City of
Orchard Lake Village

2010 ASSESSMENT CHANGE NOTICES

The Assessment Change Notices for the 2010 tax year have been mailed. All property owners should expect to receive a notice from the City indicating any proposed change in the State Equalized Value (SEV) and the Taxable Value (TxV) for their property for 2010. Even if there was no change in the SEV and/or TxV on a particular parcel, a Change Notice is still prepared and mailed so that the owner is aware of the proposed values for the 2010 tax year.

If you don't receive a Change Notice by March 8th, you should call the Orchard Lake City Hall (248.682.2400) to inquire about your assessment and request a copy of your 2010 Change Notice. After evaluating the proposed assessment change, if you feel you have grounds to contest the SEV proposed for your property for 2010 and your property is classified as Residential, you must file an appeal with the March Board of Review on or before their last scheduled meeting date which this year is Wednesday, March 17th.

Since the annual adjustments to the **State Equalized Value** of a property are based on the fair market value of the property, the SEVs on residential properties have been reduced this year, for obvious reasons, by an average of 15.36%. (Last year the average reduction was 3.01%.) Some assessments have been reduced more than 15% and other less, depending on the type of property and its location. The overall adjustment for the city and adjustments for individual neighborhoods are determined based on sales studies conducted by both the Oakland County Equalization Department and by the local unit of government. We are currently using a one year sales study which, by State Tax Commission directive, includes only the valid, representative property sales which occurred in the time period from October 1, 2008 thru September 30, 2009. Since the Assessor cannot use sales occurring after September 30th, 2009 and since adjustments are based on an "average" of the sales in the one year period which ended over five months ago, the proposed 2010 SEV in this declining real estate market could still be higher than 50% of what the property could sell for today. It should be emphasized that it is not the Assessor's role to forecast values or adjust values based on a trend. Assessments can only be based on the actual prices paid in representative real estate transactions occurring in the time period allowed by the State. You are welcome to view the sales used in our sales studies for this year's assessments by stopping by the Assessor's Office. You may also want to inspect your assessment record for accuracy.

The change in the **Taxable Value** on your property, which is the value used to calculate your actual property taxes for the year, is controlled strictly by Proposal A which was passed by the electorate in 1994. According to that amendment to the State Constitution, taxable values through out all of the State of Michigan can increase each year by no more than 5% or the cost of living index as calculated and published annually by the State plus the value of any additions to the assessed value for that year (new construction or the addition of items which were not previously on the assessment record).

The CPI index as set by the State for 2010 assessments is **0.997 or -0.3%** (this equates to 1/3 of 1% reduction in TxV). This is the lowest CPI index since Proposal A went into effect in 1995. Last year's CPI of 4.4% was the highest in the 15 years that Proposal A has been in effect. More information on how the actual CPI is calculated can be found on the State of Michigan web site at http://www.michigan.gov/documents/treasury/Bulletin10of2009_297377_7.pdf

Not only are increases in TxV limited by the CPI index, but Taxable Value also cannot be greater than the current SEV on the property. If the SEV and TxV on a particular property were the same in 2009, any decrease in the SEV for 2010 will equate to an equal decrease in the TxV. In 2009, 60% of all real property parcels had SEVs equal to the TxVs. For all of these properties, a reduction in the SEV would equate to an equal reduction in the TxV. This year due to the negative CPI, all TxV should see some reduction, even though minor, regardless of the change in SEV. It should be noted that the city has no control over increases or decreases in TxV other than the limits set by the proposed SEV. The Board of Review cannot change the TxV unless they have approved a reduction in the SEV which puts the SEV at a lower amount than the proposed TxV.

Below is a further discussion of the assessing process which reiterates many of the comments above, but hopefully provides a little more detail and background information. The Oakland County Equalization Department has prepared a document which is their attempt to explain the workings of Proposal A. You can access that document at
http://www.oakgov.com/equal/assets/doc/real_prop/Prop%20A/08-12_propa_guide.pdf
You can also go to a page on the State of Michigan web site which offers a video presentation on the implementation of Proposal A (go to the web site www.michigan.gov/treasury and click "Property Tax Explanation Presentation" located under the heading "What's New at Treasury").

If you have questions regarding the change in the State Equalized Value or the Taxable Value for your property for 2010 or the general procedures for determining these values, please feel free to call the City of Orchard Lake Assessors' Office (248.682.2400) or come into the City offices during normal working hours. The City Hall is open from 8:00 am to 4:00 pm, Monday through Friday. Please note that the City Hall does close at 4:00 pm.

