

Understanding Property Taxation

Assessments to Taxes

Introduction

- Explain the basic process involved in developing an individual's or business' tax bill
- Explain the impact of the Headlee Amendment and Proposal A
- Cover the development of the State Equalized Value, the Taxable Value, the Millage Rate and ultimately the Property Tax generated
- Address some questions that may arise with regard to a declining real estate market and its impact on property taxes

Assessment/Tax Functions are Governed by:

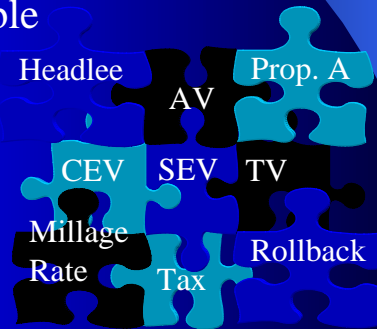
- Michigan Property Tax Law, Act 206, 1893, as amended
- General Rules of the State Tax Commission (STC)
- General Rules of the State Assessor's Board (SAB)
- General Rules of the Michigan Tax Tribunal (MTT)
- Rochester Hills City Charter

Agenda

- Headlee Amendment
- Proposal A
- Important Definitions
- Process of Developing the AV, SEV and TV
- Process of Establishing the Millage Rate
- Examples of Property Tax Calculations, in light of Proposal A
- Review of Important Points at the end of the presentation

Overview

- As a whole, Property Tax Administration is becoming more complex
- The Fundamentals of the Process are Basic and Understandable



Headlee Amendment

- The Headlee Amendment, amended the state constitution in 1978.
- Requires that increases in a local taxing authority's property tax revenues from existing property not exceed the rate of inflation.
- In years where the tax base increases more than the rate of inflation, property tax millage rates are reduced, or rolled back, to keep from exceeding the revenue limit.

Headlee Amendment

- This rollback does not apply to millages levied for “debt.”
- Also, the revenue growth resulting from new development is not limited by the Headlee calculation.
- The **Headlee** limitation is applied to each taxing authority as a whole while the **Proposal A** limitation calculation is applied to each individual parcel.

Proposal A

- Approved by the voters of the State of Michigan, March 15, 1994
- Starting in 1995, property taxes have been calculated using Taxable Value rather than State Equalized Value. The SEV is directly related to the Fair Market Value of the property.
- Proposal A implemented a cap on the annual growth in Taxable Value for each individual parcel of property.

Proposal A

- What has not changed is the method of computing Assessed Value and the system of county and state equalization.
- The uniformity provisions of the 1963 Michigan Constitution still apply. As a result, properties of similar value across the State of Michigan must still have similar Assessed Values. However, there is no uniformity of TV's.

Definitions

- **Tax Day** is December 31st for the following assessment/tax year. It is the date upon which the location of movable property and the status of all property is determined for valuation purposes.
- **Assessed Value** still represents 50% of the assessor's opinion of market value.

Definitions

- **County Equalized Value (CEV)** represents 50% of the property's value following County Equalization.
- **County Equalization** is a process of ensuring the valuations between local units of government within a county are equitable and do not exceed 50.00% of True Cash Value.

Definitions

- **State Equalized Value (SEV)** represents 50% of the property's value following State Equalization.
- **State Equalization** is a process of ensuring the valuations between Counties are equitable and do not exceed 50.00% of True Cash Value.

Definitions

- **Capped Value**, a new term established by Proposal A, represents the limitation in taxable value growth from year to year in the following formula.
- 2007 Capped Value =
$$(2006 \text{ Taxable Value} - \text{Losses}) \times 1.037 + \text{Additions}$$
- The inflation rate multiplier is limited to a maximum of 5.0%
- 1.037 is the inflation rate multiplier published by the State.
- The capped value is a mathematical calculation the assessor can't change.
- Losses are physical items removed from the property (e.g. garage)
- Additions are physical items added to a property (e.g. garage)

Definitions

- **Taxable Value** is the lesser of the Assessed Value, as equalized and the Capped Value. In other words, the Taxable Value can be equal to or less than the SEV.
- **Uncapping** is a process that takes place in the year following a “transfer of ownership” whereby the taxable value will be the same as the SEV. The growth in Taxable Value of transferred properties will then be capped again in the second year following the “transfer of ownership.”

