



## **2009 ASSESSMENT CHANGE NOTICES**

The Assessment Change Notices for the 2009 tax year have been mailed for all residential properties and will be mailed shortly for the commercial and industrial properties. All property owners should expect to receive a notice from the City indicating any proposed change in the State Equalized Value (SEV) and the Taxable Value (TxV) for their property for 2009. Even if there is no proposed change in the SEV and/or TxV, Change Notices are prepared and mailed so that you are aware that there was no change. If you don't receive a Change Notice by March 6<sup>th</sup>, you should call the Assessor's Office (248.624.3280) to inquire about your assessment and request a copy of your 2009 Change Notice. After evaluating the proposed assessment change, if you feel you have grounds to contest the SEV proposed for your property for 2009 and your property is classified as Residential, you must file an appeal with the March Board of Review on or before their last scheduled meeting date which is Monday, March 16<sup>th</sup> this year.

Since the annual adjustments to the State Equalized Value of a property are based on the fair market value of the property, the SEVs on residential properties have been reduced this year, for obvious reasons, by an average of 10%. Some assessments have been reduced more than 10% and other less, depending on the type of property and its location. The overall adjustment for the city and adjustments for individual neighborhoods are determined based on sales studies conducted by both the Oakland County Equalization Department and by the local unit of government. We are currently using a one year sales study which, by State Tax Commission directive, includes only the valid, representative property sales which occurred in the time period from October 1, 2007 through September 30, 2008. Since the Assessor cannot use sales occurring after September 30<sup>th</sup>, 2008 and since adjustments are based on an average of the sales in the one year period which ended over five months ago, the proposed 2009 SEV in this declining real estate market could still be higher than 50% of what the property could sell for today. It should be emphasized that it is not the Assessor's role to forecast values or adjust values based on a trend. Assessments can be based only on the actual prices paid in representative real estate transactions occurring in the time period allowed by the State. You are welcome to view the sales used in our sales studies for this year's assessment by stopping by the Assessor's Office. You may also want to inspect your assessment record for accuracy.

The change in the Taxable Value on your property, which is the value used to calculate your actual property taxes for the year, is controlled strictly by Proposal A which was passed by the electorate in 1994. According to that amendment to the State Constitution, taxable values

throughout all of the State of Michigan can increase each year by no more than 5% or the consumer price index as calculated and published annually by the State plus the value of any additions to the assessed value for that year (new construction or the addition of items which were not previously on the assessment record) More information on how the CPI is determined can be found on the State of Michigan web site at [www.michigan.gov/taxes](http://www.michigan.gov/taxes) (click on Property Taxes in the left column when you get into the site).

The CPI index as set by the State for 2009 assessments is **1.044 or 4.4%**. This is the highest CPI index since Proposal A went into effect in 1995 and is the result of higher gasoline and food prices which occurred in the time period for which the CPI was calculated.

Taxable Value also cannot be greater than the current SEV on the property. If the SEV and TxV were the same in 2008, any decrease in the SEV for 2009 will equate to an equal decrease in the TxV for 2009. In 2008, only 44% of all real property parcels had TxVs which were equal to the properties' SEV. What this means is that close to 44% of property owners may see some increase in their TxV, up to 4.4% plus any new construction, even though there is a reduction in the SEV. While it may be hard to comprehend how the TxV can increase when residential market values are falling, this is how Proposal A was designed to work. The intent of Proposal A was to temper the annual increases in property taxes by limiting the increases to the CPI index. When the market value of real estate is increasing faster than the CPI index, the increases in TxV and property taxes would be limited to the CPI index or 5%. On the other hand when market values stabilize or decline, the TxV would catch up to the SEV by increasing at the CPI index until the gap between SEV and TxV was eliminated. Unfortunately, the CPI index for the past year is not a good indicator of what is happening in the total economy of this State and our county. The city has no control over the increase in TxV other than the limits set by the proposed SEV. The Board of Review cannot change the TxV unless they have approved a reduction in the SEV which puts the SEV at a lower amount than the proposed TxV.

Below is a further discussion of the assessing process which reiterates many of the comments above, but hopefully provides a little more detail and background information. The Oakland County Equalization Department has prepared a document which is their attempt to explain the working of Proposal A. You can access that document at

[http://www.oakgov.com/equal/assets/doc/real\\_prop/Prop%20A/08-12\\_propa\\_guide.pdf](http://www.oakgov.com/equal/assets/doc/real_prop/Prop%20A/08-12_propa_guide.pdf)

You can also go to a page on the State of Michigan web site which offers a video presentation on the implementation of Proposal A (go to the web site [www.michigan.gov/treasury](http://www.michigan.gov/treasury) and click "Property Tax Explanation Presentation" located under the heading "What's New at Treasury")

If you have questions regarding the change in the State Equalized Value or the Taxable Value for your property for 2009 or the general procedures for determining these values, please feel free to call the City of Wixom Assessors's Office (248.624.3280) or come into the Assessor's Office during normal working hours. The City Hall and Assessor's Office are open from 7:15 am to 5:30 pm, Monday through Thursday. Please be aware that the City Hall is now closed on Friday and the balance of the weekend.

