City of Troy

CITY COUNCIL REPORT

Date: January 08, 2015

To: Brian Kischnick, City Manager

From: Tom Darling, Director of Financial Services
Nino Licari, City Assessor

Subject: Why City Revenue Lags behind Assessment Increases (the Cap revisited)

A Review:

In 1994 the voters of Michigan enacted Proposal A. The ‘Cut and Cap’ change to property taxation in Michigan.

In its shortest form, this constitutional amendment fundamentally changed property taxation by eliminating a direct link between Assessments and Taxes. This was accomplished by introducing 2 new terms into taxation law, Capped Value and Taxable Value.

Capped Value is the prior year’s Taxable Value times the Consumer Price Index (CPI) or 5%, whichever is less. The CPI has averaged 2.6% since 1994. This value can change if there is new construction, or a loss to the physical structure.

Taxable Value is the lesser of Assessed or Capped Value. Taxable Value is what millage rates are levied against, and generate revenue.

Since 1994, taxes are levied against Taxable Value, not Assessed Value.

Assessed Value still represent 50% of a property’s Market Value, and may change whatever percentage is needed to be at that 50% level.

As Taxable Value increases are limited (Capped) to the rate of inflation (CPI) or 5%, whichever is less, revenue to the local unit is also limited.

This is why a 5.0% (2014), 11.2% (2015), or 12.0% (estimated 2016) increase in home Assessed Values does NOT mean a corresponding increase in City revenue. The CPI dictates that the revenue change will not match the Market Value change in Assessed Value whenever the Assessed Value change exceeds the CPI.

In actuality, the 2014 Taxable Value change was 2.2%. The 2015 Taxable Value change was 3.17%. The estimated 2016 Taxable Value change is 1.6%.

The General Fund tax revenues for Residential properties became/becomes:

	2013/2014 FY:	$17,577,397	+ 2.20%
	2014/2015 FY:	$18,135,073	+ 3.17%
Est.	2015/2016 FY:	$18,425,234	+ 1.60%

The peak of the City's Taxable Value was in the 2008/2009 fiscal year at $3,200,000,000, generating $20,779,361 in Residential taxes. With the huge loss in Taxable Valuation during the recession, it became clear that a full recovery to the 2008/2009 levels could take as long as 20 - 25 years based upon the limitations on Taxable Value increases imposed by the Capping process of Proposal A of 1994.

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