Definitions

- **Property Tax Levy Formula**

$$\text{Parcel's Property Tax Levy} = \text{Taxable Value} \times \text{Authorized Millage Rate}$$

- **Millage Rate** is the tax levy expressed in dollars per thousand of taxable value. (example: 100,000 TV times 9 mills = \$900.00 or 100,000 TV times .009 or 100 times 9 mills)

Definitions

- **Principal Residence Exemption**

(Homestead) is an exemption from the levy of the 18 mills for school operating for a homeowner's qualifying principal residence. A Homeowner's Principal Residence Exemption Affidavit, Form 2368, must have been filed to qualify for this exemption. Rentals and business property pay the additional 18 mills.

Process of Developing the Assessed Value (AV)

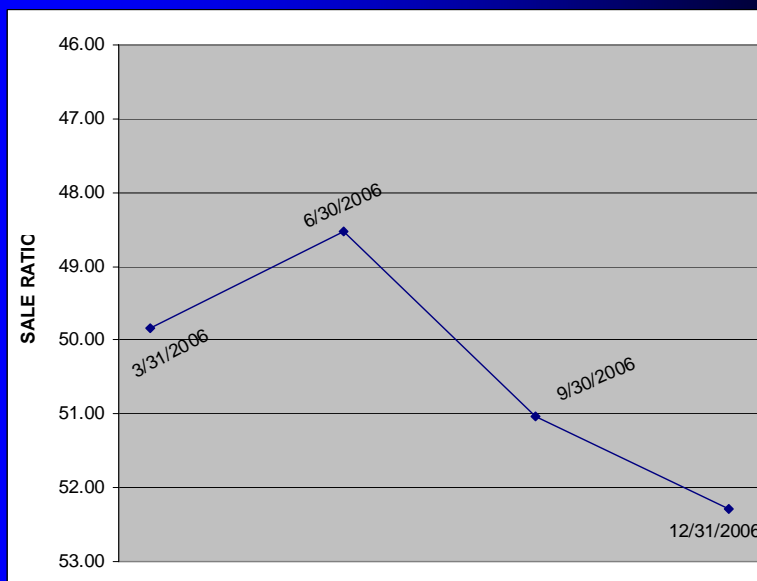
- Process of setting 2007 AV & TV
- State Tax Commission approved sales study options.
 - 2 year, sales 04/01/04 – 03/31/06
 - 1 year, sales 01/01/06 – 12/31/06
- Declining Real Estate Market
- 1 year AV/SP Ratio = 50.81%
- On average, reducing AV's for 2007

- Sales used in the Sales Study:
 - Must be representative of an open market transaction under all conditions of a fair sale.
- Sales that do not represent a Fair Market Value:
 - Sales without adequate market exposure;
 - Sales with partial assessments;
 - Sales between related parties;
 - Sheriff's Sale;
 - Foreclosures;
 - Auction sales

- Assessor's are required to use Mass Appraisal Valuation Techniques
- Assessor's can't "chase" sales
- Sale price is not synonymous with Market Value
- Usual selling price
- Individual values as of Tax Day, 12/31

- Assessor's responsibility – distribute the value changes, as determined by the sales study, equitably throughout the community
- 180 Economic Areas, neighborhoods
- State approved Cost Manual
- State certified and trained staff
- Ongoing door-to-door reappraisal program
 - Done on a needs basis
- Perform property analysis and computer assisted audit reports

- 2007 Sales Ratio for the City of Rochester Hills is 50.81%, using the one-year sales study
- Value set for each assessable property as of Tax Day, 12/31/2006
- Adjustment to get to 50% for residential property equates to an approximate \$75 Million reduction in the City's SEV
- At the same time, the residential 2007 Taxable Value is estimated to increase by approximately \$57 Million



- Assessment Change Notice, mid-February
- Assessor's Review until March 5th
- March Board of Review:
 - Organizational Meeting, March 6th;
 - Board of Review Hearing, March 12th – 14th
 - Board must complete review by April 2nd
- Michigan Tax Tribunal
 - July 31st for Residential & Agricultural
 - May 31st Commercial & Industrial real & personal property

