

Minneapolis 2011 Public Budget Hearing

David Sadler 4620 W Lake Harriet Parkway - November 19, 2009

I. Introduction - Compound Interest

- Years ago a magazine writer approached Albert Einstein and asked, “Professor Einstein, what is the most amazing thing you have ever discovered?”
- He immediately answered, “That’s easy, compound interest! I can’t believe how much money I’ve accumulated over the years from savings. And I haven’t had to do anything. It is truly amazing!”
- Understand this - compound interest works both ways. It can work for you but it can work against you as well.
- The property tax increases year in and year out have an cumulative result (compounding). Hence, increases at 6% or 7% every year results in doubling the property taxes every few years.
- Not a lot of people understand simple interest let alone compound interest but when you tell them their taxes are going to double every few years, then they understand. And usually they can’t believe it! 7% means 10 years to double; 3.5% means 20 years; 0.1% means 700 years (current 6 month Treasuries).

II. Is there a property tax problem now? You bet!

- Many, many emails from all sorts of homeowners, young and old, telling me they have to leave (Sell & Move) if property taxes continue to rise like expected.
- Fixed income homeowners are being squeezed right now. Some paying 30, 40 or 50% of household income and more in property taxes forcing many deeper into poverty.
- Elderly are being forced to sell and go into assisted living which becomes an even bigger burden to all taxpayers! Standard advice for seniors - sell now, gift money, keep enough to live on for three years and go into assisted living mostly at the government’s expense.
- Many households in Minneapolis pay more in property taxes than in medical insurance. (Talk about affordable medical insurance, what about affordable property taxes?)
- Many long term homeowners pay more in property taxes than mortgage principle and interest! 20 years into a mortgage property taxes and P&I will be about the same and property taxes become 10% of income assuming 7% property tax increases and COL raises.
- Homeowners can’t stay if they are planning for or are close to retirement.
- Homeowners can’t stay if incomes are flat or rising at COL.
- Minneapolis has the highest property taxes in the Metro Area and the gap will grow with planned increases. This puts Minneapolis at a serious competitive disadvantage for attracting and keeping residential home buyers.
- From The StarTribune editorial Nov 4. *“Minneapolis has the highest property tax burden among 117 metro-area communities. At 0.59 percent, its effective tax rate is almost double that of St. Paul” and “High taxes are putting Minneapolis at risk of losing its middle class”*

Minneapolis 2011 Public Budget Hearing

- State aid is unlikely to return to past levels any time soon. The state's tax base is shrinking based on lower economic and demographic forecasts.
- Mortgage bankers say that lower home values are closer to property tax valuations but higher home values are overvalued and in many cases grossly overvalued. The higher the valuation the more likely it is to be far from the property tax valuations. And in fact market value from property taxes mean little or nothing when determining a value for a mortgage. Values are based on sales prices in the last 90 to 180 days of like properties in the same location.
- Mortgages are much harder to acquire and much more restrictive in general than a couple of years ago. The upper limit on PITI is around 28% of household income. A \$320K house (median priced house in ward 13) with 10% down and Minneapolis property taxes requires about \$90K per year in household income!

III. What should be done now? Learn to do more with less, or perish.

- Face up to the realities and warning signs!
- Convince all Council members and the Mayor there is a property tax problem in Minneapolis that needs aggressive attention now!
- Establish a city policy to have a **Balanced Budget Process** recognizing the limitations of property tax payers outright.
- Set limits on property tax increases starting now based at Cost of Living (COL), and
- Establish a property tax limit based on a percent of household income.
- Motivate the BET to be much more taxpayer proactive. It looks like a rubber stamp committee now. It needs more than one public hearing per year.
- Restructure operations through department mergers across municipalities so as to optimize all public services including pension programs, fire protection, some police functions, road and traffic departments and the park system. The Library was the first step and everything needs to be considered.
- Re-examine all city operating divisions to see which can be restructured or spun off or outsourced or even shut down to save money.
- Work with the legislator to establish and change laws so that reorganizations and mergers can be done and state aids can be reestablished especially for regional services. Right now Minneapolis has little or no influence in the state legislature or even amongst its own elected representatives. This has to change!

Minneapolis must be proactive in aggressively holding costs and limiting any further property tax increases beyond cost-of-living. 7% increases are unacceptable, unsustainable, unrealistic and will destroy the residential fabric of the city!