John G. Sailer
Assessor / City of Orchard Lake

DISCUSSION OF ASSESSMENT PROCEDURES AND THE ANNUAL CHANGES IN STATE EQUALIZED VALUE AND TAXABLE VALUE

Prior to the electorates' passage of Proposal A in 1994, property taxes were calculated by multiplying the tax rates of the entities receiving revenue from the property tax times the State Equalized Value (SEV) of each property subject to taxation. SEV was and still is defined as 50% of the fair market value of the property. The Assessor annually determines an assessed value for all non-exempt properties within his or her jurisdiction. In the annual process of establishing fair and equitable assessed value, the Assessor must follow specific rules and guidelines developed by the State, with the Assessor's work monitored by the State Tax Commission for compliance. It is important that all units of government adhere to the assessing procedures set forth by the State so that property taxes are equitably levied based on a common denominator (50% of fair market value determined by following specific procedures).

Once property owners have been notified of any proposed change in assessed value, the preliminary values are reviewed, adjusted when necessary and certified by the local Board of Review. After further review by the County Equalization Department and by the State Tax Commission to assure that the properties in each jurisdiction are being properly assessed at 50% of market value, the final assessed value is set and referred to as the "State Equalized Value"(SEV). Prior to Proposal A, the SEV multiplied by the tax rate determined the amount of property taxes due.

Properties are valued each year based on their status on December 31st.. This date is referred to as "tax day." The description and condition of a property as of tax day determines the physical entity which will be valued for the following year's assessment (eg.12-31-2009 is tax day for the 2010 assessments). It is important to note that while the taxable status of a property is established as of the last day of the year, the market value of the property is determined by means of an analysis of arms-length property sales (transactions between unrelated parties where there is no duress) which have occurred in a specific time frame. In the past the State has required that the Assessor use a two year sales study with specific starting and ending dates. For the 2010 assessments the two year period would include sales occurring between October 1st, 2007 and September 30th, 2009.

In a market where values are escalating, the use of a two year study results in current year assessed values lagging behind the actual market value of a property as of tax day. While a one year sales study was an option, it was not recommend by the State except in cases where a certain property type was experiencing declining values and where there were adequate sales in the one year period to establish market value. Previously the one year study was defined as including sales occurring in the year prior to the year for which the assessment is being established (eg. 2009 sales for the 2010 assessments). With the notable decline in residential property values in recent years due to problems in the financial sector and due to a worsening economy, the State has become more receptive to the one year sales study. Last year, along with officially making it an option to consider when there were adequate sales, they redefined the time period of the one year study to include all arms-length market sales occurring in the period from October 1st through September 30th of the previous year. For the 2010 assessments, this would include sales which have closed between 10-1-2008 and 9-30-2009. This year the State is requiring that a one year sales study be used in setting the 2010 assessed values. The City of Orchard Lake opted for the one year sales study in calculating the 2007, 2008 and 2009 assessments and will be using a one year study for the 2010 assessments.

The advantage of the two year study was that, generally, more sales were available to establish market value and in an escalating real estate market assessed values were generally a little lower than 50% of the market value of the property as of tax day. The disadvantage of the two year study is that it is generally not representative of what is currently happening in the real estate market and in a declining market it is slower to translate the decline into lower assessed values. Even with the use of a one year sales study in a declining market, assessed values will normally be somewhat higher than the probable market value of a property on tax day. This occurs since sales closing after September 30th are not included in the study and the sales that closed in the early months of the period will pull up the average in a market where the values are trending down. This, however, is not really a problem since it should be noted that it is not the Assessor's objective, as defined by the State's tax code, to estimate or forecast what the value of a property will be on tax day or in the following year. The objective is to determine equitable assessed values based on market values via a procedure which is consistently applied by all assessing jurisdictions in the state.

With the passage of Proposal A in 1994, the property tax system in Michigan was significantly altered in a number of ways. First, the option for a "Principal Residence Exemption" was added, providing for reduced tax rates for residential properties which are occupied as the owner's primary residence. Second, the concept of "taxable value" was introduced. Due to significant increases in the market value of, principally, residential real estate (increases which consistently exceeded the increases in household income) and due to the perception that the Headlee Amendment, which was supposed to reduce tax rates when assessed values increased, had failed; the State Legislature came up with the proposal that the value used for equitably distributing property taxes should not increase annually more than the consumer price index (CPI) or 5%, which ever is less and that value should not exceed the property's SEV. The new capped value was called "taxable value". Their proposal also provided that at the time a property is transferred to a new owner, the taxable value would automatically increase to the property's State Equalized Value in the year following the transfer (sale). For this reason and others, the Assessor was still required to annually determine an assessed value for each property via a sales study following State guidelines. Since this proposal required a change in the State Constitution, a Constitutional Amendment referred to as "Proposal A" was put before the voters in the Fall of 1994 and did win approval. Starting with the 1995 assessments, increases in the 1994 assessment attributable to market value (not to physical changes in the property) could not increase more than the CPI index or 5% and the resulting taxable value could not be greater than the SEV for that year.

