UNDERSTANDING PROPOSAL A IN A DECLINING MARKET

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Proposal A

On March 15, 1994, Michigan voters approved Proposal A, an amendment to the Constitution.

Proposal A was designed to limit the growth in property taxes to the Consumer Price Index (CPI) until ownership in the property transferred.

How it Works

Before Proposal A, property taxes were based upon State Equalized Value (SEV), which is basically half of market value. With the implementation of Proposal A, property taxes are now based upon Taxable Value.

The Assessor, following Proposal A, must calculate three values for each property: State Equalized Value, Capped Value, and Taxable Value. Each year, the Assessor must calculate the SEV for every property based upon the time frame as outlined by the State Tax Commission. A property's taxable status is determined on December 31, Tax Day.

Each property has a Capped Value. Capped Value is calculated by multiplying the prior year's Taxable Value, with adjustments for additions and losses, by the CPI as calculated by the State of Michigan and is limited to a maximum of 5% per year. For 2010, the CPI has been calculated at .997%, which is the first time since Proposal A's inception that Taxable Value has decreased.

Taxable Value (TV) is the lower of State Equalized Value or Capped Value and is what property taxes are based on.

Generally speaking, this means that unless the current year SEV is less than the prior value multiplied by the CPI, the current year's Taxable Value will be adjusted by the CPI. (Multiply the 2009 Taxable Value by .997 for 2010 Capped Value.)

SEV = 50% of True Cash Value

Capped Value =
(Prior TV-Losses) x (1+CPI*) + Additions

*Percent of change in the rate of inflation or 5%, whichever is less, expressed as a multiplier

Taxable Value = The lesser of State Equalized Value or Capped Value unless there was a transfer of ownership during the previous year

The Equalization Timetable

With evidence of declining market values, jurisdictions were required to use a 12 month sales study unless they were granted an exemption from the State Tax Commission to determine values for 2010 assessment cycle.

For 2010 assessments, the 12 month sales study begins October 1, 2008 and ends September 30, 2009. Use of a 12 month study may allow 2010 assessments to more accurately reflect current market conditions; however, the limited number of current sales also means that many areas have limited data for the Assessor to calculate current assessments. The study period for a two year study is October 1, 2007 through September 30, 2009.

Sale Price is <u>not</u> Presumed to be True Cash Value

The law defines True Cash Value as a property's usual selling price. The Legislature and the Courts have clearly stated that the actual selling price of a property is not the controlling factor in the True Cash Value or State Equalized Value as calculated by the Assessor. When analyzing the sales to determine assessment changes, the Assessor will review all sales but exclude non-representative sales from the assessment analysis.

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Foreclosure Sales

Basic to the definition of usual selling price is the assumption that the sale does not involve any element of distress from either party.

The State Tax Commission has issued guidelines concerning foreclosure sales and generally speaking, these guidelines prevent the Assessor from considering foreclosure sales when calculating values for assessment purposes.

Distressed sales, such as sales involving mortgage foreclosure or sales involving transfers to or from relocation companies, are not considered as "usual" sales in the valuation of property for assessment purposes nor are they reliable indicators of value when making market comparisons for current assessed values or appeals.

They may be used if specific criteria are met and the Assessor demonstrates that they reflect the current market.

Transfers of Ownership and Uncapping of Assessments

Under Proposal A, when a property (or interest in a property) is transferred, the following year's SEV becomes that year's Taxable Value. For example, if you purchased a property in 2009, the Taxable Value for 2010 would be the same as the 2010 SEV. The Taxable Value will then be "capped" again in the second year following the transfer of ownership.

It is the buyer's responsibility in a transfer to file a Property Transfer Affidavit with the Assessor's office within 45 days of the transfer. Failure to file a Property Transfer Affidavit may result in a $5 per day penalty for each day after the 45 day period with a maximum of $200. Property Transfer Affidavit forms are available at our office.

It is important to note that a property does not uncap to the selling price but to the SEV in the year following the transfer of ownership.

Principal Residence Exemption

If you own and occupy your home as your principal residence, it may be exempt from a portion of local school operating taxes. You may check your percentage of principal residence exemption on your "Notice of Assessment".

If the percentage exempt as a "Principal Residence" is 0% on your assessment notice and you wish to claim an exemption for the current year, a Principal Residence Exemption Affidavit must be completed and filed with the Assessor's Office prior to May 1.

