

## Example of Declining State Equalized Value and Increasing Taxable Value

The example, to the right, illustrates a property, purchased in 1997 and uncapped in 1998, the year following the sale.

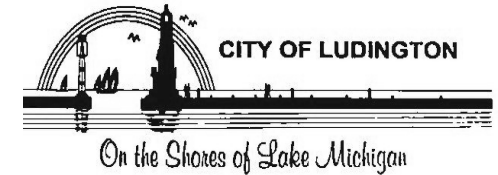
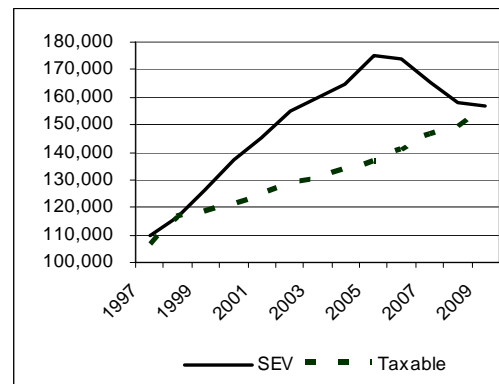
In 1998 the SEV becomes the new Taxable Value, which is then subsequently recapped at the CPI each year thereafter.

The SEV will increase or decrease based on market conditions. The Taxable Value is adjusted by the CPI each year. The Taxable Value, however, can never exceed the SEV.

In this example, the SEV increases each year from 1998 to 2005. The SEV then declines from 2006 to 2009. Although the reduction in value is due to market conditions, the Taxable Value continues to increase by the CPI from 1999 to 2009.

The Taxable Value will continue to increase by the CPI until the SEV matches the Taxable Value. When - and if - the SEV continues to decline due to market conditions, the Taxable Value will also decline. The Taxable Value will never exceed the SEV.

	SEV	Taxable	CPI	
1997	110,000	106,910	2.80	%
1998	116,650	116,650	2.70	%
1999	126,500	118,510	1.60	%
2000	137,500	120,760	1.90	%
2001	145,250	124,620	3.20	%
2002	154,750	128,600	3.20	%
2003	160,000	130,520	1.50	%
2004	165,000	133,520	2.30	%
2005	175,000	136,590	2.30	%
2006	174,000	141,090	3.30	%
2007	165,110	146,310	3.70	%
2008	158,000	149,670	2.30	%
2009	157,000	156,255	4.40	%



## City of Ludington Assessing Department

### UNDERSTANDING PROPOSAL A

### IN A DECLINING MARKET

### 2009 EDITION

### Important Information

Please read the enclosed information.

If you still have questions, you can

contact the assessor at

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## Proposal A

On March 15, 1994, Michigan voters approved the constitutional amendment known as Proposal A. It was designed to limit the growth of property taxes by the Consumer Price Index (CPI) until ownership of the property was transferred.

### How it Works

Prior to Proposal A, property taxes were based upon the State Equalized Value (SEV). After Proposal A, property taxes are now based on the Taxable Value (TXV).

Each year, the Assessing Office must calculate the SEV for every property based upon the time frame required by the State Tax Commission (STC). A property's taxable status is determined as of Dec. 31 of each year, known as Tax Day.

In addition, the Assessing Office must calculate the TXV for every property based on the change in the CPI, plus any additions to, or losses from, the property. This amount cannot increase more than 5% in any year. **For 2009, the CPI has been calculated (by the STC) to be 4.4%.**

Taxable Value is defined as the lower of the SEV or the TXV. Generally speaking, this means that the previous year's Taxable Value multiplied by the CPI will determine the 2009 TXV, and it will be more than last year's TXV by the CPI, 4.4%, plus any additions or minus any subtractions. CPI (4.4% for 2009).

## How can my Taxable Value go up when my SEV goes down?

Remember that the definition of the Taxable Value is the lesser of SEV or last year's TXV (adjusted for physical changes) times the CPI (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 without selling, the greater the gap between the SEV and the TXV. Even with a decrease in SEV for 2009, if there is still a gap between the SEV and the TXV and the 2009 SEV is greater than the TXV in the previous year, the TXV will increase to the limit of the CPI cap.

If, however, the 2009 SEV is lower than the calculation of last year's TXV multiplied by the CPI, then the 2009 TXV will be the same as the 2009 SEV.

### The 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 SEV** as calculated by the Assessor. For this reason, when analyzing sales for the purpose of determining assessment changes, the Assessing Office will review all sales but exclude non-representative sales from the assessment analysis.

It is important to note that a property does not uncapped to the selling price but to the SEV in the year following the sale.

## Foreclosure Sales

Part of the definition of usual selling price is the qualifier that the sale does not involve any element of distress from either party.

The STC has issued guidelines concerning foreclosure sales and, generally speaking, these guidelines prevent the Assessor from considering foreclosure sales when calculating values for assessment purposes.

For this reason, all distressed sales, such as **mortgage foreclosures** or sales involving transfers to or from related parties, are not considered as typical sales in the valuation of property for assessment purposes nor are they reliable indicators of value when making market comparisons for current or assessed values or appeals.

### So What does it all Mean? How can I expect my assessment to change in 2009??

According to the STC, the time period for the sales study used for the **2009 assessment review is April 1, 2006 through March 31, 2008, a two year time period.** Sales occurring after March 31, 2008 will not be reviewed until the 2010 assessment cycle.

In short, no matter where you live in the City, your assessment will reflect sales during the above time period in the local real estate market, not the national trends that you may read about in the newspaper.