

## 2023 PROPERTY TAX INCREASE: IN-DEPTH REVIEW

- The Deephaven City Council certified the preliminary 2023 General Fund, Capital Improvement Fund, and Bonded Debt Fund levy on September 6<sup>th</sup> in the amount of \$3,318,265. The Fiscal Disparity Tax of \$34,265 is deducted from this amount, which leaves a total proposed 2023 levy of 3,284,000. This equates to a \$208,318 increase (6.8%) in the City’s property tax levy from 2022. Please note that this doesn’t necessarily mean your property taxes will increase by 6.8%. Your property taxes are determined by the estimated market value of your property and the combined property tax levies from the City, Hennepin County, the School District and nine other taxing jurisdictions. The City’s portion of your property tax equates to about 15% of your total property tax payment. The City’s tax capacity rate, which is used to determine the City’s portion of your property tax, is estimated to decrease from 17.740% this year to 15.100% in 2023 due to the significant increase in the overall market value of the city. The City’s tax capacity rate will continue to be one of the lowest tax capacity rates in Hennepin County.
  
- The City of Deephaven is proposing a \$208,318 increase in the total property tax levy in 2023, of which the General Fund levy is contributing \$208,738 of this increase, with the Bonded Debt Levy decreasing by \$420.
  
- Historically, the City of Deephaven has generally provided relatively low property tax levy increases. Over the 15-year period from 2009 – 2023, the City of Deephaven averaged a 4.1% property tax levy increase each year.

### PROPERTY TAX LEVY HISTORY 2008 – 2023

YEAR	PROPERTY TAX LEVY	PERCENT INCREASE
2008	1,759,159	(0.02%)
2009	1,860,000	5.73%
2010	1,856,151	(0.21%)
2011	1,893,000	1.99%
2012	1,896,232	0.17%
2013	1,898,744	0.13%
2014	1,952,701	2.84%
2015	2,000,000	2.42%
2016	2,089,000	4.45%
2017	2,100,000	0.53%
2018	2,157,000	2.71%
2019	2,230,000	3.38%
2020	2,619,395	17.46%
2021	2,784,365	6.30%
2022	3,075,682	10.46%
2023	3,284,000	6.77%

## **2023 BUDGET OVERVIEW**

**General Fund Revenues** – Total 2023 General Fund Revenues are budgeted at \$3,672,664 and consist of eight major budget categories:

Category	2023 Budget	% of Revenues
Taxes	2,692,265	73.3%
Licenses & Permits	384,250	10.5%
Intergovernmental	81,000	2.2%
Charges for Services	328,569	9.0%
Fines & Forfeits	30,000	0.8%
Miscellaneous Revenues	107,292	2.9%
Interest Income	10,000	0.3%
Fund Transfers	39,288	1.0%
<b>Total 2023 Revenues</b>	<b>3,672,664</b>	<b>100.0%</b>

### **2023 Revenue Highlights** –

- 2023 General Fund Revenues are projected to increase \$246,244 or 7.2% over 2022 General Fund Revenues largely owing to projected increases in the property tax levy, building permit revenue, contract revenue, and cell tower lease revenue.
- The property tax levy continues to be the major source of funding for the General Fund, constituting 72.2% of the 2023 General Fund Revenues.

**General Fund Expenditures** – Total 2023 General Fund Expenditures are budgeted at \$3,667,187 and consist of ten major departments:

Department	2023 Budget	% of Expenses
General Gov't / Elections	265,391	7.2%
Administration	395,576	10.8%
City Hall Buildings	54,200	1.5%
Zoning/Building Inspections	294,075	8.0%
Streets & Roads	161,400	4.4%
Public Works	446,798	12.2%
Parks & Recreation	119,800	3.3%
Police	1,324,629	36.1%
Fire Services	597,318	16.3%
Wildlife Management	8,000	0.2%
<b>Total 2023 Expenditures</b>	<b>3,667,187</b>	<b>100.0%</b>

### **2023 Expenditure Highlights** –

- Total 2023 General Fund Expenditures increased \$254,880 or 7.5% over 2022 General Fund Expenditures primarily owing to salary increases for municipal employees, a 52% increase in

worker’s compensation premiums, gasoline cost increases, an increase in staffing costs at the Excelsior Fire District, and an increase in contract & professional service costs.

- 2023 salaries will increase by \$105,700 or 7.6% in 2023 and will total \$1,515,488 or 41.3% of the total 2023 General Fund Budget.
- Projected increases in worker’s compensation insurance, gasoline costs, supply & contract services will have a significant impact on 2023 expenditures.
- Public Safety Departments accounts for 52.4% of all expenditures in the 2023 General Fund.