This worked well as long as market values were increasing at a faster rate than overall inflation and as long as the CPI index remained relatively low. However, two years ago problems began to appear and became more evident last year. Even though in many communities SEVs were being reduced in response to declining market values, many taxable values increased by 4.4% because the taxable value was still less than the reduced SEV and was subject to the CPI adjustment. Tax payers had a hard time accepting an increase in their taxable value when their SEV was being reduced and when residential market values were dropping. The problem has been mitigated some this year by the fact that the CPI index is a negative value (-0.3%). This will result in a minor reduction in taxable value even where the 2010 SEV is still greater than the taxable value. However due to the large reductions in SEVs this year and the fact that only 19% of the 2009 taxable values were less than their corresponding SEVs, most TxVs will be dropping more than the -0.3% dictated by the CPI index. It should be explained at this point that the inflation rate used to annually adjust taxable values is calculated and published by the Michigan Department of Treasury and applies to all properties in the State. It is calculated using the U.S. City Average Consumer Price Index as reported by U.S. Department of Labor.

Most SEVs on residential properties are being reduced again this year, in some cases significantly. The County's Equalization study for 2010 which was based on the use of a one year sales study determined that the total assessed value for the residential class of properties must be reduced at least 14.92%. This is an average for all residential properties. Depending on the location and type of property, the actual adjustment on individual properties could be more or less than the 14.9%. Adjustments are determined based on property type and location (neighborhood) by comparing the current SEV with sale prices resulting from typical market transactions. It is not assumed that all prior year SEVs were at 50% of market value and that an overall decrease in market values should be applied equally to all assessments. Some neighborhoods and some property types have been affected more than others by the current market conditions. Even though there is little question that market values on residential properties have declined and in some cases have declined significantly, this does not mean that the SEV should be automatically reduced in an amount equal to the decline seen in the residential market. Increases or reductions in SEVs must be supported by arms-length market transactions involving comparable properties.

If you have not received a Change Notice by the end of the first week of March or if you have specific questions or concerns relative to the stated change in your 2010 State Equalized Value or 2010 Taxable Value, feel free to call our office. You are welcome to come into City Hall to review your assessment record and the sales that were used in determining this year's assessed values. If you decide to file a formal appeal of your 2010 assessed or taxable value, the Orchard Lake Board of Review will be meeting at the Orchard Lake City Hall on

Tuesday, March 16th from 10:00 am to 5:00 pm

and on

Wednesday, March 17th from 2:30 pm to 9:30 pm.

If necessary, additional times will be scheduled. You are advised to call the city offices to set up an appointment to appear before the Board and to present your case. You can also file an appeal with the Board by letter. If you do, please clearly state the reasons for your appeal and provide any supporting documents or evidence as to why you feel your property is over assessed. Without this information, the Board cannot properly consider your appeal.

In conclusion, I want to emphasize that the assessed value and now the taxable value is only a means of distributing the cost of governmental services, hopefully in an equitable manner. Property taxes are ultimately determined by the tax rates annually authorized to be levied by the City Council, by the School Boards, by the County, and by the State (State Education Tax). These entities, of course, are limited by State Law in their ability to raise tax rates without a vote of the electorate. If there is a decline in the overall taxable value of the city, county or the various school districts, either services have to be reduced or eliminated to achieve a balanced budget, tax rates have to be increased to continue to provide the same level of service or new sources of revenue have to be found. A reduction in the taxable value is not without consequences and may not necessarily result in a proportional reduction in property taxes.

John G. Sailer
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For a video presentation regarding the implementation of Proposal A, you can go to the web site www.michigan.gov/treasury and click "Property Tax Explanation Presentation" located under the heading "What's New at Treasury"

The Oakland County Equalization Department has prepared a document which is their attempt to explain the working of Proposal A. You can access that document at http://www.oakgov.com/equal/assets/doc/real_prop/Prop%20A/08-12_propa_guide.pdf

For more information on the calculation of the Inflation Rate Multiplier for 2010, go to the web site : http://www.michigan.gov/documents/treasury/Bulletin10of2009_297377_7.pdf