What Good Assessors Do

By:
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A message to our taxpayers…

In these uncertain economic times we would expect our taxes to go down based on market behavior. While that is a logical thought, we also know that there are limits to these ideas and sometimes we just have to accept that certain parts of the tax system are administered with good faith by your local assessor but are changed in areas outside of our control. Proposal A, which you will always hear us begin our dialog with, is one of those most important areas, because the taxes are levied outside of our legal boundaries, and is largely the issue we find most discussed during March Board of Reviews. Most of you may be aware of the 2009 CPI that governs our taxes directly. This upcoming year it will be 4.4% which, when applied to your taxable value, could increase your taxes for 2009. Until this law is changed, these taxable values will, (except under very limited circumstances) be part of another system of taxation that only your legislators, not your assessor, or local or county treasures, can change. This system is set up for a type of "leveling out" of our property taxes avoiding large increases or decreases in our *tax* base.

The local assessor uses many ways to track *current* values. A good assessor is always looking to improve the assessment process using various approaches to value. This could account for your assessment going *up*. Remember, it is not the increase (if any) of last year vs. this year, it is what the real estate is worth *based on current activity*; land sales, building construction, and modified building construction costs as corrected by local market conditions, and are the mainstay for residential properties. In a perfect world, we would have typical sales along with other data, but currently, and into the foreseeable future, our information is drawn from a market that has seen sales above, or below, even what we consider what the "typical" sale is. For this reason, there may be properties sold below even what we see as our current market trend. We simply cannot follow these sales, as this imparts us into unethical behavior and territory that we, as assessors, watch very carefully. Make no mistake, there are agencies that direct our market analysis, watch us very carefully, and expect us to stay within targeted municipality-wide adjustments. And while you are thinking about it, yes, there are agencies that watch those agencies as well!

The local condition is based on our ***ECF*** or Economic Condition Factor. A good assessor is always looking to this ECF and is modifying this ECF through mathematical formulas and, at times, sees a different and more accurate way to assess your real estate. Imagine lakefront property sales being compared to non-lake front property sales; this, along with many other factors, can change neighborhood codes and our ECF's possibly every single year which in effect, can produce valuations that may not make sense at the first review (i.e. the Assessment Change Notice).

The simple truth is this, assessors are taxpayers first; because of this we strongly believe in our principals. If there is one among us who does not, they will not be a member or our profession for long; the other agencies are watching as well, and as long as we understand and work together, we can reduce the perception of unfair practices.

How Assessments Are Maintained

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Assessments are based on 3 main value concepts; land as if vacant valued by sales in a given date range ("As Of"). Depreciated Construction Cost, (100% if new built in 2008 etc), and the Market value of the Depreciated Construction Cost. (Location, Location, Location called the ECF (Economic Condition Factor),). Together these 3 main value concepts make up the yearly assessment on every parcel in every county, city, village, and township in Michigan. All of these 3 main value concepts are reviewed yearly to ascertain the legality of the Assessment Roll; property *must* be valued at "50% of Market Value". This is *the* reason assessments change every year.

Vacant land valuation
Simply put; vacant land is valued by observation of sales; usually within a designated time frame. Valuation by acre, front foot, or square foot is the most common principals applied.

Depreciated Construction Cost
Construction Costs are provided by the State Mandated; "Assessors Manual". This Manual(s) is *the* guideline provided to assessors to develop "Cost New" from the State Tax Commission in paper, as well as electronically ("database"). If the construction is older, or if old buildings are updated, the Depreciation is changed.

Location, Location, Location
This is expressed as the Economic Condition Factor. A basic view could be that dwellings on lake front property would normally yield a higher Economic Condition Factor than their neighbors *not* on the lake.

Procedural Differences
In areas where there have been no *modifications* to the 3 main value concepts, the increase or decrease of assessed values are usually more "uniform". (They are more likely to increase or decrease comparatively the same; as they were just calculated from sales information while not changing the basic premises of value size, significant change in depreciation or changes in the Location factor (Economic Condition Factor, or ECF)). In areas where the assessor reviews, then decides that property is no longer "50% of Market Value" regardless of how much application the 3 main value concepts are applied, then these other modifications *must* take place. Imagine the land value of 1 lot being the same as a parcel with 3 lots? Now imagine the land value of the parcel with 3 lots being corrected. This parcel will change in value more dramatically than the one with only 1 lot. These types of changes are not done very often but must be done to conform to State Tax Commission guidelines and to bring the entire municipality back to conformity with State law.
Information such as this is constantly being evaluated for uniformity and just plain old common sense. A building built 100 years ago with little or no updating is surely more depreciated than a brand new one; this information is expressed with lower depreciation hence some sudden changes if this parcel were ignored over many years. Some sales result in a lower True Cash Value, some higher. If all the sales were lower than the True Cash Value, the overall assessment process for this area may be incorrect. There are many ways to check the validity of assessments and one of the best is comparing it to last years information; has the land sized changed? Is there a different Depreciation applied form last year? Has the Economic Condition Factor *Neighborhood Code* changed from last year?

Finally

Why is my Taxable Value going up when my assessment is going down?
Assessed Value is tied to the market. In good times, assessments can increase (due to strong sales over a limited time) which could yield a 5-7% yearly increase. Over time (since 1994) assessments in this area could have risen 150% or more! The Taxable value only rises (basically) at the Inflation Rate which has never been higher than 5% (protected by law) and has hovered around 2-3% since 1994. If we do the math (and that's what we do!), then your taxable value has risen half the area average! Example:
Suppose the property was worth $100,000.00 in 1994. The assessed value being 50,000. After 14 years at 5% yearly we now have a house worth $198,000.00 or assessed at 99,000. The taxable value (of all properties in Michigan via Proposal A 1994) of this dwelling was 50,000 in 1994. 14 years later with only (average) of Taxable "adjustment" is only 2.5%. A financial calculator would yield a 2008 taxable value of 70,500. The assessed value must fall below 70,500 in order to lower the taxable value. Of course this information is simple in nature to assist in understanding the basics of assessing; the real thing has many more features.
In Assessing, all valuation concepts *must* follow procedures set forth by the State Tax Commission and the Michigan Constitution. Of all procedures, the two that are the most important is; assessments be set at 50% of Market Value, and all property not exempt by law must be discovered ("Discovery"), and placed on the Assessment Roll.

There are other approaches to value (Market, Cost, and Income) that get plugged into our basic formula each year; however, the end approach is the same; to value these properties within the guidelines set forth by the Michigan Constitution, the General Property Tax Act, and the State Tax Commission. Further questions can be answered by contacting your local assessor or County Equalization Department.