

Proposal A and the current Real Estate Market

Michigan voters approved **Proposal A** as a constitutional amendment on March 15, 1994. Proposal A was designed to limit increases in property taxes to the **Consumer Price Index (CPI)** or 5%, whichever was less, until ownership of the property was transferred. Prior to 1994, property taxes were based on **Assessed Value (AV)** and **State Equalized Value (SEV)** which equals 50% of the **True Cash Value** of the property. Every change in the SEV would result in a change in property tax. Since the implementation of Proposal A, property tax bills are based upon **Taxable Value**. Taxable Value only changes from one year to the next based on a physical change to a property (i.e. new construction or demolition) and is adjusted by either the CPI or 5% whichever is less and does not directly relate to market conditions. Taxable Value may also increase the year following a sale due to the uncapping provisions of Proposal A.

True Cash Value:	Usual Selling Price of a type of property in a specific location
AV:	Assessed Value is 50% of a property's True Cash Value
SEV:	State Equalized Value is AV times the Equalization Factor Final SEV is 50% of True Cash Value
Capped Value:	Last year's taxable minus any demolition times the CPI or 5% plus any new construction
Taxable Value:	The smaller number of SEV and Capped Value
CPI:	Inflation rate multiplier calculated by the state of Michigan

State law requires the Assessor to calculate the **True Cash Value** and **Assessed Value** each year for every property. Changes in value are based upon a sales study. The dates of the study are set by the Michigan State Tax Commission; for the 2009 assessment, the dates were set at April 1, 2006 to March 31, 2008.

The CPI used each year to determine the **Taxable Value** of a property is a State of Michigan calculation. The State relies on an analysis by the US Department of Labor's Bureau of Labor Statistics. The CPI for 2009 is **4.4%**. For additional information on the calculation of the Consumer Price Index (CPI) please refer to the State of Michigan website at www.michigan.gov/treasury, and click on Local Government Services.

When reviewing this year's assessment change notice some property owners may find their property's SEV going down while their Taxable Value is up. How is that possible in these market conditions? As outlined above, the two values are calculated differently and impacted by differing factors. The **SEV** is impacted by the sales study. The **Taxable Value** will be last year's Taxable Value times the CPI (4.4% for 2009) or the SEV, whichever is less unless there is a transfer of ownership or a physical change to the property.

In addition, foreclosures and distress sales do not affect the **True Cash Value**. Michigan 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 the controlling factor in the True Cash Value or State Equalized Value as calculated by the Assessor. 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.

This is the side of Proposal A our community has not experienced until recently. Since Proposal A was implemented in 1994, the **SEV** of our property has generally gone up more than **Taxable Value**. The longer a property is owned by the same person and the longer the increase is capped under Proposal A, the greater the gap between SEV and Taxable Value will become. Under Proposal A, **Taxable Values** can go up even in a flat or declining market as long as a gap exists between SEV and Taxable Value on a property.

Since its implementation most Michigan property owners have benefited from Proposal A. In the last 13 years property values statewide have increased by approximately 98%, while Taxable Values have only increased by about 43%.

We know this situation can be confusing. Should you have any questions or need additional information, please contact the City Assessor's office at (989) 779-5355. We wish to assist everyone in understanding Proposal A and how it impacts assessed values and property taxes.