSMENT

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.

A description of the quality/class criteria used by the appraisers in appraising single-family houses follows. As indicated, this system can be applied to all styles of houses (ramblers, 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 \$750,000, 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 the 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.

In the spring of 2005, LOGIS launched a new Property Data System (PDS) that is regularly updated with new features added quarterly. Staff is hopeful that when the new system is completed, it will provide tools for enhanced sales analysis (multiple regression analysis) that will allow staff to improve the equity of the mass appraisal process.

For the 2007 assessment, staff has added two new residential quality grades to the matrix and rate tables, an **A6** and **B4** classification. This was necessitated by the

quality level of the new homes being constructed that the current list of CAMA rate tables could not keep pace with existing sale prices. As a result, for the 2007 assessment staff reviewed approximately 2500 executive level houses and reclassified about 1000 of these properties into new quality levels.

### **QUALITY/CLASS DESCRIPTIONS:**

- A1** **Elite homes** have similar amenities and appointments to **A2** houses with the following exceptions: there is not a limitation on building size, the property has been constructed within the past 5 years and is located in a neighborhood of similar class structures, and no detail or amenity is graded below exceptional quality. These are specialty homes without cost being a factor in their construction.
- A2** **Luxury homes** are individually designed properties, characterized by custom workmanship, finish, appointment, and the highest quality in every detail. Square footage will be in excess of 3,500 square feet for ramblers and 4,000 square feet for 2-story. Features will typically include masonry exteriors with top quality fenestration and tile or shake roof cover, gourmet design and first quality kitchens. They often include master bedroom suites with spa type bath, top quality bathrooms with a minimum 1 to 1 ratio with bedrooms, specialty rooms such as a library or hearth rooms, and extensive landscaping.
- A3** **Exceptional homes** are individually designed and characterized by custom workmanship, finishes, appointments and attention to details. Ramblers range from 2,000 to 5,000 square feet; two story houses from 3,000 to 7,000 square feet. Features typically include a shake roof, brick or stone exterior, top quality kitchen and bath finish, master bedroom suites and extensive landscaping.
- A4** **Excellent homes** have many of the same features as A1 properties, but differing slightly because of scaling back on building size, the amount and quality of bathrooms, cabinetry and built-in features. They are individually designed with high-quality workmanship and materials.
- A5** **Excellent homes** are built in quality developments, and often individually designed. Attention is given to interior refinement and detail, such as hardwood floors and custom cabinets. Ramblers will range from 2,000 to 3,500 square feet; two story houses from 2,400 to 4,000 square feet. Exteriors have good fenestration and custom landscaping.
- A6** **Very Good to Excellent homes** may have been built in the 1970's or early 1980's with highest quality design, materials and workmanship. Changing standards since the time of construction may result in these properties being considered somewhat dated. Or, the houses may be newly constructed but are

scaled back from excellent quality/class in terms of size, finish and custom features.

- B4** **Very Good homes** feature an individual design with kitchen and bath qualities similar to Class A properties. These houses have been upgraded from their original construction and feature granite or composite counter tops and upgraded tile.
- B5** **Very good homes** still feature individual design, but kitchen and bath quality show a marked difference from A-graded properties. These houses may have Formica countertops, with carpet, tile or vinyl floor coverings, but still include vaulted ceilings and sunken rooms. Square footage will typically range from 1,800 to 3,000 square feet.
- B6** **Good houses** are typically those built in above-average residential developments, or for an individual owner. Interiors are well finished and feature good quality carpet, vinyl, or hardwood floor coverings. Kitchens will not generally feature an island or work station. Doors, trim and windows are generally above average, and the roof has asphalt shingles.
- B7** **Above average homes** were usually built in the 1960's and 1970's. Floor coverings, countertops and details are slightly above standard grades. The quality of materials and workmanship is acceptable, but does not reflect custom craftsmanship. Size typically ranges from 1,600 to 2,600 square feet.
- B8** **Average houses** are not custom designed, but meet or exceed minimum construction standards. Cabinets, doors, trim, hardware and plumbing are usually stock items. Kitchen cabinets are typically pre-finished plywood and exterior siding is hardboard or masonite. These homes usually have an extra 3/4 full bath on the main level. Generally built in the 1950's and 1960's, B8 houses and C9 houses constitute the majority of the housing stock in Minnetonka.
- C9** **Average homes** are similar to the quality of B8 residences, but generally having only a single, full bath on the main level. Sometimes referred to as "tract homes", most materials are stock grade, such as hollow-core flush doors. Ramblers range in size from 900 to 1,400 square feet, while two-story houses range from 1,200 to 1,800 square feet.
- C10** **Fair houses** are where the overall quality of materials and workmanship is below average. These homes were generally constructed prior to 1950 and may show forms of deferred maintenance or functional obsolescence (for example, no dining room or a poor floor plan). Interior and exterior finishes are plain and inexpensive, with no upgrades.

