

## Development of Assessment and Taxable Value

The Michigan Constitution requires that an Assessed Value be established annually as of **December 31<sup>st</sup>** for each parcel of property according to the value of the property, uniformly and at 50% of the “**usual** selling price” of a property. A Mass Appraisal Approach is used to develop the Assessment.

The Mass Appraisal Approach is a blend of the Cost Approach (land value plus the depreciated cost of the building and other improvements) and the use of a Market indicator (Economic Condition Factor, ECF) developed by the sales in each assessment area. The city is divided into many unique “neighborhood” areas so an ECF can be developed according to sales in each area.

As a simplified explanation, this is done by comparing the sale price of each sale to the assessed value at the time of sale in a neighborhood. All sales that are considered “arm’s length” (sales in the open market arrived at through normal negotiations between an independent buyer and seller) and take place within a state mandated time frame are included in the 24-month sales studies. The **average** relationship of these is applied to **all** homes in that area.

House	Sale Price	Assessed Value (1/2 of TCV)	Ratio	Sold for
A	\$450,000	\$175,000	38.89	more
B	\$350,000	\$187,500	53.57	less
C	\$400,000	\$160,000	40.00	more
<b>Total</b>	<b>\$1,200,000</b>	<b>\$522,500</b>	<b>43.54</b>	

In the case above, the average ratio in this example neighborhood is 43.54 (\$522,500 divided by \$1,200,000 = 43.54). Assessments are required by the state to be at a ratio of 50 (hence, 50% of market value). This means all the properties in this area need an increase of 14.8% to be at 50% of market value (50 divided by 43.54 = 14.8%). **Even the property that sold for less than the doubled assessed value (house B) would receive an increase.** If the average ratio was over 50 the assessed values would be lowered in that neighborhood, even on those that paid more than double the assessed value (houses A & C). The actual development of the ECF may result in a slightly different outcome than above as it is more precise in its calculations; however, the concept is similar.

Proposal A was implemented in 1994 and introduced the taxable value. Proposal A provides that the taxable value may not increase annually more than 5% or the inflation rate whichever is less, plus the value of losses and additions caused by physical changes in that property that are not present on the record card. However, if the ownership of the property is transferred (sold) then the taxable value becomes uncapped and equals the assessed value (SEV) the year following the transfer. The taxable value can never be higher than the SEV.

### Taxable Value (TV) Formula

(Previous Year TV - losses) x (CPI or 5% whatever is less) + additions = Current Year TV