**Capital Improvement Fund** – The Capital Improvement Fund (CIF Fund) is a critical fund that finances all street improvement projects and the replacement of all street, police and park vehicles and equipment. The CIF Fund receives funding from two primary sources. The first is approximately \$94,000 each year in franchise fees that the City receives from Xcel Energy and CenterPoint Energy. Franchise fees are actually paid by Deephaven utility customers to Xcel and CenterPoint through a \$2.50 monthly franchise fee that appears on your monthly utility bill.

The second revenue source is through a \$450,000 property tax levy. These two revenues combine to provide \$544,000 per year in the CIF Fund – funds that are used to finance park projects, street improvement projects, and the replacement of aged vehicles and equipment that are planned each year.

**2023 Property Taxes** – The total property tax levy totals \$3,284,000 in 2023, which represents a \$208,318 or 6.8% increase over the 2023 property tax levy. With the continued increase in the City’s market value, the Tax Capacity Rate is expected to decrease from 17.740% to 15.100%, which is one of the lowest tax capacity rates in Hennepin County.

**WHAT IS DRIVING THE INCREASE IN THE 2023 PROPERTY TAX LEVY?**

1. **Increasing General Fund Expenditures.** Increasing expenditures in the 2023 General Fund have resulted in a \$208,318 increase in the General Fund property tax levy. The following is a brief overview of the increases in each General Fund Department:

Department	\$ Increase	Reason for Cost Increase
General Government	26,812	Worker’s compensation insurance increase
Elections	-9,540	No national, state & municipal elections in 2023
Administration	39,689	Salary & health insurance increases
City Hall	1,400	Slight increase in City Hall maintenance
Police	95,196	Salary, gasoline, supply cost increases & new radio leases
Fire Services	27,377	Increase in duty crew hours
Zoning & Building	38,636	Salary & inspection service fee increases
Streets & Roads	12,400	Increases in street supply costs & contract services
Public Works	22,110	Salaries, benefits, gasoline & vehicle maintenance cost increases
Parks & Recreation	800	Contract fee increases offset by supply cost reductions
Wildlife Control	0	No expected change in 2023
Total Increase	254,880	

2. **Increasing Employee Salaries.** With the ongoing difficulties in recruiting and retaining employees, particularly police officers, and with several employees considering retirement in 2023, the City Council authorized a 2022 Wage Study to ensure that the city's salary schedule was in-line with other comparable cities. The new wage schedule had a significant impact on the increase in 2023 General Fund expenditures as salaries increased by \$105,700 or 7.6% in 2023. The Council believes the new wage schedule will be a huge investment towards retaining existing employees and with the recruitment of new employees.
3. **Marginal Growth in General Fund Revenues.** The property tax levy continues to be the major source of funding for the General Fund, constituting 72.2% of 2023 General Fund revenues. Factoring out the property tax levy, all other General Fund revenues have increased by only \$36,244 or 1.1% of all General Fund revenues.

## **HOW WILL THIS INCREASE IMPACT THE TAXES YOU PAY IN 2022?**

There is a four-step process to determining your property tax increase.

**Step One:** Convert the market value of your property into tax capacity by using the following formula:

- a) 1<sup>st</sup> \$500,000 of market value x 1.0%
- b) Remaining market value over \$500,000 x 1.25%
- c) Add the results of a & b together to get the tax capacity of your property

**Step Two:** Multiply the tax capacity of your property by the City's 2022 tax capacity rate of 17.74%. This is the amount paid in property taxes to the City of Deephaven in 2022.

**Step Three:** Multiply the tax capacity of your property by the City's proposed 2023 tax capacity rate of 14.959%. This is the amount that will be paid in property taxes to the City of Deephaven in 2023.

**Step Four:** Subtract your 2022 City property tax in Step Two from your 2023 City property tax in Step Three to find your proposed City property tax increase for next year.

The following table shows you the impact of the 2021 vs. 2022 taxes payable to the City of Deephaven and the total taxes payable overall at an increasing level of market values. When the information becomes available from Hennepin County, the column on the far right-hand side will show the increase in the total 2023 taxes you will pay next year, which includes all the other taxing jurisdictions (School District, Hennepin County, City, Met Council, etc).

It is critical to note that it is very unlikely that your market value stayed the same from 2022 to 2023 as properties in Deephaven are projected to increase 20.5% off-lake and 24.1% on-lake in 2023. However, much of that growth in market value will be somewhat offset by the fact that all cities in Hennepin County are projected to increase an average of 14.6% off-lake and 25.0% on-lake in 2023.