# City of Minnetonka Sales by Sales Price

Sale Price	2002 # of Sales	2002 % of Sales	2003 # of Sales	2003 % of Sales	2004 # of Sales	2004 % of Sales	2005 # of Sales	2005 % of Sales	2006 # of Sales	2006 % of Sales
Less than \$200,000	88	16.80%	36	7.10%	23	4.70%	6	1.50%	4	1.50%
\$200,100 to \$350,000	291	55.60%	297	58.80%	271	55.60%	222	53.50%	210	54.70%
\$350,100 to \$600,000	95	18.20%	122	24.20%	136	27.90%	118	28.50%	115	30.00%
Greater than \$600,000	49	9.40%	50	9.70%	57	11.80%	69	16.50%	55	13.80%
<b>Total</b>	523	100.00%	505	100.00%	487	100.00%	415	100.00%	384	100.00%

## APARTMENT AND COMMERCIAL/INDUSTRIAL ASSESSMENT

As previously illustrated in this report, these property types have historically comprised a significant share of the tax base in Minnetonka. In the late 1990's, both property classifications experienced significant appreciation due to a strong economy and low unemployment although appreciation moderated greatly beginning in 2002. Throughout 2006 both classifications continue to show a marked rate of appreciation and increased sale prices.

**City of Minnetonka  
Commercial/Industrial & Apartment Market Value % Change**

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Commercial/Ind</b>	6.0	8.0	8.5	10.0	6.0	1.0	-3.0	-3.0	9.3	7.1	10.0
<b>Apartments</b>	10.0	8.0	12.0	15.0	11.0	5.0	8.3	2.0	5.0	1.0	6.0

Until very recently, the Commercial/Industrial market has been adversely affected by the 2001 recession. This had been especially true for the office market. The decline led to numerous tax petitions being filed with the Minnesota Tax Court. In the past three years, over \$1.5 billion in market value has been appealed. These petitions require a substantial amount of time to resolve. Since 1999, \$2,436,207,000 in market value appeals has been resolved with staff retaining 94% of the value under appeal.

The office market experienced an eight-year high in space absorption in 2005, and this trend continued in 2006. Vacancy rates on Class A buildings, which are buildings constructed with highest grade materials, decreased from 13.9% to 9.1% in 2005 and have decreased even further throughout 2006 to an estimated level of 7%. As a result, the Class B and Class C office buildings, which are those constructed with lesser materials, have seen increasing vacancy rates as tenants with expiring leases took advantage of lower rents to upgrade into the Class A buildings.

Evidence of the market turnaround was exhibited in the sale prices of two investment-grade buildings in Minnetonka in 2005. The G & K building in Opus (formerly American Hardware) sold for \$134 a square foot and Pondview Plaza, also in Opus, sold for \$147 a square foot. Both of these buildings had

experienced considerable vacancy in 2003-2004 (65%) but were substantially occupied (95%) at the time of sale.

In 2006, sales prices of other office buildings in the Southwest suburbs continued this trend of appreciation. The Wilson Office building in Eden Prairie sold for \$160 per square foot and the Flagship Office building sold for \$188 per square foot. The Wilson Office building, much like the Minnetonka sales, had experienced a very high vacancy rate and had previously sold through foreclosure in 2003 for \$76 per square foot.

There currently is a high volume of investment capital looking for opportunities in Class A office space and retail projects. However, the significant increase in Class A space may moderate in the near future as new space is being added through various corporate expansions such as the new United Health Group building in Minnetonka and the Cargill project at Excelsior Crossings in Hopkins.

Vacancy rates declined minimally for industrial properties in 2006, and rents have remained flat or experienced slight increases. Compared to last year, office-warehouse vacancy rates declined from 13.8% to 12.2 % in the Southwest suburbs and office-showroom vacancy rates dropped from 15.3% to 12.2%. The Southwest suburbs experienced the highest rate of vacancy absorption in the metro area in 2006.

Retail properties remain the stalwart of the commercial market and at the end of 2006 the vacancy rate had declined to 5.3% in the Southwest suburbs.

**City of Minnetonka  
% Assessed Market Value Change from Previous Year**

<b>Year</b>	<b>Office</b>	<b>Warehouse/Industrial</b>	<b>Retail</b>
2003	-8.0%	+0.0%	+3.5%
2004	-5.3%	-6.2%	+3.7%
2005	+11.0%	+1.0%	+2.0%
2007	+12.0%	+6.0%	+12.0%

The current apartment market has also experienced a significant rebound when compared with the market from 2002 to 2005. From the late 1990's through 2001, the vacancy rates were approximately 1% in the southwest suburbs. However, when interest rates declined to record low levels the vacancy rate for multi-family housing spiked considerably from 2003-2005. The current downturn in the residential market has driven potential buyers back into the multi-family market and vacancy rates have leveled off at 5%.

