UNDERSTANDING "PROPOSAL A" IN A DECLINING MARKET 2010 EDITION

Proposal A

On March 15, 1994, Michigan voters approved the constitutional amendment known as Proposal A.

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

How It Works

Prior to Proposal A, property taxes were based upon State Equalized Value (SEV). With the implementation of Proposal A, property taxes are now based upon Taxable Value.

Each year, the Assessing Office 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 as of December 31, which is called Tax Day.

Additionally, 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 cannot increase by more than 5%. **For 2010, the CPI has been calculated at -0.30%.**

(*)Local Units CANNOT develop, adopt or use an inflation rate multiplier other than -0.30% in 2010.

Taxable Value (TV), which property taxes are based on, is defined as the **Lesser** of State Equalized Value or Capped Value.(adjusted for physical change times the C.P.I)

Generally speaking, this means that unless the current year SEV is less than the previous year Taxable Value multiplied by the CPI, the current years Taxable Value will increase / decrease by the CPI.

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 <u>lesser</u> of State Equalized Value or Capped Value unless there is a transfer of ownership.

The Equalization Timetable

With significant evidence of declining market values, the Emmet County Equalization Department has allowed the Local Assessors to consider a 12 month sales study to determine values for the 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 allows 2010 assessments to more accurately reflect current market conditions, however, **any sale that occurs after September 30, 2009 will not be used for assessment purposes until the 2011 assessment roll.** It is important to remember this when reviewing your 2010 assessment. Any appeal to the Board of Review should use data from the time period of study and not use sales occurring after the time period of study.

Actual Sale Price is not True Cash Value

The law defines True Cash Value as the **usual** selling price of a property. The 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.

Foreclosure Sales

The sale of foreclosed properties is having an impact on the real estate market in general. Recent changes in State Guidelines have occurred which allow for the use of foreclosed sales in our analysis **IF** certain conditions are met.

If the foreclosure sale has been analyzed, properly verified and meets the conditions of a fair and representative market transaction, it can be included in the State Tax Commission One-Year sales study. Not all foreclosures are considered as typical 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.

Transfers of Ownerships and Uncapping of Assessments

According to Proposal A, when a property (or interest in a property) is transferred, the following year's SEV becomes that year's Taxable Value. In other words, if you purchased a property in 2009, the Taxable Value for 2010 will 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 responsibility of the buyer 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 will result in a penalty. Property Transfer Affidavit forms are available at the local Assessor's Office or under Local Government Services/ Forms at the following web site link:

www.michigan.gov/treasury/

Again, 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 "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 at the Local Assessor's Office during normal business hours or under Local Government Services/Forms at the following web site link:

www.michigan.gov/treasury/

So What Does it all Mean? How can I expect my assessment to change in 2010?

As stated in the Equalization Timetable, for 2010, the time period of the sales study for assessment review is October 1, 2008 through September 30, 2009.

Using more current sales data means that **many properties will experience a decrease of the SEV in the township for 2010.** If the reduction in SEV is to a figure less than the 2009 Taxable Value there will also be a reduction in Taxable Value for 2010. **If your 2010 Taxable Value goes down, there will be a corresponding decrease in the 2010 property taxes.**

The problem, however, is that there is limited sales data in the current 12 month study so many neighborhoods have little or no sales for the Assessor to use for the 2010 assessment roll. Therefore, many neighborhood adjustments will be based on market activity in the 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 as much as you think it should.

How can my SEV go down but my Taxable value does not go down at the same rate?

Remember that the definition of Taxable Value is the lesser of SEV or last year's Taxable Value (adjusted for physical changes) times the CPI. (-0.30% for 2010).

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 between SEV and Taxable Value. Even with a decrease in SEV for 2010, **if there is still a gap between SEV and Taxable Value and the 2010 SEV is greater than the Taxable Value in the previous year, the Taxable Value will increase / decrease to the limit of the CPI cap.**

If, however, the 2010 SEV is **lower** than the calculation of last year's Taxable Value multiplied by the CPI, 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, purchased in 2000 and uncapped in 2001. In 2001 the SEV becomes the new Taxable Value and then the property is 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.

	SEV	Capped	Taxable	CPI
2000	$137,500	$106,910	$106,910	1.90%
2001	$116,650	$109,790	$116,650	3.20%
2002	$126,500	$120,382	$120,382	3.20%
2003	$137,500	$122,188	$122,188	1.50%
2004	$145,250	$124,998	$124,998	2.30%
2005	$154,750	$127,873	$127,873	2.30%
2006	$163,000	$132,093	$132,093	3.30%
2007	$169,000	$136,981	$136,981	3.70%
2008	$178,000	$140,131	$140,131	2.30%
2009	$175,000	$146,297	$146,297	4.40%
2010	$170,000	$145,858	$145,858	-0.3%

(*)The specific numbers from the US Department of Labor, Bureau of Labor Statistics are as follows:

Oct-07 208.936 Oct-08 216.573 Nov-07 210.177 Nov-08 212.425 Dec-07 210.036 Dec-08 210.228 Jan-08 211.080 Jan-09 211.143 Feb-08 211.693 Feb-09 212.193 Mar-08 213.528 Mar-09 212.709 Apr-08 214.823 Apr-09 213.240 May-08 216.632 May-09 213.856 Jun-08 218.815 Jun-09 215.693 Jul-08 219.964 Jul-09 215.351 Aug-08 219.086 Aug-09 215.834 Sep-08 218.783 Sep-09 215.969

Average 214.463 Average 213.768

Ratio 0.997 % Change -.3%