Process of Developing the Taxable Value (TV)

- **Taxable value** is the lower of the state equalized value or capped value
- Taxable Value can never be greater than the state equalized value
- There is no uniformity between taxable values since Proposal A

- **Capped Value (CV)**

$$\text{(Prior Year TV - Losses) x CPI + Additions}$$

- The inflation rate multiplier is limited to a maximum of 5.0%
- 1.037 is the 2007 inflation rate multiplier established by the State.
- Losses are physical items removed from the property (e.g. garage)
- Additions are physical items added to a property (e.g. garage)

- **The capped value is the result of a mathematical formula the assessor has no control over. The valuation of losses and addition's may be challenged.**

Process of Establishing the Millage Rate

- **1978 Headlee Amendment**

- Limits property tax revenue growth of taxing authority as a whole
- If revenue growth exceeds inflation rate, millage rate is rolled back
- Rollback not applied to "debt" millages
- Headlee is not impacted by new development
- Proposal A limits individual property tax growth to inflation
- Property uncappings create Headlee Rollback

- **Headlee Calculation for 2006**

$$\frac{(2005 \text{ Total Taxable Value} - \text{Losses}) \times \text{Inflation Rate}}{(2006 \text{ Total Taxable Value Based on SEV} - \text{Additions})}$$

Or

$$\frac{(3,401,975,910 - 12,557,676) \times 1.033}{(3,602,018,960 - 68,715,730)}$$

Or

.9909 rounded to four decimal places, can't exceed 1.0000
There is no roll-up of the authorized millage rate.

- **Headlee Rollback a result of “uncappings”**

For the City of Rochester Hills, the Headlee Rollback affected our 2006 authorized millages as follows:

<u>Purpose</u>	<u>Orig. Millage</u>	<u>Prior Headlee Reduced</u>	<u>Current Headlee Rollback</u>	<u>Current Headlee Reduced</u>	<u>Truth In Assess.</u>	<u>Max. Auth. Levy</u>	<u>2006 Req. Levy</u>
General	5.0000	3.9492	0.9909	3.9132	1.0000	3.9131	3.7220
Fire	2.5000	1.9744	0.9909	1.9564	1.0000	1.9564	1.8000
Library	1.0000	0.7895	0.9909	0.7823	1.0000	0.7823	0.7823
Police	0.8405	0.7895	0.9909	0.7823	1.0000	0.7823	0.7823
OPC	0.2500	0.2426	0.9909	0.2403	1.0000	0.2403	0.2403
OPC Transpt	0.0900	0.0900	0.9909	0.0891	1.0000	0.0891	0.0891
RARA	0.1950	0.1950	1.0000	0.1950	1.0000	0.1950	0.1950
Police II	0.4386	0.4300	0.9909	0.4260	1.0000	0.4260	0.4260
Drain Bond	UNLTD	N/A	1.0000	N/A	1.0000	UNLTD	0.6055
02 GO Ref.	UNLTD	N/A	1.0000	N/A	1.0000	UNLTD	0.3292
98 GO Ref.	UNLTD	N/A	1.0000	N/A	1.0000	UNLTD	0.0501
Pathway	0.1858	0.1858	1.0000	0.1858	1.0000	0.1858	0.1858
OPC Bldg.	UNLTD	N/A	1.0000	N/A	1.0000	UNLTD	0.2012
Green Space	0.3000	0.3000	0.9909	0.2972	1.0000	0.2972	0.2972
TOTAL							9.7060

Information from Michigan Department of Treasury, STC Form L-4029

- City sets millage rates by September 30th
- City approved rates delivered to County Clerk on or before September 30th
- Millage approved after May 31st, no Headlee Rollback for that year's levy
 Post-May 31st: RARA (08/08/06) & Pathway (11/07/06)

- **2006 Millage Rates**

	<u>Homestead</u> <u>Rate</u>	<u>Non-Homestead</u> <u>Rate</u>
Rochester School District	30.4855	48.4855
Avondale School District	34.1494	50.8991

Rochester School District, Homestead Rate

Summer Levy = 16.3434 mills (53.61%)

