UNDERSTANDING PROPOSAL A IN A DECLINING MARKET 2008 EDITION

Important Information

Please read the enclosed information. There have been some changes for the 2008 edition. If you still have questions, you can contact the

City of Farmington Hills Assessors Office
31555 W 11 Mile, Farmington Hills, MI 48336
(248) 871 –2470
Office Hours:
Monday—Friday
8:30 a.m. to 4:30 p.m.

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 2008, the CPI has been calculated at 2.3%.**

Taxable Value (TV), 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 years Taxable Value will increase 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 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 Oakland County Equalization Department has allowed the City of Farmington Hills to consider a 12 month sales study to determine values for the 2008 assessment cycle.

For 2008 assessments, the 12 month sales study begins October 1, 2006 and ends September 30, 2007.

Use of a 12 month study allows 2008 assessments to more accurately reflect current market conditions, however, the limited number of current sales also means that many areas of the City have limited data for the Assessor to calculate current assessments. It may be necessary for the Assessor to expand areas for reviewing neighborhood analysis or estimate market changes based upon area 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 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 2007, the Taxable Value for 2008 will be the same as the 2008 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 Assessors 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 City of Farmington Hills Assessors Office.

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 Assessors 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 Assessors Office.

Forms to claim a new exemption or to rescind a current exemption are available at the City of Farmington Hills Assessors Office during normal business hours.

So What Does it all Mean?

How can I expect my assessment to change in 2008?

As stated in the Equalization Timetable, for 2008, the time period of the sales study for assessment review is October 1, 2006 through September 30, 2007. Sales occurring after October 1, 2007 will not be reviewed until the 2009 assessment cycle.

Using more current sales data means that **almost every SEV in the City of Farmington Hills will be reduced for 2008.** 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 2008 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 2008 assessment may not go down as much as you think 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) times the CPI. (2.3% for 2008).

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 2008, **if there is still a gap between SEV and Taxable Value and the 2008 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 2008 SEV is **lower** than the calculation of last year's Taxable Value multiplied by the CPI, then the 2008 Taxable Value will be the same as the 2008 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 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 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 2005-2008. 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	$ 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%