John G. Sailer     Assessor / City of Wixom

## **DISCUSSION OF ASSESSMENT PROCEDURES AND THE ANNUAL CHANGES IN STATE EQUALIZED VALUE AND TAXABLE VALUE**

Prior to the electorates' passage of Proposal A in 1994, property taxes were calculated by multiplying the tax rates of the entities receiving revenue from the property tax times the State Equalized Value (SEV) of each property subject to taxation. SEV was and still is defined as 50% of the fair market value of the property. The Assessor annually determines an assessed value for all non-exempt properties within his or her jurisdiction. In the annual process of establishing fair and equitable assessed value, the Assessor must follow specific rules and guidelines developed by the State, with the Assessor's work monitored by the State Tax Commission for compliance. It is important that all units of government adhere to the assessing procedures set forth by the State so that property taxes are equitably levied based on a common denominator (50% of fair market value determined by following specific procedures).

Once property owners have been notified of any proposed change in assessed value, the preliminary values are reviewed, adjusted when necessary and certified by the local Board of Review. After further review by the County Equalization Department and by the State Tax Commission to assure that the properties in each jurisdiction are being properly assessed at 50% of market value, the final assessed value is set and referred to as the "State Equalized Value"(SEV). Prior to Proposal A, the SEV multiplied by the tax rate determined the amount of property taxes due.

Properties are valued each year based on their status on December 31<sup>st</sup>. This date is referred to as "tax day." The description and condition of a property as of tax day determines the physical entity which will be valued for the following year's assessment (eg.12-31-2008 is tax day for the 2009 assessments). It is important to note that while the taxable status of a property is established as of the last day of the year, the market value of the property is determined by means of an analysis of arms-length property sales (transactions between unrelated parties where there is no duress) which have occurred in a specific time frame. In the past the State has required that the Assessor use a two year sales study with specific starting and ending dates. For the 2009 assessments the two year period would include sales occurring between April 1<sup>st</sup>, 2006 and March 31<sup>st</sup>, 2008.

In a market where values are escalating, the use of a two year study resulted in current year assessed values lagging behind the actual market value of a property as of tax day. While a one year sales study was an option, it was not recommend by the State except in cases where a certain property type was experiencing declining values and where there were adequate sales in the one year period to establish market value. Previously the one year study was defined as including sales occurring in the year prior to the year for which the assessment is being established (eg 2008 sales for the 2009 assessments). With the notable decline in residential property values in recent years due to problems in the financial sector and due to a worsening

economy, the State has become more receptive to the one year sales study and last year, along with officially making it an option to consider when there were adequate sales, they redefined the time period of the one year study to include all arm-length market sales occurring in the period from October 1<sup>st</sup> through September 30<sup>th</sup> of the previous year. For the 2009 assessments, this would include sales which have closed between 10-1-2007 and 9-30-2008. The City of Wixom opted for the one year sales study in calculating the 2007 and 2008 assessments and will be using a one year study for the 2009 assessments.

The advantage of the two year study was that, generally, more sales were available to establish market value and in an escalating real estate market assessed values were generally a little lower than 50% of the market value of the property as of tax day. The disadvantage of the two year study is that it is generally not representative of what is currently happening in the real estate market and in a declining market it is slower to translate the decline into lower assessed values. Even with the use of a one year sales study in a declining market, assessed value will normally be somewhat higher than the probable market value of a property on tax day. This occurs since sales closing after September 30<sup>th</sup> are not included in the study and the sales that closed in the early months of the period will pull up the average in a market where the values are trending down. This, however, is not really a problem since it should be noted that it is not the Assessor's objective, as defined by the State's tax code, to estimate or forecast what the value of a property will be on tax day or in the following year. The objective is to determine equitable assessed values based on market values via a procedure which is consistently applied by all assessing jurisdictions in the state.

