

# Property Assessment Methodology

In March of 1994 the Voters in Michigan approved a Constitutional Amendment known as Proposal A that drastically changed the property assessment and taxation system. Prior to Proposal A, taxes were calculated on Assessed Value while post Proposal A, taxes are calculated on Taxable Value.

Before beginning an explanation of Proposal A's impact, we need to define some commonly used assessing terms.

- **Assessed Value (AV):** 50% of the usual selling price (market value) or true cash value of your property
- **State Equalized Value (SEV):** the assessed value as finalized by the County and State Equalization Process. In most cases, the SEV and AV will be the same
- **Capped Value:** a calculated value which takes last years taxable value minus any losses (i.e.: demolition), increased by the consumer price index (CPI) or 5%, whichever is less, plus any additions (i.e.: new construction)
- **Taxable Value (TV):** simply the lesser of the State Equalized Value and the Capped Value

As a result of Proposal A, a major change in the assessment process is the establishment of a "capped value". Language in Proposal A states that starting in 1995, the taxable assessment or taxable value shall be increased by the amount of the consumer price index or 5%, whichever is less. However, as established in the old law, the State Equalized Value is to be 50% of the current market value. Consequently, the capped value and SEV could be totally different. This "capping" process will continue annually until the property is sold and/or ownership is transferred. When ownership transfers, the tax base reverts to SEV in the year following the sale and the subsequent annual growth is capped once again for the new owners.

## Example 1

Last year a home in Brighton had a true cash value of \$150,000. The State Equalized Value was \$75,000 and the taxable value was \$64,000. Sales of comparable homes in the neighborhood reflect a 3% decrease. The consumer price index (CPI) for 2008 is 2.3%.

2008 AV	\$72,750
2008 SEV (tentative)	\$72,750
2008 Capped Value	\$65,470 (\$64,000 x 1.023), rounded
2008 Taxable Value	\$65,470

## Example 2

Last year a home in Brighton had a true cash value of \$150,000. The State Equalized Value was \$75,000 and the taxable value was \$64,000. The homeowner added a family room valued at \$20,000. The current true cash value of the home is \$165,500. The consumer price index (CPI) for 2008 is 2.3%.

2008 AV	\$82,750
2008 SEV (tentative)	\$82,750
2008 Capped Value	\$75,470 (\$64,000 x 1.023) plus \$10,000 (50% addition)
2008 Taxable Value	\$75,470

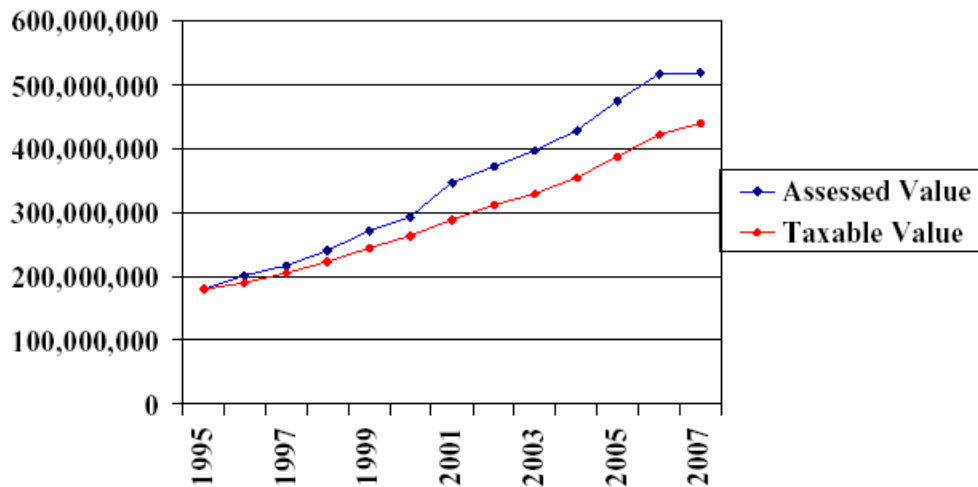
## Example 3

Last year a home in Brighton had a true cash value of \$150,000. The State Equalized Value was \$75,000 and the taxable value was \$64,000. **Last year there was a sale or transfer of ownership on the property.** Sales of comparable homes in the neighborhood reflect a 3% decrease. The consumer price index (CPI) for 2008 is 2.3%.

2008 AV	\$72,750
2008 SEV (tentative)	\$72,750
2008 Taxable Value	\$72,750

After Proposal A took effect, we experienced a decade of prosperity that saw home prices increasing well in excess of the consumer price index which remained relatively low over the same period of time. As a result, the SEV of a property increased at a far greater rate than the capped or taxable value. In homes that have not sold in recent years this has created quite a gap between the SEV and TV of a property.

This bar graph shows the total assessed and taxable values in the City of Brighton for 1995 through 2007.



For the first time since Proposal A was voted into law, we are experiencing a declining real estate market. **Only in such a market, does the assessor have the option to use a one-year sales study with an ending date of 9-30-07 instead of a two-year sales study ending 3-31-07** when determining assessed values for 2008. In a declining market a one-year study is to the advantage of the taxpayer. **The city of Brighton's assessor has elected to base 2008 assessed values on a one-year study.**

However, on those homes that have a significant gap in their SEV and TV, the result is that you may receive a reduction on the SEV of your home while the TV continues to rise. **Remember, you are always taxed on the lesser of the SEV and the capped value.** For this reason, your tax bill in 2008 may reflect an increase even though the market value of your home has stabilized or decreased.

If the State Equalized Value goes down, how does this help the taxpayer?? That depends on your situation...

- If you've owned your home for more than a few years, it probably won't make a difference at all. Your taxes will likely go up the rate of inflation. However, you will begin to see a narrowing of the gap between your SEV and capped or taxable value.
- If you've purchased your home in the past couple of years you may very likely pay less in taxes in 2008 than you did in 2007.

This is an abbreviated explanation of a very complex issue. If you have further questions, please don't hesitate to call (810) 227-9006. We would be happy to assist you.

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