

# UNDERSTANDING PROPOSAL A IN A DECLINING MARKET

## 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 on State Equalized Value (SEV). With the implementation of Proposal A, property taxes are now based on Taxable Value.

Each year, the Assessing Office must calculate the SEV for every property based on the time frame as outlined by the State Tax Commission. A property's taxable status is determined as of December 31<sup>st</sup>, which is called Tax Day.

Additionally, each property has a Capped Value. A 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 2009, the CPI has been calculated at 4.4%.

Taxable Value, which property taxes are based on, is defined as the lower of State Equalized Value or Capped Value.

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

SEV = 50% of True Cash Value

Capped Value = (prior Taxable Value - 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 is a transfer of ownership

## The Equalization Timetable

With significant evidence of declining market values, the State Tax Commission has allowed a portion of Iosco County, including the City of East Tawas, to consider a 2-year sales study to determine values for the 2009 assessment cycle.

For 2009 assessments, the 2-year sales study begins March 31, 2006 and ends April 1, 2008.

Use of a 2-year study allows 2009 assessments to more accurately reflect current market conditions, however, some areas may have a limited number of current sales. In these areas, it may be necessary for the Assessor to expand areas for reviewing neighborhood analysis or estimate market changes based upon trends.

## 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

Inherent in the definition on 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 preclude the Assessor from considering foreclosure sales when calculating values for assessment purposes.

For this reason, all distressed sales, such as sales involving mortgage foreclosure or sales involving transfers to or from relocation companies, are not 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 Ownership 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 2008, the Taxable Value for 2009 will be the same as the 2009 SEV. The Taxable Value will then be "capped" again in the second year following 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 of \$5 per day for each day after the 45 day period with a maximum penalty of \$200. Property Transfer Affidavit forms are available at the Assessor's Office in City Hall.

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" that is mailed in March of each year.

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<sup>st</sup>.

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 Assessor's Office in City Hall during normal business hours.

## So What Does It All Mean?

How can I expect my assessment to change?

As stated in the Equalization Timetable, for 2009 the time period of the sales study for assessment review is March 31, 2006 through April 1, 2008. Sales occurring after April 1, 2008 will not be reviewed until the 2010 assessment cycle.

There is limited sales data in some areas in the current sales study so some neighborhoods have little or no sales for the Assessor to use. As a result, 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 property calculations, you may find that your 2009 assessment didn't go down as much as you thought it should.

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

Remember that the definition of Taxable Value is the lesser of SEV or last year's Taxable Value (adjusted for physical changes) multiplied by the CPI (4.4% for 2009).

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 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 to the limit of the CPI cap.

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.

## Example of Declining State Equalized Value and Increasing Taxable Value

This example illustrates a property purchased in 1997 and uncapped in 1998. In 1998 the SEV becomes the new Taxable Value and then the property is 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 experiences a loss in the SEV from 2005 to 2008. Although the loss was due to market conditions, the Taxable Value continues to increase by the CPI during 2005-2009. The Taxable Value will continue to increase at the CPI until the SEV falls below Capped Value.

	SEV	CAPPED	TAXABLE	CPI
1997	\$ 110,000	\$ 106,910	\$ 75,359	2.80%
1998	\$ 116,650	\$ 116,650	\$ 116,650	2.70%
1999	\$ 126,500	\$ 118,516	\$ 118,516	1.60%
2000	\$ 137,500	\$ 120,768	\$ 120,768	1.90%
2001	\$ 145,250	\$ 124,633	\$ 124,663	3.20%
2002	\$ 154,750	\$ 128,621	\$ 128,621	3.20%
2003	\$ 160,000	\$ 130,550	\$ 130,550	1.50%
2004	\$ 165,000	\$ 133,553	\$ 133,553	2.30%
2005	\$ 175,000	\$ 136,625	\$ 136,625	2.30%
2006	\$ 174,000	\$ 141,133	\$ 141,133	3.30%
2007	\$ 165,110	\$ 146,355	\$ 146,355	3.70%
2008	\$ 158,000	\$ 149,721	\$ 149,721	2.30%
2009	\$ 158,000	\$ 156,309	\$ 156,309	4.40%

A house purchased in 2007, is uncapped in 2008, but in a declining market, the Taxable Value cannot be more than the SEV.

	SEV	CAPPED	TAXABLE	CPI
2007	\$ 33,000	\$ 21,265	\$ 21,265	3.70%
2008	\$ 28,000	\$ 28,000	\$ 28,000	2.30%
2009	\$ 26,700	\$ 28,000	\$ 26,700	4.40%