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TRUTH IN LOCAL PROPERTY TAXATION AND ASSESSMENT

Two new state statutes regulating local property taxes take effect in 1982 - "Truth in Taxation" and "Truth in Assessment." These two laws are in addition to two existing laws -- "Truth in Equalization" which was adopted in 1976 and the millage rollback requirements provided for by the Tax Limitation Amendment to the Michigan Constitution adopted in 1978.

IN BRIEF

Two of these laws are designed to limit the growth of property tax revenues and two are designed to provide local accountability for assessment levels. Although they are applied independently, they interact with each other.

Limits on the Growth of Property Tax Revenues

- Tax Limitation Amendment (Article IX, Sec. 31 of the Michigan Constitution). If the total value of existing taxable property in a local taxing unit increases faster than the U.S. Consumer Price Index (CPI) from one year to the next, the maximum authorized tax rate in that jurisdiction must be "rolled back (reduced). The rollback may be reversed by a vote of the electors.
- Truth in Taxation (Act No. 5, PA of 1982). Any increase in the total value of existing taxable property in a local taxing unit must be offset by a corresponding decrease in the tax rate actually levied so that the yield does not increase from one year to the next. The rollback may be reversed by a special vote of the legislative body of the local unit provided that the action is preceded by a public advertisement and hearing.

Measures to Provide Local Accountability for Assessment Levels

- Truth in County Equalization (Act No. 243, PA of 1975). In counties in which the state equalized valuation (SEV) exceeds the county equalized valuation (CEV), county and village maximum authorized tax rates must be reduced so that yields based on the SEV will not exceed the amounts that would have been collected had the rates been applied to the CEV.
- Truth in Assessment (Act No. 213, PA of 1981). In cities and townships in which the state equalized valuation exceeds the local assessed valuation, the city or township maximum authorized tax rates must be reduced so the yields based on the SEV will not exceed the amounts that would have been collected had the rates been applied to the local assessed valuation.

Although the development of these regulations has coincided with the rapid increase in the valuation of property subject to taxation and with a spate of proposals intended

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to deal with the property tax, other factors have been at work as well. Important among these has been a desire on the part of the legislature to pinpoint responsibility for property tax increases. While the state is responsible for establishing and enforcing the requirements that property be uniformly assessed at 50% of the true cash value, local units (except schools) are responsible for assessing property in accordance with state law and local legislative bodies (including schools) are responsible for annually determining local property tax rates and levies within limits authorized by the voters. The willingness of some local officials to blame the state or county equalization process for property tax increases rather than to accept the responsibility of local units for assessing and, most importantly, for determining tax rates and levies has contributed heavily to the adoption of these statutory measures.

If accountability is enhanced by these provisions, however, it may come at the price of endless confusion and complexity as the various regulations take effect and interact. As this report indicates, the regulations are individually complex and, taken together, may create an impenetrable maze for even the most diligent taxpayer or local official.

PROPERTY TAX ROLLBACK PROVISIONS

The basic elements of the property tax are:

$$\begin{array}{ccccccc} \text{Base} & & \text{X} & & \text{Rate} & & = & & \text{Levy} \\ \text{(State Equalized Value)} & & & & \text{(mills)} & & & & \text{(Total Dollar Amount)} \end{array}$$

The four laws reviewed in this report constitute an attempt to control the growth of the levy resulting from increases in the base and to pinpoint responsibility for the initial determination of property values and the imposition of tax levies. Each of the four laws establishes a procedure for reducing property tax rates in order to achieve those objectives.

Limits on the-Growth of Property Tax Revenues

The Tax Limitation Amendment (Article IX, Sec. 31, Michigan Constitution). In 1978, voters approved a constitutional amendment which added ten new sections to the Michigan Constitution. Section 31 of the amendment establishes an annual property tax rollback requirement. The purpose of this section was to prevent total property taxes from increasing more rapidly than the price level. If the state equalized value (SEV) of existing property (excluding new construction and improvements) in a taxing jurisdiction increases more rapidly than the U.S. Consumer Price Index (CPI), the maximum authorized millage rate for the taxing unit is reduced so that the total tax levy on existing property is no greater than the prior year levy (if at the maximum authorized rate) adjusted for inflation as measured by the CPI. In order to compute the tax limitation rollback, the prior year SEV is multiplied by the increase in the CPI with the resulting product divided by the SEV (less new construction and improvements) for the current year. The quotient, called the millage reduction fraction, is multiplied by the maximum authorized millage rate to arrive at the maximum allowable millage rate. After completion of the annual tax limitation rollback computations taxing jurisdiction may seek voter approval to increase the tax rate up to the original maximum authorized rate.