The change in market conditions has allowed apartment owners to correspondingly increase rental rates and attracted numerous investors as indicated by three recent sales in Minnetonka. The Gates at Carlson Parkway sold in January, 2006 for \$112,000 per unit, The Woodlands complex sold in December, 2005 for \$108,000 per unit, and The Conservatory apartments sold in October, 2005 for \$85,000 per unit. As a result, the market values for these investment grade apartments were increased 10%-12% for the 2007 assessment over last year.

## COMPARISONS WITH OTHER CITIES

The assessing division has contacted other southwest suburban communities to determine the overall adjustment they have made to the market values of existing residential properties for their 2006 assessment. These amounts do not include increases in value due to new construction. The reported adjustments are as follows:

CITY	2001 PERCENT INCREASE	2002 PERCENT INCREASE	2003 PERCENT INCREASE	2004 PERCENT INCREASE	2005 PERCENT INCREASE	2006 PERCENT INCREASE	2007 PERCENT INCREASE
Bloomington	12.8	12.9	9.0	8.5	7.9	7.1	1.9
Eden Prairie	11.9	10.4	10.3	7.5	7.5	6.2	3.2
Edina	15.8	15.5	8.5	8.9	7.6	10.9	3.0
Hopkins	13.5	13.0	12.0	11.0	9.3	8.2	3.0
Maple Grove	11.5	13.0	9.5	9.6	8.4	8.6	2.8
<b>Minnetonka</b>	<b>11.8</b>	<b>10.1</b>	<b>10.5</b>	<b>8.5</b>	<b>6.6</b>	<b>7.8</b>	<b>2.2</b>
Plymouth	13.8	11.0	9.0	9.0	6.3	7.6	2.2
St. Louis Park	14.2	14.7	12.0	10.0	8.8	6.5	2.6

As shown, Minnetonka has market value adjustments for 2007 that are consistent with other municipalities in western Hennepin County.

## THE APPEALS PROCESS

Key points to the market value appeals process include:

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 Review** – The Local Board of Review will meet on April 11 and April 25, 2007. 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 has made it a practice to have local real estate professionals act as advisors to the Board of Review.
3. **County Board of Review** – Property owners may appeal the decision of the Local Board of Review to the County Board of Review which meets on June 18, 2007.
4. **State Tax Court** – Property owners may appeal the decision of the County Board of Equalization to the State Tax Court.

On the next page 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.

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.

The mass 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 Review, County Board of Review, and State Tax Court. The following chart shows the recent history of the appeals process in Minnetonka.

## Appeals History

	2000	2001	2002	2003	2004	2005	2006
<b>Total Parcels</b>	19,532	19,651	19,688	19,957	20,103	20,204	20,396
<b>Inquiries to Staff</b> (estimated)	800	700	700	850	1,200	900	1,000
<b>Staff Reviews</b> Change/No Change	200 86/114	125 30/95	110 16/94	130 34/96	235 105/130	295 60/235	310 12/38
<b>Appeals to Board</b> Change/No Change	12 5/7	9 1/8	2 1/1	10 3/7	20 3/17	9 1/8	19 5/14
<b>Appeals to County</b> Change/No Change	2 0/2	1 0/1	0 NA	0 NA	4 1/3	4 1/3	8 1/7
<b>Petitions to Tax Court*</b>	58	58	59	62	45	52	N/A

\* Petitions regarding the 2006 Assessment can be filed until April 30, 2007. Petitioners may choose to appeal directly to the Tax Court, and it is common practice for commercial/industrial property owner to take this approach due to the complexity of the issues.

## **PUBLIC INFORMATION AND CITIZEN RELATIONS**

Staff provides public information in a number of ways, in an effort to keep Minnetonka residents informed about the market value notification and appeals process, and about current property tax rates.

An article for the March 2007 *Minnetonka Memo* has been prepared to provide information on market values and property taxes.

The assessing division staff tries to make certain that all who contact the city about market values or property taxes receive a prompt, courteous response. Staff uses a record-keeping system to keep track of inquiries about market values and to see that those inquiries are appropriately guided through the review process. Also, every property owner that requests a staff review of their market value receives a written response from the city assessor.

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.

Staff regularly updates the city's web page for the assessing division in an attempt to keep property owners informed.

## 2007 ASSESSMENT CALENDAR

<u>DATE</u>	<u>ACTION</u>
March 1	Informational articles distributed as part of the March <i>Minnetonka Memo</i>
March 1	County Auditor's target date for mailing 2007 property tax statements.
March 2	City Assessor's target date for mailing 2007 value notices
March 5	City Council reviews 2007 Assessment Report.
March 19	City Council appoints advisors to the Local Board of Review.
March 28	Last day for property owners to file an appeal to appear at the Local Board of Review.
April 11 to April 25	Local Board of Review.
April 30	Last day for property owners to file State Tax Court petitions regarding the 2006 assessment.
June 18	Hennepin County Board of Review.