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MEMORANDUM

FY19 Budget - Frequently Asked Questions

DISTRIBUTE TO: Members of the Finance Committee, City Manager

FROM: Brendan T. O'Connell - Finance Director

DATE: April 12, 2018

SUBJECT: **FY19 City Manager Recommended Budget - Frequently Asked Questions**

During the past several months the Finance Department as well as the Assessors Department have fielded many questions from residents of the City in regards to the FY19 budget and valuation. Many of these questions have come up repeatedly via phone, email and in person. This memo is intended to summarize responses to many of the frequently asked questions ("FAQ"). This FAQ list will be updated as the budget process continues in April and May.

Frequently Asked Budget Questions

1. I read the budget includes $100M of new estimated valuation. Why are my taxes increasing during a time when there is so much new value in the City of Portland?
2. What is the breakdown of the tax levy between City and School operations? Is it 50/50?
3. The State of Maine equalized valuation for Portland is nearly $9B but the local assessed value is $7.8B. What is the difference between these values and how do they impact my taxes?
4. Will the upcoming revaluation help alleviate budget pressure and provide more tax dollars for the budget?

Question 1: I read the budget includes $100M of new estimated valuation. Why are my taxes increasing during a time when there is so much new value in the City of Portland?
Property valuation has grown by $100 million in the current year due to significant new projects breaking ground and continues our upward trajectory in overall valuation. This $100 million of new

property valuation creates an additional approximately $1,133,000 in tax revenue for municipal use. While this may seem like a significant amount, it represents only a 1.28% overall increase to our FY18 valuation of approximately $7.8 billion, and can only fund a fraction of the cost increases and budget challenges we face in FY19, many of which are outside of City control. These include the increases in Cumberland County tax ($381k), increases in pension obligation bond debt service ($872k and increasing by around $1M annually through 2026), contractually obligated union compensation increases (approximately $3.2M) and health insurance cost increases ($2M). As you can see, the increase in valuation can only fund a fraction of the cost increases that are outside of City control.

Question 2: What is the breakdown of the tax levy between City and School operations?
The current overall City of Portland tax rate for FY18 ($21.65) can be broken down between education (49% of the $21.65), municipal operations (47.5% of the $21.65) and Cumberland County tax (3.5% of the $21.65). The portion of the overall tax levy related to Cumberland County is outside of City control and is separately passed each year by the County - the levy is largely dependent on valuation of each community within the county. The portion of the tax levy related to education is approved by voters each spring (after being separately approved by the Board of Education and the City Council). The portion of the tax levy related to municipal operations is approved by the City Council each May.

Question 3: The State of Maine equalized valuation for Portland is nearly $9B but the local assessed value is $7.8B. What is the difference between these values and how do they impact my taxes?

Answer from our Assessor Christopher Huff: The State Equalized Valuation (SEV) is used as the basis to apportion the county tax, state-municipal revenue sharing, road assistance (highway block grants), general assistance grants and, the largest piece, state aid for education. It is also used by some utilities, such as the Portland Water District in its assessment of wastewater fees to municipalities.

State aid is vital to our municipal finances. The formula used to calculate the various municipal shares of state aid employ a variety of variables, including valuation of taxable property. For the state aid to be distributed equitably, the variables used in the formulas must be consistent; that is, the valuation figures must reflect the same percentage of market value for every municipality. Municipalities are required to assess at no less than 70% of true and just market value for property tax purposes, but within that constraint there is great variability. Through the process known as State Equalized Valuation, Maine Revenue Services develops annually an equalized value of every organized municipality and the unorganized territory. The finished product reflects the 100% taxable value for the municipality but does not represent the actual valuation used within the municipality which can vary widely between different municipalities.

- The City has not appealed or challenged the State Equalized Valuation. We agree with their analysis and their value and would have a difficult time proving they are incorrect.

- The current State Equalized Valuation is based on actual property sales in the second half of 2015 and the first half of 2016. Values have risen since then so we know our SEV will continue to rise.
- The reason the City uses the $7.82bn (now $7.9bn) in its estimated projections is because this is the actual valuation that local taxes are levied against. The State's Equalized Value is not used to levy local property taxes, it is an indicator of what the actual 100% valuation should be. There is a wide difference between the two and this is one reason why we need to have a revaluation.
- While the State "certifies" their equalized value, this is only an aggregate total based on a sales ratio study of market data from the preceding 18-24 months. The State does not apportion or allocate individual uniform values to the 24,000+ parcels that make up the City of Portland.

Further information on SEV can be found:

Maine Revenue Services Property Tax Bulletin No. 1 - Maine State Valuation

Rule 201 - Rules of Procedures Used to Develop State Valuation

Question 4: Will the upcoming revaluation help alleviate budget pressure and provide more tax dollars for the budget?
Staff Response: No – the revaluation has no impact on total funds collected for the budget. Each year the City Manager will recommend a budget, calling for the required amount of tax dollars to be levied on property owners. The revaluation will have no impact on the dollar amount levied – the total amount of tax dollars required for City / School operations will be the same both before and after the revaluation. The revaluation will only impact how the dollars levied are split between City taxpayers. In general about 1/3 of the residents will pay more after the revaluation, 1/3 of the residents will pay the same amount, and 1/3 of the residents will pay less, but in total the amount of tax dollars collected will remain the same. When property values rise overall as a result of the revaluation, the mil rate will see a corresponding drop. For example, if total City property value increased 25% during the revaluation from $8B to $10B as a result of the revaluation (i.e. adjusting property values to their just values) the mil rate would then see a corresponding 25% percentage decrease.

EXAMPLE:

Pre-City Revaluation:
Total City Valuation: $8,000,000,000
Mil Rate: $20.00
*Total Tax Levy Needed for City/School Operations: $160,000,000 ($8,000,000,000 / 1000 * $20.00)*

Post-City Revaluation:
Total City Valuation: $10,000,000,000
Mil Rate: $16.00 (drops because we still only need a tax levy of $160,000,000)
*Total Tax Levy Needed for City/School Operations: $160,000,000 ($10,000,000,000 / 1000 * $16.00)*