Millage reduction fractions are cumulative. That is, the compound millage reduction fraction (CMRF) for the prior year is multiplied by the current year millage reduction fraction to produce the compound millage reduction fraction for the current year. The CMRF for each year is multiplied by the maximum authorized millage rate to determine the maximum allowable millage rate for that year. While a one-year millage reduction fraction may be greater than one (if the value of existing property increases by less than the CPI), the compound millage reduction fraction cannot exceed one. Thus, the millage that has been rolled back in the prior year can be rolled up in the current year, but cannot exceed the original maximum authorized rate.

Truth in Taxation (Public Act 5, 1982). This law requires that all taxing jurisdictions (including schools) that levied more than one mill in the prior year annually roll back tax rates for operating purposes to offset increases in values of existing property within the taxing unit. In effect, the levy on existing property (excluding new construction and improvements) cannot exceed the total dollar levy of the prior year. The local governing body may increase the levy beyond the prior year amount by publishing a public notice and approving the increase after a public hearing. The law is intended to inform the taxpayer that annual property tax increases are not solely a result of increases in property values but also a result of the tax rate annually imposed by the local governing body.

The first step in calculating a truth in taxation rollback is to divide the prior year SEV (minus losses) by the current year SEV (less new construction and improvements). The quotient, called the base tax rate fraction, is multiplied by the prior year operating tax rate to determine the base tax rate. In order for a local governing body to impose a tax rate greater than the base tax rate, a public notice must be issued and a public hearing must be held. The public notice must specify the additional millage rate over and above the base tax rate to be levied. The base tax rate, combined with the additional millage rate, cannot exceed the local unit's maximum authorized millage rate. After a public hearing, which may coincide with the hearing on the local unit's budget, the local governing body must adopt a separate resolution or ordinance to levy the additional millage rate.

Measures to Provide Accountability for Assessment Levels

Truth in County Equalization (Public Act 243, 1975, as amended). This statute currently requires counties and villages to roll back millage rates in any year that the state equalized value (SEV) exceeds the county equalized value (CEV) so that the levy is no more than it would have been on the county equalized value. The law was intended to prevent counties and villages from increasing property tax revenues only as a result of the state equalization process. Equalization rollbacks are computed by dividing the CEV by the SEV and multiplying the resulting quotient by the maximum authorized millage rate. A truth in equalization rollback cannot be overridden by the legislative body or by the voters within the jurisdiction. This rollback can be avoided only if the county equalized value is equal to the state equalized value.

Truth in Assessment (Public Act 213, 1981). This law provides for millage rollbacks for cities and townships. If SEV is greater than the assessed value (AV) by 5% or more in 1982, or by any amount in succeeding years, the maximum authorized millage rate must be rolled back so that the actual levy does not exceed a levy based on the maxi-

imum authorized millage rate when applied to AV. This legislation was designed to prohibit assessing Jurisdictions (cities and townships) from increasing tax levies solely as a result of the equalization process. Assessment rollbacks are computed by dividing AV by SEV and multiplying the resulting quotient by the maximum authorized millage rate to derive a maximum allowable truth in assessment millage rate. If an assessing jurisdiction (city or township) fails to assess taxable property at the statutorily required 50% of true cash value, the unit is penalized through a reduction in the maximum authorized tax rate. In instances where the actual tax rate imposed is less than the maximum allowable truth in assessment rate, the rollback would have no effect. A truth in assessment rollback cannot be overridden by either the legislative body or by the voters within the city or township. This rollback can be avoided only if the assessed value is equal to the state equalized value in the assessing jurisdiction.

INTERACTION AMONG THE FOUR LAWS

Each of these rollbacks is independent of the others, but since they are applied sequentially, double and triple rollbacks may occur (see diagram).

Step 1. For a taxing jurisdiction in which the SEV increased more rapidly than the CPI, the constitutional tax limitation rollback would first be calculated to determine the maximum allowable tax limitation millage rate.