Lien 07/01/2006, Due 09/14/2006

Winter Levy = 14.1421 mills (46.39%)

Lien 12/01/2006, Due 02/14/2007

- Following are some examples of Property Tax calculations under different scenarios
- **Assumptions**, for all examples:
 Rochester School District
 Principal Residence Exemption (Homestead)
 2006 Millage Rate 30.4855 (Rate per 1,000 TV)
 2007 Millage Rate 30.4855 (Est. Same)
 2007 Inflation Factor 1.037
 Tax Day, 12/31/05, Est. Market Value \$240,000
 2006 AV & SEV 120,000 (1/2 of Market Value)
 2006 TV 85,000

Examples of Tax Calculations

Property Transfer in 2005, uncapping for 2006, and then experiences 5% value decline for 2007

2006 AV, SEV & TV = 120,000 (uncap)

2006 Taxes $120,000 \times 30.4855 \text{ Mills} = \$3,658.26$

2007 AV & SEV decrease 5% to 114,000

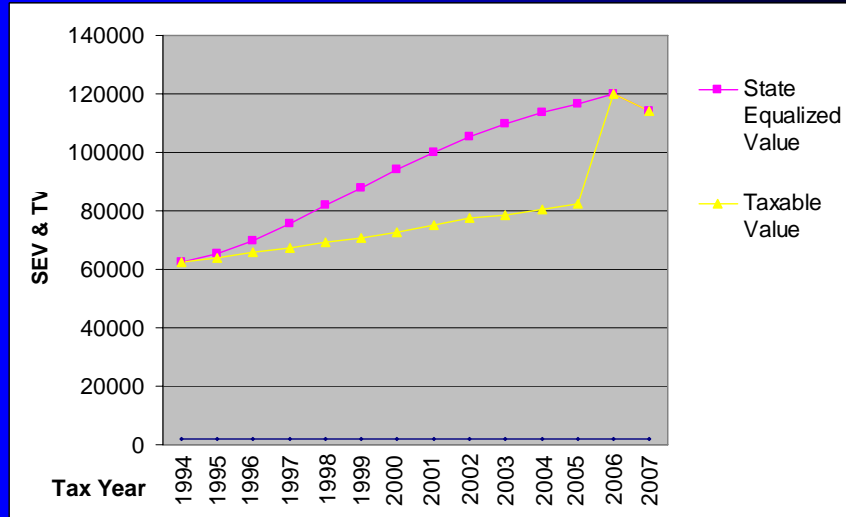
2007 CV = $(120,000 - 0) \times 1.037 + 0 = 124,440$

2007 TV = 114,000

2007 Taxes = $114,000 \times 30.4855 \text{ Mills} = \$3,475.35$

A tax reduction of \$182.91 (5%)

2006 uncapping and a 5% value decline for 2007



Examples of Tax Calculations

No Property Transfer and the property experiences a 5% value decline for 2007

2006 AV, SEV = 120,000

2006 TV = 85,000

2006 Taxes $85,000 \times 30.4855 \text{ Mills} = \$2,591.27$

2007 AV & SEV decrease 5% to 114,000

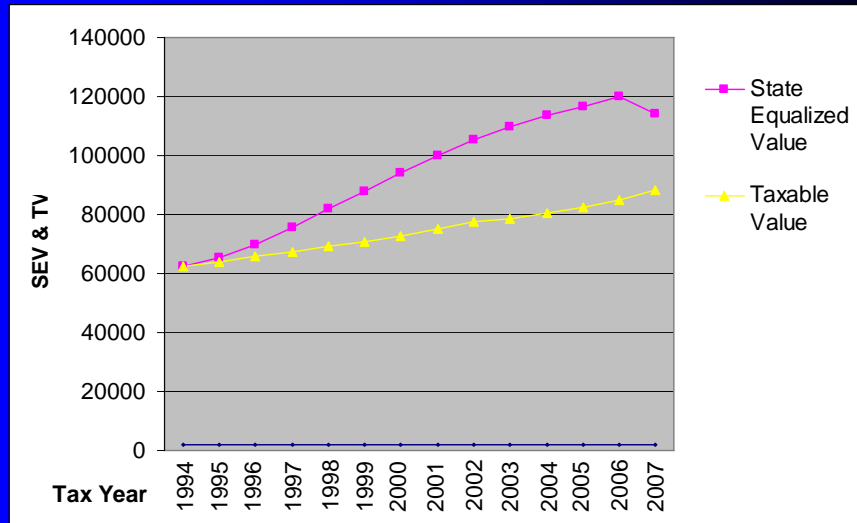
2007 CV = $(85,000 - 0) \times 1.037 + 0 = 88,145$

