



PROPOSAL “A”/PROPERTY TAXES

The most often expressed frustration the past two years has been the fact that the property tax burden was increasing for most taxpayers when they were in the midst of a declining real estate market. Another frustration is the time lag between the date range of the sales used to set the assessed valuation compared to the date the taxes are billed. Following is a good illustration of this issue. The mid-point of the one-year sales study setting the 2010 valuations was March 2009 and the 2010 Summer Tax Bill is mailed in June 2010, almost 15 months later. The market in this case has change substantially to the negative.

An individual’s tax burden is calculated on two things: First, a parcel’s **Taxable Value (TV)**; and, Secondly, the local aggregate **Millage Rate**. The TV is a product of Proposal A and is the lower of the Assessed Value (AV) and the Capped Value (CV). The CV is a mathematical calculation limiting the yearly increase in the burden of the property tax, by parcel, by the rate of inflation, adjusted for additions and losses to the property. Suffice it to say, the property tax burden cannot increase year over year by greater than the rate of inflation (assuming there are no additions to the property and no additional millages are levied).

If your AV and TV are the same on your 2009 tax bill (and this is the case for roughly 75% of our taxpayers), then you are highly likely to see your property tax bill decrease quite a bit for 2010. Currently, we are estimating an average property value decline of roughly 14% from 2009 to 2010 and the CPI number has been calculated at -0.3%. However, if your AV is greater than the TV on your 2009 tax bill, there is a chance you will see your property tax bill decrease only slightly for 2010, even with a declining property value.

Some generalized examples are as follows:

Assumptions: No change in millage rate for the 2010 Tax Year. The CPI for 2010 is -0.3%. The property does not incur any additions or losses.

If your assessed value and taxable value are the same for 2009 and the assessed value is lowered for 2010, then your property taxes will be lowered by the same proportion. If the property assessment drops 10%, then the property tax would fall 10%.

However, under Proposal A, if your assessed value was 20% higher than your taxable value in 2009, a reduction of 10% in the assessed value for 2010 would not in itself reduce your tax burden. In fact, the tax burden for 2010 would decrease only slightly, by the rate of inflation or -0.3% in this example.

Also, under Proposal A, if your assessed value was 100,000 and your taxable value was 90,000 in 2009, a reduction of 10% (-10,000) in the assessed value for 2010 (2009 TV now equal to the 2010 AV) would generate a tax bill for 2010 slightly less than the 2009 tax bill (-0.3%, the rate of inflation).

Finally, remember that Michigan tax law requires assessed values to be based upon a property's "true cash value" as of Tax Day, the December 31st prior to the Tax Year. Sales used to establish "true cash value" must be arms length open market transactions. The State Tax Commission requires assessors to use sales in the date range of October 1, 2008 through September 30, 2009 in setting assessments for the 2010 Tax Year. This requirement and a declining market is what generate the variation in values between the assessment date and the valuation at the time taxes are billed.

The sale of foreclosed properties is having an impact on the real estate market in general. Recent changes in State Guidelines have occurred which allow for the use of foreclosed sales in our analysis if certain conditions are met. If the foreclosure sale has been analyzed, properly verified and meets the conditions of a fair and representative market transaction, it can be included in the State Tax Commission One-Year sales study. Sales not considered reliable indicators of value when making market comparisons are not to be considered for assessment purposes.

Assessment Notices for 2010 will be mailed in Mid-February and the Assessing Department will hold an Assessor's Review until the first meeting of the March Board of Review on Tuesday, March 2, 2010. Should you have any questions; the Assessing Department can be reached at (248) 656-4605.

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