## CITY & TOTAL TAX COMPARISON FROM 2022 TO 2023

Market Value	Tax Capacity	2022 (17.740%)	2023 (15.099%)	2023 City Tax Decrease	2023 Total Tax Decrease
300,000	3,000	\$532	\$453	(\$79)	(\$338)
650,000	6,875	\$1,220	\$1,038	(\$182)	(\$773)
1,000,000	11,250	\$1,996	\$1,699	(\$297)	(\$1,262)
1,300,000	15,000	\$2,661	\$2,265	(\$396)	(\$1,680)
1,700,000	20,000	\$3,548	\$3,020	(\$528)	(\$2,238)
2,000,000	23,750	\$4,213	\$3,586	(\$627)	(\$2,657)
2,300,000	27,500	\$4,879	\$4,152	(\$727)	(\$3,075)
2,700,000	32,500	\$5,766	\$4,907	(\$859)	(\$3,633)
3,000,000	36,250	\$6,431	\$5,473	(\$958)	(\$4,051)
4,000,000	48,750	\$8,648	\$7,361	(\$1,287)	(\$5,446)
5,000,000	61,250	\$10,866	\$9,248	(\$1,618)	(\$6,842)
6,000,000	73,750	\$13,083	\$11,136	(\$1,947)	(\$8,237)
7,000,000	86,250	\$15,301	\$13,023	(\$2,278)	(\$9,632)
8,000,000	98,750	\$17,518	\$14,910	(\$2,608)	(\$11,026)
9,000,000	111,250	\$19,736	\$16,798	(\$2,938)	(\$12,422)
10,000,000	123,750	\$21,953	\$18,685	(\$3,268)	(\$13,817)
11,000,000	136,250	\$24,171	\$20,572	(\$3,599)	(\$15,212)
12,000,000	148,750	\$26,388	\$22,460	(\$3,928)	(\$16,607)
13,000,000	161,250	\$28,606	\$24,347	(\$4,259)	(\$18,002)
14,000,000	173,750	\$31,178	\$26,235	(\$4,943)	(\$19,397)

- **Median valued home in Deephaven in 2023 is approximately \$650,000**

While these decreases in both the City and total combined property tax rates look impressive, the reality is that with the significant increase in the estimated market value in both the City and throughout all of Hennepin County, it is highly unlikely that many residential homes will be able to keep their same market value from 2022 to 2023 to enjoy this overall decrease in property tax rates. Indeed, the primary reason for the overall decrease in the property tax rates is directly owing to the significant increase in the estimate market value of residential properties.

**HOW DOES DEEPHAVEN’S 2023 PROPOSED TAX CAPACITY RATE  
COMPARE WITH OTHER CITIES IN HENNEPIN COUNTY?**

Deephaven’s 2023 proposed tax capacity rate of 15.100% compares very favorably with other cities in Hennepin County.

- The average proposed 2023 tax capacity rate of all 45 cities in Hennepin County is 35.952% vs. 15.100% in Deephaven
- In 2023, Deephaven will have the fourth lowest 2023 tax capacity rate in Hennepin County behind only Woodland (8.695%), Greenwood (10.370%), and Tonka Bay (14.063%).
- In 2022, Deephaven had the fifth lowest 2022 tax capacity rate in Hennepin County behind only Woodland (10.533%), Greenwood (12.468%), Tonka Bay (15.630%) and Orono (17.253%)

**2023 PROPOSED TAX CAPACITY RATES  
OF CITIES IN HENNEPIN COUNTY**

CITY	TAX RATE		CITY	TAX RATE
Bloomington	39.823		Medina	22.600
Brooklyn Center	55.914		Minneapolis	57.629
Brooklyn Park	44.391		Minnetonka	34.110
Champlin	36.626		Minnetonka Beach	20.771
Chanhassen	20.361		Minnetrista	19.146
Corcoran	41.971		Mound	32.378
Crystal	47.354		New Hope	58.569
Dayton	35.619		Orono	16.567
<b>Deephaven</b>	<b>15.100</b>		Osseo	58.091
Eden Prairie	28.972		Plymouth	24.689
Edina	28.172		Richfield	52.132
Excelsior	30.058		Robinsdale	49.679
Golden Valley	53.726		Rockford	40.888
Greenfield	33.198		Rogers	33.538
Greenwood	10.370		Shorewood	22.411
Hanover	39.052		Spring Park	30.105
Hopkins	62.914		St. Anthony	63.149
Independence	33.645		St. Bonifacius	24.114
Long Lake	33.427		St. Louis Park	44.711
Loretto	57.119		Tonka Bay	14.063
Maple Grove	26.961		Wayzata	19.823
Maple Plain	53.563		Woodland	8.695
Medicine Lake	41.627		<b>Average Tax Rate</b>	<b>35.952</b>

