UNDERSTANDING PROPOSAL A IN THE CURRENT MARKET

Assessing

Each year, the Assessing Office is required to calculate the SEV for every property in the township based on the time frame as outlined by the State Tax Commission. A property's taxable status is determined as of December 31 each year, which is called Tax Day. Your SEV is basically the assessment set by the local assessor once the county and state approve the local assessor's data. The SEV represents half of the market value of your property based off arms-length sales that have occurred over the last two years. The date range for sales to use for the 2009 assessments is April 1, 2006 to March 31, 2008. In some cases a one-year sales study (October 1, 2007 to September 30, 2008) can be used.

Proposal A

Prior to 1995, property taxes were calculated off of the SEV. Simply speaking, if sales in your area indicated assessments were low by 10% in a given year your SEV **&** tax bill usually increased to get values in line with the market. One common scenario was a retired individual on a fixed income who lived on a lake property they had owned for many years. As lake values increased at 10-15% a year, so would their SEV **&** tax bill. Many individuals complained to the legislature that they were being taxed out of their homes. The solution the Michigan legislature came up with was Proposal A. On March 15, 1994, Michigan voters approved the **constitutional amendment** known as Proposal A. **Proposal A was designed to limit the annual increase in property taxes to the Consumer Price Index (CPI) never to exceed 5% until ownership in the property was transferred.**

How Does It Work?

Along with the SEV we now have two other values that are calculated – the **Taxable Value** and the **Capped Value**. **Taxable Value is the value that is used to calculate your tax bill**. It is easy to calculate, it is the either your SEV or your Capped Value whichever is lower. The Capped Value is basically the prior years taxable value multiplied by the Consumer Price Index (CPI) for the year never to exceed 5%. The actual capped value formula is a bit more complicated because it addresses things like new construction and fire losses, but for simplicity sake lets stick with last years taxable value multiplied by the CPI. **For 2009, the statewide CPI has been calculated by the State Tax Commission to be 4.4%. This is the highest CPI since the inception of Proposal A and very near the 5% cap.**

How can my Taxable Value go up when my SEV goes down?

Due to market conditions this has become a common scenario. Since the beginning of Proposal A in 1994, overall increases in SEV have generally been greater than the increase in Taxable Value capped at the CPI. **The longer a property has been owned and capped, the greater the gap becomes between SEV and Taxable Value. Even with a decrease in SEV for 2009, if there is still a gap between SEV and Taxable Value and the 2009 SEV is greater than the Taxable Value in the previous year, the Taxable Value will increase by the CPI of 4.4% or up to the 2009 SEV whichever is lower.** If, however, the 2009 SEV is **lower** than the calculation of last year's Taxable Value multiplied by the CPI, then the 2009 Taxable Value will be the same as the 2009 SEV.

Another way to look at this is as follows. Take your 2009 SEV and double it, let's pretend it's 90,000 SEV so a market value of 180,000. This is what the local unit has calculated your fair market value is based off actual arms-length sales that have occurred in your area. Now take your 2009 taxable value and double it. Let's pretend it is 75,000 Taxable Value so a value of 150,000. In this scenario Proposal A has created a situation where the property is valued based off sales at 180,000. However, the property owner is paying taxes like the property is worth only 150,000. To take this a step further, if the prior year's SEV was 100,000 and now decreased to 90,000 the taxable value would still increase up to 75,000. The SEV would need to dip below the 75,000 mark for the taxable value to chase it. In many instances SEV's are decreasing but not enough to affect the taxable value.

My neighbor's house is bigger and they have more land and they pay less in taxes?

Every property's tax position is unique based off the many individual issues that have affected that property over the years. Two identical neighboring properties, with identical SEV's, can have very different taxable values based off circumstances and therefore very different tax bills. When we changed our constitution we removed the "equity" portion of property taxation. The local assessor is required to have equitable and accurate assessments. However, as explained above, taxable value and taxes are more a math function based off years of different variables and are not equitable.

I just paid less then what the assessor has valued my property at.

It is easy to understand that some people for a variety of reasons get a good deal on a piece of property and by the same token some individuals may pay too much. It is the assessor's job to analyze all arms-length sales to set uniform values within individual neighborhoods. The law defines True Cash Value as the **usual** selling price of a property. The State Legislature and the Courts have very clearly stated that **the actual selling price of a property is not a controlling factor in the True Cash Value or State Equalized Value** as calculated by the Assessor. For this reason, when analyzing sales for the purpose of determining assessment changes, the Assessing Office will review all sales but exclude non-representative sales from the assessment analysis. If your sale is found to be arms-length then it will be used in the analysis with all sales in that neighborhood. As mentioned above the assessor has guidelines they must follow as far as time lines for what sales dates can be included in the current year's studies.

I currently have my property listed for less than you have it valued at.

This is very tough. As mentioned above the assessor has guidelines they must follow as far as time lines for what sales dates can be included in the studies. The assessor must use arms-length sales that have actually occurred and cannot use a listing price. Unfortunately, property owners in this scenario rarely want to hear "we will use the sale price in our studies once the sale occurs". These are good examples to present to the March Board of Review to indicate what is happening to properties in a certain area.

Foreclosure Sales & Bank Sales

In the past few years we have witnessed the foreclosure of a record number of properties. Some of this has been due to poor economic conditions, but it would be incorrect not to point out the inappropriate lending techniques that have been administered over the past several years. There are many horrible stories about true family financial tragedy due to job loss etc. However, there are a lot of properties that are reverting back to banks that were inevitable due to a variety of predatory or irresponsible lending techniques. The State Tax Commission has allowed the use of foreclosure sales to be used in the preparation of the assessment rolls. However, these sales must meet a set of standards and requirements established by the State Tax Commission. The holder of the mortgage, which is usually the seller of the real estate, **must** provide a Real Property Statement to the local assessor. These forms are rarely, if ever, submitted and therefore do not appear in the township sale studies. In addition to the returning of the forms, other conditions must also be met. One of the more important conditions and, most obvious, is that the home must not show any signs of vandalism or excessive deferred maintenance. It should be in approximately the same condition as the surrounding properties. This is rarely the case. As a result of the State Tax Commission requirements, very few foreclosure sales are included in the preparation of the Assessment rolls. Ultimately, these properties are available for sale and part of the overall residential inventory and should affect the sales price of arms-length sales.

Property Values are down over 20%, I heard it on the news.

These figures are usually based off statewide data that includes the aforementioned bank sales. We are required to analyze the actual arms-length sales that have occurred in your neighborhood to set fair and uniform assessments. Remember that the assessor is measuring the sales that are happening in relation to the prior years SEV's. If there was not a lot of sales data in an area in prior years and some has occurred recently to indicate the area was undervalued an increase may be justified.

Summary

The current economic conditions are affecting geographical areas and property types differently throughout the state. Proposal A has been a great tool during the past decade of increasing property values to help insulate many property owners against large property tax increases. However, due to the difference in SEV and Taxable Value when the economy takes a down turn and property values are flat or decreasing in some areas property taxes don't necessarily follow suit. This can be very hard to swallow. The worst culprit is the concept of stagflation where the economy is decreasing while inflation is on the rise. The CPI increase for 2009 set by the State Tax Commission is 4.4%. This is the highest it has been since the inception of Proposal A. We assume this is due to the past year of high fuel prices affecting the cost of many different goods. We certainly understand the difficulty many Michigan families are facing in these trying times and we strive to be as fair and accurate as possible in doing our job.