Understanding Michigan’s Proposal A and How it Affects Your Taxes

In 1994 Michigan voters approved the constitutional amendment known as Proposal A. It changed the method of assessing property taxes. Prior to 1994 the market value of property was used to assess the property. After 1994 the rate of inflation was used to determine the increases in the property’s Taxable Value.

The constitutional amendment was proposed at a time in Michigan’s economy when market values were rising dramatically. It was very appealing to voters then to limit the rate at which their property taxes could rise.

Today, many Bloomfield Township homeowners, like homeowners all over the state, are seeing the market values of their homes decrease from their values of the last several years. While it seems that should make the Taxable Value decrease as well, Proposal A dictates that changes in Taxable Values follow the inflation rate, not the market value. Therefore, because inflation is rising, the Taxable Value of a home will rise too.

Proposal A mandates that increases in the Capped Value (see Definitions) be limited to the rate of inflation or 5% — whichever is less. The Capped Value does not take into account the swings in market values at all. Most often, the Capped Value becomes the Taxable Value.

Assessing and Taxation Terms and Definitions

Proposal A
An amendment to the Michigan Constitution, passed in 1994, that changed the method of assessing property taxes. Prior to 1994 the market value of property was used to assess the property. After 1994 the rate of inflation was used to determine the increases in the property’s capped value. (typically the taxable value)

Assessed Value
50% of the property’s market value.

Capped Value
The property’s previous year’s taxable value multiplied by the rate of inflation or 5%, whichever is less.

State Equalized Value (SEV)
The Assessed Value of a property after the value goes through the county and state equalization processes. The county board of commissioners and the State Tax Commission must adjust (equalize), by class, local assessments if they are above or below 50% of the market value (see “Assessed Value”.

True Cash Value
Cash price a property will bring in a competitive and open market.

Notice of Assessment
A notice stating the Assessed Value, State Equalized Value, Taxable Value, percent of Homestead, and owner-ship transfer status of a property. It is mailed in February each year before the local Board of Review meets in March.
Most people in Bloomfield Township have lived in their homes since before 1994, when Proposal A went into effect. For decades, the real estate market has risen more than the rate of inflation. For this reason, their home’s Assessed Value (50% of the market price) has outpaced its Capped Value (based on the rate of inflation). The end result is that most homes’ Taxable Values are far less than their Assessed Values.

Proposal A’s affect on a home that has had the same owner since before 1994

See the graph on this page (5718 Kenmoor) that compares the Assessed Value and the Taxable Value of an actual Bloomfield Township home that hasn’t changed hands since the inception of Proposal A. In 1994 both the Assessed Value and the Taxable Value were the same, $80,000. Over the years, however, the Assessed Value increased approximately 5.5% per year (typical real estate market increase), while the Capped Value increased just 3% (average rate of inflation).

In 2007 the Assessed Value began to decline while the Taxable Value continued to increase due to the rising rate of inflation. It is likely that the Assessed Value and the Taxable Value will be the same again in a few years if the real estate market continues to decline.

Why Are My Property Taxes So Much Higher than the Previous Owner’s?

Many people in Bloomfield Township purchased their homes after Proposal A went into effect. Proposal A mandates that when a property transfers, the next year’s Taxable Value becomes its Assessed Value (it becomes “Uncapped.”)

The example on the next page shows a property that was uncapped in 2002 after its sale to the present owner.

The graph (5585 Lane Lake Ct.) compares the Assessed Value and the Taxable Value of an actual Bloomfield Township home that was sold to new owners in 2001 and uncapped for 2002. You’ll see that shortly after Proposal A went into effect in 1994, the Assessed Value, then $174,500, began to rise more than the Taxable Value did. Proposal A requires that the year a property is transferred, used as a principal residence

Please review the Notice for accuracy. Contact the Assessor’s Office if you have any questions or concerns.

The Board of Review will meet for one week, beginning March 10, 2008. You may make an appointment to appear before the Board if you wish to appeal your valuation. The Assessment Notice gives information about making an appointment.
the next year’s Assessed Value becomes its Taxable Value, or in other words, it becomes uncapped. This house, therefore, was uncapped for 2002. That caused the Assessed Value and the Taxable Value to become the same which resulted in a significant jump in the property taxes.