**SUMMARY OF PROPERTY TAX IMPACT**

- **THE TOTAL PROPERTY TAXES PAID BY DEEPHAVEN RESIDENTS WILL, WITH FEW EXCEPTIONS, INCREASE IN 2023 DUE TO THE SIGNIFICANT INCREASE IN RESIDENTIAL MARKET VALUES WHICH WILL OFFSET THE OVERALL DECREASE IN TAX CAPACITY RATES.**

<b>Tax Jurisdiction</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>City of Deephaven</b>	<b>17.028%</b>	<b>17.855%</b>	<b>15.100%</b>
<b>Minnetonka School District</b>	<b>20.915%</b>	<b>20.992%</b>	<b>17.720%</b>
<b>Hennepin County</b>	<b>38.079%</b>	<b>38.366%</b>	<b>34.805%</b>
<b>Riley Purgatory Watershed District</b>	<b>1.989%</b>	<b>1.966%</b>	<b>1.753%</b>
<b>All Other Taxing Jurisdictions</b>	<b>7.785%</b>	<b>7.819%</b>	<b>6.930%</b>
<b>Total NTC Based Rate</b>	<b>85.796%</b>	<b>86.998%</b>	<b>76.308%</b>
<b>Minnetonka School MV Levy</b>	<b>0.32491%</b>	<b>0.31259%</b>	<b>0.30671%</b>

- **2023 GENERAL FUND EXPENDITURES WILL INCREASE \$254,880 OR 7.5% OVER 2022 GENERAL FUND EXPENDITURES DUE TO:**
  - **Salary increases of \$105,700 or 7.6% in 2023 to recruit and retain city employees.**
  - **Salaries in the General Fund will total \$1,515,488 or 41.3% of the total 2023 General Fund Budget.**
  - **General projected increases in worker’s compensation insurance, gasoline costs, supply & contract services.**
  - **Public Safety Departments account for 52.4% of all expenditures in the 2023 General Fund.**
- **2023 GENERAL FUND REVENUES INCREASED \$246,244 OR 7.2% OVER 2022 GENERAL FUND REVENUES DUE TO:**
  - **\$210,000 increase in the 2023 property tax levy.**
  - **All other General Fund revenues with the exception of permit and contract fees will remain relatively flat.**
- **THE \$1,500,000 STREET IMPROVEMENT BOND THAT WAS ISSUED TO FUND THE RECONSTRUCTION OF MINNETONKA BLVD AND OTHER CITY STREETS WILL ADD \$188,265 TO THE 2023 PROPERTY TAX LEVY AS THE FOURTH YEAR’S BONDED DEBT PAYMENT.**
- **2023 CAPITAL IMPROVEMENT FUND PROPERTY TAX LEVY WILL REMAIN AT \$450,000 – WHICH WILL PROVIDE FUNDING FOR:**
  - **Administrative equipment (IT equipment & upgraded phone system)**
  - **Street Improvement Projects**
  - **Police vehicles & equipment**
  - **Park equipment & improvements**

- **EVEN WITH A 6.8% PROPERTY TAX LEVY INCREASE, THE CITY'S TAX CAPACITY RATE WILL DECREASE FROM 17.855% IN 2022 TO 15.100% IN 2023.**
- **IN COMPARISON WITH THE OTHER 44 OTHER CITIES IN HENNEPIN COUNTY, DEEPHAVEN WILL HAVE THE 4<sup>TH</sup> LOWEST TAX CAPACITY RATE IN HENNEPIN COUNTY IN 2023. IN 2022, DEEPHAVEN HAD THE 5<sup>TH</sup> LOWEST TAX CAPACITY RATE.**

**IF YOU HAVE ANY QUESTIONS, PLEASE FEEL FREE TO CALL ADMINISTRATOR DANA YOUNG AT 952-358-9939 OR EMAIL HIM AT [DANAY@CITYOFDEEPHAVEN.ORG](mailto:DANAY@CITYOFDEEPHAVEN.ORG).**

**OTHERWISE, A MORE EXTENSIVE REVIEW OF THE 2023 BUDGET & LEVY WILL BE PROVIDED AT 7:00 P.M. ON MONDAY, DECEMBER 5<sup>th</sup> AT THE ANNUAL TRUTH IN TAXATION MEETING.**