O-02c

City Council Report

Date: September 11, 2013

To: Brian Kischnick, City Manager

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

Subject: Citizen comment concerning the Assessor using less than the CPI increase in Taxable Value, in order to reduce City revenues

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History

At the September 9, 2013 City Council meeting, a citizen spoke towards a means of reducing revenues by having the Assessor use less than the Consumer Price Index (CPI) increase in Taxable Value.

The Law on the Subject:

In 1993 the voters of the State of Michigan passed Proposal A, a constitutional amendment that capped the amount of any increase in value that property taxes were levied against to the rate of inflation, or 5%, whichever was less.

This is the law in short. There are many exceptions to this law that allow the change to go higher than the CPI, but none that give any Assessor the ability to use less than the CPI (as long as there is a gap between Assessed and Taxable Value at least equal to the CPI).

Calculating Taxable Value (T/V):

In late fall, Counties release their Equalization studies to all of the Cities, Village, and Townships in their jurisdiction. This sets their estimates of the ratio of Market Value to Assessed Value (A/V) in those units, by class. By law, that ratio may not exceed 50%.

The local Assessor then spreads the change in value over the class across neighborhoods of similar homes as determined by the local Sales Study. Different subdivisions generate different value changes.

Capped Value (C/V) is defined by the enabling language of Proposal A as the prior year's Taxable Value (T/V) times the CPI (or 5%, whichever is less).

Taxable Value (T/V, the value millages are levied against) is defined by that same language as the lesser of the current year's Assessed or Capped Value.

Proposal A mandates that any value difference between the current Assessed Value and last year's Taxable Value must cause the prior year's Taxable Value to increase by any portion of the CPI (or 5%) available between the two values, and may not exceed the Assessed Value, by definition.

Levying Millage Against Taxable Value:

After the local Board of Review closes at the end of March of each year, the local units Assessments are equalized by both the County and the State. In other words, they are certified to be at 50% of Market Value.

The working budget is based on estimates of these final values. When the final values are certified they are used for the final budget that Council approves.

In order to meet revenue needs, millage rates are established by Council based upon the available Taxable Value, divided by the revenue needed to meet budget goals.

This is a checks and balances process. Only the governing body has the power to tax (City Council, in Troy). No local Assessor has the ability to tax anything.

In other words, no City Manager, City Council, Township or Village Board has any authority to demand an Assessor increase or decrease Assessed and Taxable Values to meet revenue needs.

Likewise, no Assessor has the ability to change millage rates to satisfy revenue needs. To repeat: No local Assessor has the ability to tax anything.

The Answer to the Citizen Comment:

If the problem is excess revenue because of increased Taxable Value, the governing body can lower the Millage Rate (*bearing in mind, that under the most recent Charter Amendment, if the millage rate is lowered, it cannot be raised without a vote of the electorate*), save the excess for lean times (Fund Balance), or spend the excess funds for other goals. They cannot change Taxable Value. It is what it is. This is no different than increasing a Millage Rate for declining revenues when Taxable Value is falling.

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