With the passage of Proposal A in 1994, the property tax system in Michigan was significantly altered in a number of ways. First, the option for a "Principal Residence Exemption" was added, providing for reduced tax rates for residential properties which are occupied as the owner's primary residence. Second, the concept of "taxable value" was introduced. Due to significant increases in the market value of, principally, residential real estate (increases which consistently exceeded the increases in household income) and due to the perception that the Headlee Amendment, which was supposed to reduce tax rates when assessed values increased, had failed; the State Legislature came up with the proposal that the value used for equitably distributing property taxes should not increase annually more than the consumer price index (CPI) or 5%, whichever is less and that value should not exceed the property's SEV. The new capped value was called "taxable value". Their proposal also provided that at the time a property is transferred to a new owner, the taxable value would automatically increase to the property's State Equalized Value in the year following the transfer (sale). For this reason and others, the Assessor was still required to annually determine an assessed value for each property via a sales study following State guidelines. Since this proposal required a change in the State Constitution, a Constitutional Amendment referred to as "Proposal A" was put before the voters in the Fall of 1994 and did win approval. Starting with the 1995 assessments, increases in the 1994 assessment attributable to market value (not to physical changes in the property) could not increase more than the CPI index or 5% and the resulting taxable value could not be greater than the SEV for that year.

This worked well as long as market values were increasing at a faster rate than overall inflation and as long as the CPI index remained relatively low. However, last year problems began to

appear and will be even more evident this year. Even though in many communities SEVs were reduced last year in response to declining market values, taxable values increased by 2.3% because the taxable value was still less than the reduced SEV. Tax payers had a hard time accepting an increase in their taxable value when their SEV was being reduced and when residential market values were dropping. While the CPI for 2008 was 2.3%, the CPI for 2009 has been set at 4.4%, the highest CPI since Proposal A went into effect in a year when residential property values have continued to decline for many property types. It should be explained at this point that the inflation rate used to annually adjust taxable values is calculated and published by the Michigan Department of Treasury and applies to all properties in the State. It is calculated using the U.S. City Average Consumer Price Index as reported by U.S. Department of Labor.

An attempt was made this past year by the State Legislature to place a proposal before the electorate that would restrict increases in taxable value to the amount of the increase in the SEV. The joint resolution supporting this proposal did not pass both Houses of the Legislature prior to the end of the year. Even if it had passed, the restriction on increases in taxable value could not have taken effect until the 2010 tax year since a vote of the electorate was required to implement the change (amendment to the State Constitutional required).. It is possible that a similar resolution will be approved in 2009; but again it would require voter approval and could have no effect until 2010 at the earliest. At this time, as long as the taxable value on a property is less than the SEV after the SEV has been adjusted for current market conditions, the taxable is required to be increased by the CPI index (4.4% for 2009) with the increase in taxable value not to exceed the proposed SEV.

In the City of Wixom, 44% of the 2008 taxable values are still less than the 2008 SEVs on those properties. Many SEVs on residential properties will be reduced again this year. The County's Equalization study for 2009 which was based on the use of a one year sales study determined that total assessed values for the residential class of properties must be reduced by 10%. This is an average for all residential properties. Depending on the location and type of property, the actual adjustment on individual properties could be more or less than the 10%. Adjustments are determined based on property type and location (neighborhood) by comparing the current SEV with sale prices resulting from typical market transactions. It is not assumed that all prior year SEVs were at 50% of market value and that an overall decrease in market values should be applied equally to all assessments. Some neighborhoods and some property types have been affected more than others by the current market conditions. For instance, at this time it appears that the SEVs on lakefront properties and higher valued properties will need to be reduced less because the sales for those properties do not justify significant reductions in the prior year's SEVs. Even though it may be arguable that their values have experienced notable declines, if the city's SEV is at 50% or less of the reduced market value, a reduction would not be justified. Increases or reductions in SEVs must be supported by arms-length market transactions involving comparable properties.

In conclusion, I want to emphasize that the assessed value and now the taxable value is only a means of distributing the cost of governmental services, hopefully in an equitable manner. Property taxes are ultimately determined by the tax rates annually authorized to be levied by the City Council, by the School Boards, by the County Commissions, and by the State (State

Education Tax). These entities, of course, are limited by State Law in their ability to raise tax rates. Any proposed increases may require a vote of the people. If the overall taxable value of the city, county or the various school district declines, either services have to be reduced or eliminated to achieve a balanced budget, tax rates have to be increased to continue to provide the same level of service or new sources of revenue have to be found. A reduction in the taxable value is not without consequences and may not necessarily result in a reduction in property taxes.

John G. Sailer  
Assessor / City of Wixom

### **Note**

For a video presentation regarding the implementation of Proposal A, you can go to the web site [www.michigan.gov/treasury](http://www.michigan.gov/treasury) and click “Property Tax Explanation Presentation” located under the heading “What’s New at Treasury”

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For more information on the calculation of the Inflation Rate Multiplier for 2009, go to the web site : [www.michigan.gov/taxes](http://www.michigan.gov/taxes) (click on Property Taxes in the left column when you get into the site.