

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 Rate of Inflation (ROI) 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 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 ROI as calculated by the State of Michigan and cannot increase by more than 5%. **For 2009, the ROI has been calculated at 4.4%.**

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 ROI, the current years Taxable Value will increase by the ROI.

SEV = 50% of True Cash Value
Capped Value =
(Prior TV-Losses) x (1+ROI*) + 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

The State Tax Commission rules establish that a local Assessing officer must utilize a 12 month sales study to calculate assessments for 2009.

For 2009 Assessments, the 12 month sales study begins October 1, 2007 and ends September 30, 2008.

Sales that occur in the current calendar year after March 31st will not be considered in the sales study until the following year.

In a normally inclining market, this process generally helps taxpayers since current sale prices are higher than those analyzed in the sales study and assessments will tend to lag current market conditions. However, if sale prices are declining, it will take time for the assessment cycle to recognize the falling prices as well, to the detriment of taxpayers under Proposal A.

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 sales and exclude non-representative sales from the assessment analysis.

Inherent in the definition on usual selling price is the assumption that the sale does not involve any element of distress from either party.

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.

Transfers of Ownership 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 2008, the Taxable Value for 2009 will be the same as the 2009 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 Charter Township of Fenton Assessors Office or at www.fentontownship.org, Assessing Dept. under forms.

Again, it is important to note that a property does not uncapped to the selling price but to the SEV in the year following the transfer of ownership.

So What Does it all Mean?

How can my assessment go up with the current market conditions?

As stated in the Equalization Timetable, for 2009, the time period of the sales study for assessment review is October 1, 2007 through September 30, 2008.

In determining assessment adjustments for a neighborhood, the sale prices of homes are compared to existing assessed values to determine the level of assessment. State law requires this level to be at an average of 50% of value for the time period under review. Individual market areas within the Township tend to appreciate

(or decline) at different rates. Generally speaking, assessments tend to increase or decrease at a more stable pace. As such, it is quite possible that even with current market conditions, assessment reviews of sales indicate levels of assessment in certain areas of the Township at levels less than 50% and increases in 2009 assessments might be necessary.

How can my Taxable Value go up when my SEV goes down? (or stays the same as last year)

Remember that the definition of Taxable Value is the lesser of SEV or last year’s Taxable Value (adjusted for physical changes) times the ROI. (4.4% for 2009)

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 no change in SEV for 2009, or with a decrease in SEV for 2009, if there is still a gap between the SEV and Taxable Value, and the 2009 SEV is greater than the Taxable Value in the previous year the Taxable Value will increase to the limit of the ROI Cap.

If, however, the 2009 SEV is lower than the calculation of last year’s Taxable Value multiplied by the ROI, then the 2009 Taxable Value will be the same as the 2009 SEV.

History of the Rate of Inflation (ROI) Since Proposal A

YEAR	ROI
1995	2.60%
1996	2.80%
1997	2.80%
1998	2.70%
1999	1.60%
2000	1.90%
2001	3.20%
2002	3.20%
2003	1.50%
2004	2.30%
2005	2.30%
2006	3.30%
2007	3.70%
2008	2.30%
2009	4.40%



UNDERSTANDING PROPOSAL A IN A DECLINING MARKET



Charter Township of Fenton Assessor’s office
12060 Mantawauka Drive
Fenton, MI 48430
(810) 629-3445
www.fentontownship.org

Office Hours:

Monday – Friday
8:00 a.m. to 5:00 p.m

Important Information
Please read the enclosed information. If you still have questions, you can contact:

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