Furthermore, if you currently have a Principal Residence Exemption on your property and you no longer own and occupy the property as your primary residence, you must rescind the Principal Residence Exemption with the Assessor's Office.

Forms to claim a new exemption or to rescind a current exemption are available in our office during normal business hours or on our website.

So What Does it all Mean?

How can I expect my assessment to change in 2010?

For 2010, some units in the county are using two year studies and most are using one year studies.

Using more current sales data means that most properties will see a lower SEV for 2010. The problem, however, is that there are fewer valid sales for the assessor to use to set values. Some neighborhoods have no sales data for the Assessor to use to determine values for the 2010 assessment roll. Therefore, many neighborhood adjustments will be based on market activity in surrounding areas, general market trends, or be frozen until market levels can be determined. Without sufficient sales to make proper calculations, you may find that your 2010 assessment may not go down.

How come my Taxable value hasn't decreased as much as my State Equalized Value?"

The definition of Taxable Value is the lesser of SEV or last year's Taxable Value (adjusted for physical changes) times the CPI (.997% for 2010).

Since Proposal A was implemented 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 larger the gap between SEV and Taxable Value. Even with the decrease in SEV for 2010, if there is still a gap between the SEV and Taxable Value and the 2010 SEV is greater than the Taxable Value in the previous year, the Taxable Value may decrease less than the decrease in assessment.

If, however, the 2010 SEV is lower than the calculations of last year's Taxable Value multiplied by the CPI for 2010, then the 2010 Taxable Value will be the same as the 2010 SEV.

Example of Declining State Equalized Value and Increasing Taxable Value

This example illustrates a property that was purchased in 1998 and uncapped in 1999. In 1999 the SEV became the new taxable Value and then the property was subsequently recapped at the CPI. The SEV will increase or decrease based on market conditions. The Capped Value is adjusted by the CPI in the following year. Taxable Value is determined by using the SEV or Capped Value, whichever is less.
In this example, the property experienced a loss in SEV from 2006 to 2009. Although the loss was due to market conditions, the Taxable Value will continue to increase by the CPI during 2006-2009. In 2010 the CPI decreased for the first time since the implementation of Proposal A. In the previous years under Proposal A the Taxable Value will continue to increase at the CPI until the SEV falls below Capped Value.

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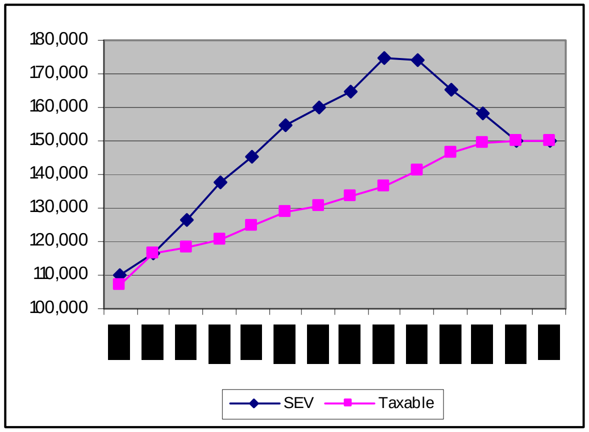
Year	***SEV***	***Capped***	***Taxable***	***CPI***
1997	110,000	106,910	106,910	2.80%
1998	116,650	109,790	116,650	2.70%
1999	126,500	118,510	118,510	1.60%
2000	137,500	120,760	120,760	1.90%
2001	145,250	124,620	124,620	3.20%
2002	154,750	128,600	128,600	3.20%
2003	160,000	130,520	130,520	1.50%
2004	165,000	133,520	133,520	2.30%
2005	175,000	136,590	136,590	2.30%
2006	174,000	141,090	141,090	3.30%
2007	165,110	146,310	146,310	3.70%
2008	158,000	149,670	149,670	2.30%
2009	150,100	156,704	150,100	4.40%
2010	150,000	156,233	150,000	-0.30%

Chart of Table Above



In this example, the values cross for 2010 and the Taxable Value is the same as the SEV. For most taxpayers, the 2010 Taxable Value will go down to 99.7% of the 2009 Taxable Value based on the CPI decline.

The laws concerning this process are set by the State, and Legislation has been proposed to make some changes in this process. <u>**If you are dissatisfied with the process, you may wish to share your concerns with your state senator and representative. Most reforms require a change in the law.**</u>