



SAGINAW TOWNSHIP ASSESSORS OFFICE

ASSESSED VALUES IN A DECLINING MARKET

Decline of Real Estate Market Value in 2010

I would like to answer the obvious question before it is asked: **Yes, I do realize that the market values of many properties have declined this past year.**

With that question answered, my staff prepared this pamphlet in an attempt to provide information relating to assessed values in a declining market.

Recently each of us read newspaper articles or heard television reports that local real estate experts are declaring that there has been a decline of market value affecting residential property. Our own analysis supports those conclusions. However, it is a fact that real estate still retains value.

Determining what value to assign to a particular property for tax purposes is certainly a more difficult task for assessors in 2010. I would ask everyone to consider that our value estimates are not invalid just because there has been a market decline. Sales are still occurring, and the state mandated procedures for estimating property tax assessments must still be followed by our office. Your 2010 state equalized value is based on the processing of sales data coupled with the obligation to conform to state laws.

I personally thank you for taking time to read this pamphlet.

Dave Kern,
Director of Assessing

Proposal A

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

Proposal A was designed to limit the growth of property taxes by applying the Consumer Price Index (CPI) to a new value called the taxable value.

How It Works

Prior to the passage of Proposal A in 1994, property taxes were calculated using the state equalized value (SEV). After 1994 a new value called the taxable value (TV) replaced the SEV in the tax calculation process.

The SEV represents 50% of the assessor's estimate of the market value of the property. The SEV becomes relevant in the year following a transfer of ownership, or as an amount that establishes the maximum upper limit of the taxable value for a given year. The SEV (or assessed value) is estimated annually, and the SEV is based on typical and normal selling prices of similar properties.

The taxable value is calculated annually according to the formula required by the State Constitution. The formula is as follows:

$$2009 \text{ TV} - \text{Losses} \times \text{CPI} + \text{Additions} = 2010 \text{ TV}$$

The losses and additions in the above formula represent physical changes to the property.

The CPI (technically termed the Inflation Rate Multiplier) for 2010 is -0.3% , or expressed as a multiplier $.997$. The taxable value can never exceed the property's SEV, unless the property is altered or transfer of ownership occurs. The CPI cannot exceed 5% in any given year.

How the Inflation Rate Multiplier (CPI) is Established

The 2010 CPI used in the taxable value formula is set by statute (MCL 211.34d). This statute creates a multiplier using the annual averages of the consumer price index* as follows:

1. The 12 monthly values for 10/2007 – 09/2008 are averaged.
2. The 12 monthly values for 12/2008 – 09/2009 are averaged.
3. The ratio is calculated by dividing the average of #2 by the average of #1 above.

* From the US Dept. of Labor, Bureau of Labor Statistics.

Why Do Assessed Values Change Each Year?

Law requires that all cities and townships in Michigan use the same method of taxation. Statutes also mandate every township or city assess each class of property at 50% of its true cash value. Hence, two levels of equalization exist. The first level is within a county. Each township and city in Saginaw County is studied to ensure that all are assessing property at 50% of true cash value. The second level is state-wide. This statewide study makes sure that each county's level of assessment equals 50% of true cash value.

Assessed values are adjusted on the basis of these studies. The local assessor compares previous assessed values to selling prices and the values are then adjusted according to the findings of this relationship. The goal is to reach an average level of assessment of 50%.

The assessor's office does not adjust assessed values from year-to-year on the basis of direct market comparison. Rather, assessed values are adjusted by comparing the previous one or two year's assessments to actual sale prices of individual properties. By doing so, the assessor is measuring assessment performance.

Remember, state laws require that the average level of assessment in every community equals 50% of the assessed value / sale price relationship. Annual adjustments are made on the basis of these assessment performance studies and not by attempting to extract the amount of appreciation or depreciation that may have occurred in the local market. This value adjustment process takes place each year – in both increasing and decreasing markets. Assessors makes no attempt to declare that local real estate market changed any particular percentage from last year to this year.

Actual Sales 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 Assessors Office will review all sales but exclude non-representative sales from the assessment analysis.

Market Value Defined

State law defines market value or true cash value for property tax purposes as:

“. . . the usual selling price at the place where the property to which the term is applied is at the time of assessment, being the price that could be obtained for the property at private sale, and not at auction sale, . . . or at forced sale”. MCL 211.27(1)

There is no absolute point deemed as a property's market value. A property's market value lies within a range of values. This is evident when a property sells, as there is typically a negotiated sale price that falls somewhere between an asking price and an initial offer.

The assessor's goal is to place assessed values within a reasonable range. Determining the range requires analysis of many sales of similar properties. If the assessed value falls within a reasonable range of value, then it can be considered to be correct.

Foreclosure, Estate, Family, Relocation Sales

In the definition of usual selling price is the assumption that the sale does not involve an element of distress from either party.

The State Tax Commission issued guidelines concerning foreclosure sales and, generally speaking, these guidelines do not allow the assessor to utilize foreclosure sales when calculating values for assessment purposes. The Board of Review also must follow the guidelines established by the State Tax Commission relating to these types of sales.

For this reason, all distressed sales, such as sales involving mortgage foreclosure, sales from estates, family sales or sales involving transfers to or from relocation companies are not considered typical sales when estimating values for property assessment purposes nor, are they reliable indicators of value when making market comparisons for current assessed values or appeals. These types of sales are also omitted from equalization studies.

Can My SEV be Reduced and My Taxable Value Increase?

The short answer is yes. The SEV and taxable values are independent values. The SEV is adjusted annually based on sale and assessed value relationships, while the taxable value is determined by means of a mathematical formula.

If the 2010 taxable value calculation does not produce a number that exceeds the adjusted 2010 SEV - even when the SEV is reduced - then a situation can and will occur where the SEV decreases and the taxable value increases.

The taxable value is influenced by many factors, including the of length of ownership, past CPI multipliers and to some extent the amount of previous SEV adjustments.

Because the taxable value is a mathematical derivative, it cannot be appealed unless it is incorrectly calculated. As hard as it may be for some to accept, voters approved Proposal A, and it's currently the law. The local assessor or the Board of Review have no authority to revise it's provisions. The amount of increase or decrease of taxable value is dictated by the State Constitution and cannot be altered locally.

Board of Review – The Appeal Process

If you believe that an SEV exceeds 50% of the property's market value you may appeal the value to the local Board of Review. The Board of Review is a three member panel of township citizens that acts independently from the assessor's office. The board's primary authority is to review individual assessed values at the request of taxpayers. The Board of Review meets in March on dates specified by law to adjudicate assessed value appeals.

The Board of Review will base it's decisions on the market value of the property. This board will consider data presented by the property owner and may also use other information it deems pertinent to reach a final conclusion of value. An appeal based on the owner's contention of the value being "too high" or based on a comparison of other assessed values is typically viewed as being without merit.

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Appeal Process cont.:

The amounts of assessed value increase or reduction are also not reasons to appeal, as the degree of annual value adjustment may be necessary. The assessed value appeal must be based on the subject property's market value, and the best indication of market value are the arms length sales of similar property.

The taxable value cannot be appealed to the Board of Review. The board has no authority to alter a taxable value unless the taxable value has been calculated incorrectly.

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 the 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 for claiming and rescinding the Principal Residence Exemption are available at the Assessors Office.

Transfer of Ownership

In the year following a transfer of ownership, the taxable value will be the same as the state equalized value. This is called "uncapping the taxable value" and the procedure is constitutionally mandated.

Saginaw Township Assessors Office
4980 Shattuck Road
Saginaw, MI 48603
989-791-9810
www.saginawtownship.org