In each case, the market value went up faster than the rate of inflation after 1994. The difference, however, is that the first property was capped and increased at the average rate of inflation over these years, which was approximately 3%. The Taxable Value of the second property increased more than the overall rate of inflation because it was sold and uncapped in 2002.

Assessors, by state law, must use figures from a 24-month sales study that ends nine months before the actual assessing period begins. Therefore, the sales period used to determine the 2007 assessments began April 1, 2004 and ended March 31, 2006. This period of time does not reflect the most current market conditions.

In a market that is increasing, assessments lag far behind current conditions. In times like that, a homeowner would often ask a real estate agent if his home was worth double its assessment. When the market was good, an agent would often calculate the difference in the lag time and tell the homeowner to take the assessment and multiply it by as much as 2.5 to reach the market price. Today, most agents would say that a homeowner would be lucky to get double the assessment.

To soften the effects of this time difference, now that the market is declining, the State Tax Commission has allowed the use of a one-year sales period rather than a two-year period. The 2008 assessments will be calculated on sales from October 1, 2006 – September 30, 2007. Most Bloomfield Township neighborhoods, for the first time since 1970, will see a decrease in their assessments.

Foreclosures have become more frequent in today’s current economic conditions and are competing with normal home sales. These have an effect on the overall market. Foreclosure sales are usually considered distressed sales. The Assessor’s Office reviews foreclosure sales; in some cases these sales will be used in the sales studies mentioned above but in many cases will not. Most foreclosure sales are no more typical in showing market value than inflated prices, often related to mortgage fraud.

Home Improvements that do NOT affect your assessment

- Repainting, repairing or replacing existing masonry
- Replacing awnings
- Adding or replacing gutters and downspouts
- Replacing storm windows or doors
- Insulating or weather stripping
- Rewiring
- Replacing plumbing and light fixtures
- Replacing the furnace.
- Replacing oil or gas burner
- Repairing plaster or redecorating
- Installing a new ceiling, wall or floor surface
- Removing partitions to enlarge rooms
- Replacing automatic hot water heater
- Replacing interior woodwork
- Improving landscaping and/or lawn*

* assumes same type and size
** does not refer to patios or decks
Meet the members of the Assessors Office

The Bloomfield Township Assessor’s Office staff includes five professional appraisers. The State Assessors Board has certified all of them at various levels in assessment administration. The Assessor holds the highest level of certification available, a Level Four. Currently there are only 148 individuals in the State of Michigan who have achieved the Level Four certification in Assessment Administration. The Township’s staff of appraisers has 88 years of combined experience and is well qualified to assess the real and personal property within Bloomfield Township.

Because your Assessor’s Office is local, you may easily contact them with questions or concerns. Stop by the office during regular hours, 8:00 AM – 4:30 PM Monday through Friday, call 248.433.7710, or email the Office at assessor@bloomfield-twp.org. The Township Assessors will also attend Homeowners Association meetings.

Bloomfield Township Services and Fiscal Position Remain Solid

Most economic forecasters predict that the housing market will remain weak in the near future. That is not good news for anyone. Still, most Bloomfield Township homeowners can take some comfort, however small right now, in the fact that over the years their homes will remain a strong investment. Township public services – police, fire, EMS, water, roads, planning, building – are considered to be among the best of any community in the state and are not facing cuts in the foreseeable future. The Township’s bond rating has recently been reaffirmed at the highest levels any township can achieve, with Moody’s giving it a AA1 and Standard and Poor’s giving it a AA+. This allows the Township to keep the millage rate for the Capital Improvement Program as low as possible. These factors make the Township highly competitive among its neighbors and very appealing to people considering moving into this area. In addition, a good number of current homeowners are remodeling and renovating their homes and businesses are moving into the Township. You will see new construction up and down Telegraph Road especially, bringing jobs and other opportunities to the area. Bloomfield Township is positioned to remain a thriving community for decades to come.