2007 TV = 88,145

2007 Taxes = $88,145 \times 30.4855 \text{ Mills} = \$2,687.14$

A tax increase of \$95.87 (3.7%)

No property transfer and a 5% value decline



Examples of Tax Calculations

Property Transfer in 2006, uncapped for 2007, and the property value declines 5% for 2007

2006 AV, SEV = 120,000

2006 TV = 85,000

2006 Taxes $85,000 \times 30.4855$ Mills = \$2,591.27

2007 AV & SEV decrease 5% to 114,000

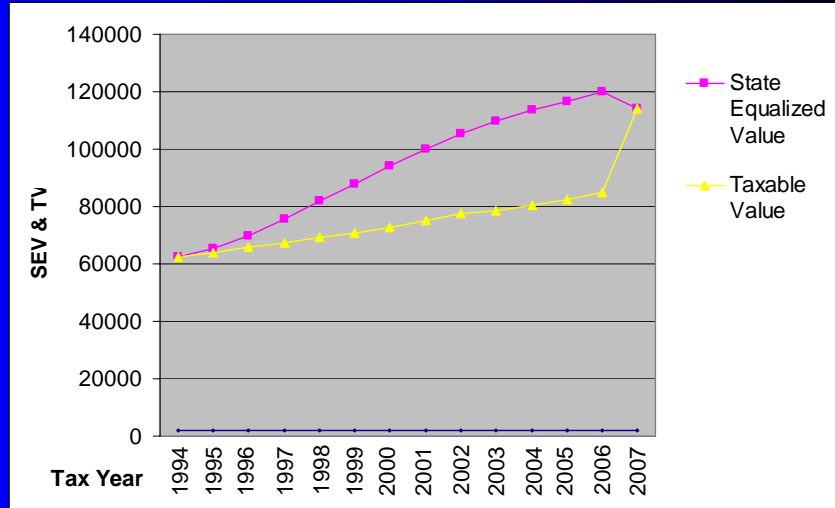
2007 CV = $(85,000 - 0) \times 1.037 + 0 = 88,145$

2007 AV, SEV & TV = 114,000 (**uncap**)

2007 Taxes = $114,000 \times 30.4855$ Mills = \$3,475.35

Market value decreased 5% while the tax increased 34.12% over what the prior owner was paying

2007 uncapping and a 5% value decline for 2007



Impact on City of Rochester Hills

Year	Total A.V.	Total T.V.	% Value Non-Taxable	% Increase In T.V.	Headlee Rollback
2007 Est.					
2006	4,184,283,990	3,602,018,960	13.92	5.88	.9909
2005	4,012,356,450	3,401,975,910	15.21	5.30	.9941
2004	3,827,411,860	3,230,824,070	16.72	5.41	.9925
2003	3,642,048,760	3,064,862,240	15.85	5.31	.9939

Year	Inflation	Net New	Sub-Total	Uncappings	TOTAL	Headlee
2007 Est.	3.7%					
2006	3.3%	1.65%	4.95%	.93%	5.88%	.9909
2005	2.3%	2.41%	4.71%	.59%	5.30%	.9941
2004	2.3%	2.38%	4.68%	.73%	5.41%	.9925
2003	1.5%	3.20%	4.70%	.40%	5.10%	.9939

Impact on City of Rochester Hills

Residential Property Sales Study

<u>Time Frame</u>	<u># of Sales</u>	<u>Aggregate Sales Value</u>	<u>Avg. Sale Price</u>	<u>Equal. Factor</u>
Calendar Year 2006	583	\$152,681,385	\$261,889	0.9841
04/01/05 - 03/31/06	888	\$245,918,495	\$276,935	1.0253
04/01/04 - 03/31/05	1,075	\$290,303,901	\$270,050	1.0292
04/01/03 - 03/31/04	1,003	\$262,100,510	\$261,317	1.0341
04/01/02 - 03/31/03	1,036	\$275,226,749	\$265,663	1.0419
04/01/01 - 03/31/02	1,126	\$279,856,348	\$248,540	1.0533
04/01/00 - 03/31/01	1,163	\$289,930,270	\$249,295	1.0645
04/01/99 - 03/31/00	1,209	\$267,822,868	\$221,524	1.0679
04/01/98 - 03/31/99	1,151	\$251,407,586	\$218,425	1.072
04/01/97 - 03/31/98	1,093	\$219,291,245	\$200,632	1.083
04/01/96 - 03/31/97	1,114	\$215,099,433	\$193,087	1.083
04/01/95 - 03/31/96	1,148	\$188,470,715	\$164,173	1.070
04/01/94 - 03/31/95	1,093	\$177,099,784	\$162,031	1.050
04/01/93 - 03/31/94	1,368	\$204,817,218	\$149,720	1.030
04/01/92 - 03/31/93	1,177	\$174,775,628	\$148,492	1.030
04/01/91 - 03/31/92	1,118	\$160,654,732	\$143,698	1.070

Impact on City of Rochester Hills

Sales Study Volume and Indicated Turnover Rate

<u>Tax Year</u>	<u># of Sales</u>	<u># Residential Imp. Parcels</u>	<u>% Residential Sales</u>
06 Calendar Yr	583	22,545	2.59
2006	888	22,281	3.99
2005	1,075	22,091	4.87
2004	1,003	21,833	4.59
2003	1,036	21,483	4.82
2002	1,126	20,928	5.38
2001	1,163	20,761	5.60
2000	1,209	20,511	5.89
1999	1,151	20,355	5.65
1998	1,093	20,092	5.44
1997	1,114	19,762	5.64
1996	1,148	19,484	5.89
1995	1,093	19,192	5.70
1994	1,368	18,712	7.31
1993	1,177	18,518	6.36
1992	1,118	18,375	6.08
1991	998	18,395	5.43

Impact on City of Rochester Hills

- Property Taxes represent roughly 50% of the General Fund Revenues
- 2006 General Fund Tax Levy (3.722) not at the Maximum Authorized Rate (3.9132)
- Proposal A limits revenues growth in economic good times and softens the negative economic impact on the City in poor economic times
- Inflation and non-taxable SEV are key components in the tax revenue equation

Review of Important Points

- Property Taxes are ad valorem (value) based
- There is still a uniformity of assessments
- Assessments are not to exceed 50.00% of a property's market value
- Headlee Amendment limits property tax revenue growth of each taxing unit

Review of Important Points

- Proposal A limits the annual growth of each individual property Taxable Value to the lesser of the rate of inflation or 5%
- Proposal A also allowed for an exemption of the 18 mill school operating millage for a qualified Principal Residence
- The Taxable Value can't be greater than the State Equalized Value

Review of Important Points

- A sale price is an indicator of market value
- The Assessor can't chase sales, placing assessments at half the sale price, while ignoring uniformity of assessments with other like property
- The Assessor is required to establish an AV for each assessable property as of Tax Day, December 31st

Review of Important Points

- The Capped Value calculation is a mathematical formula the assessor has no control over.
- The Taxable Value is the lower of the assessed value or the capped value
- Because of the Proposal A Cap, No longer is there a uniformity of tax paid by similar valued properties

Review of Important Points

- As a result of the way Proposal A works, property taxes may still increase in a declining real estate market.

Available Information

- City's webpage: rochesterhills.org

Go to **City Services**, then **Assessing Dept.**, then **Property/Tax Lookup** for assessing and tax related information

Go to **Reference Desk**, then **Maps**, then **Property Description Maps** for line drawing maps with parcel numbers.

Contact Information

- **City Assessing Department**
(248) 656-4605
E-mail: assessing@rochesterhills.org
- **City Treasury Department**
(248) 656-4675
E-mail: treasury@rochesterhills.org