Step 2. For a city or township in which assessed value was less than the state equalized value, the maximum allowable tax limitation millage rate would be rolled back to the maximum allowable truth in assessment rate. For a county or village in which the county equalized value was less than state equalized value, the maximum allowable tax limitation millage rate would be rolled back to the maximum allowable truth in equalization rate.

Step 3. Lastly, all taxing jurisdictions would compute the base tax rate as required under truth in taxation. The local legislative body could impose a tax rate in excess of the base tax rate but no higher than the maximum allowable truth in assessment millage rate for cities and townships or the maximum allowable truth in equalization millage rate for counties and villages after a special vote of the legislative body. Since schools are subject only to truth in taxation and constitutional tax limitation rollbacks, local school boards could impose the base tax rate or a rate as high as the maximum allowable tax limitation millage rate with a special vote.

PROCESS FOR DETERMINING PERMISSIBLE ANNUAL PROPERTY TAX RATES

Step 1
TAX LIMITATION ROLLBACK
ALL UNITS

1. Current year MRF = $\frac{(\text{Prior year SEV} - \text{Losses}) \times \text{U.S. CPI Increases}}{\text{Current year SEV} - \text{Additions} + \text{Losses}}$
2. Current year CMRF = Prior year CMRF X Current Year MRF
3. Maximum allowable tax limitation millage rate = Maximum authorized millage rate X Current year CMRF

Counties & Villages

Cities & Townships

Step 2
TRUTH IN EQUALIZATION ROLLBACK
COUNTIES AND VILLAGES

1. Equalization roll-back fraction = $\frac{\text{Current year CEV}}{\text{Current year SEV}}$
2. Maximum allowable truth in equalization millage rate = $\frac{\text{Maximum Equalization allowable truth in equalization millage rate}}{\text{Maximum allowable tax limitation millage rate}} \times \text{rollback fraction}$

Counties & Villages

Step 2
TRUTH IN ASSESSMENT ROLLBACK
CITIES AND TOWNSHIPS

1. Assessment roll-back fraction = $\frac{\text{Current year assessed value}^*}{\text{Current year SEV}}$
2. Maximum allowable truth in assessment millage rate = $\frac{\text{Maximum allowable tax limitation millage rate}}{\text{Assessment roll-back fraction}} \times \text{rollback fraction}$

* For 1982 tax year only -- if SEV exceeds AV by less than 5% no truth in assessment rollback is required.

Schools

Cities & Townships

Step 3
TRUTH IN TAXATION ROLLBACK
ALL UNITS

1. Base tax rate fraction = $\frac{\text{Prior year SEV} - \text{Losses}}{\text{Current year SEV} - \text{Additions}}$
2. Base tax rate = Prior year operating rate X Base tax rate fraction

Local governing body may increase millage rate above the base tax rate up to the maximum allowable truth in assessment/equalization millage rate (Step 2) by separate ordinance or resolution.

These four property tax regulations are individually complicated and become more complex when they are applied together in a single unit of local government. The true complexity of these regulations deepens when they are considered from the perspective of the average citizen. Most citizens of Michigan are residents of at least five units that levy the property tax as shown in the table. Both the truth in taxation and the tax limitation rollbacks apply to each of the five overlapping taxing units, while the truth in equalization and truth in assessment rollbacks apply only to counties or villages and cities or townships. Thus, the typical taxpayer could be faced with as many as 12 separate millage rollbacks in a year.

LOCAL UNITS AND TYPES OF ROLLBACKS

	Millage Subject to Rollback			(X)
	Const. Tax Limitation	Truth in Taxation	Truth in Equalization	Truth in Assessment
City or Township	x	x		x
County	x	x	x	
School District	x	x		
Intermediate Schools	x	x		
Community College	x	x	—	
TOTAL (12)	5	5	1	1

The rollbacks do not affect equally all taxes paid by the property taxpayer:

1. Newly authorized millage is not subject to tax limitation or truth in taxation rollbacks.
2. Since the constitutional tax limitation process is cumulative from year to year, millages approved by the voters in different years are subject to varying rollback factors.
3. Millage levied to repay voter-authorized or pre-1979 debt is not subject to any rollback.
4. Certain other taxes levied by local units (such as those to finance Act 345 police and fire pension plans or special assessments), are exempt from rollbacks.
5. Units that levy one mill or less are exempt from truth in taxation requirements.

Finally, after all of the rollback processes have been completed, if the taxpayer finds that the total property tax bill exceeds 3.5% of household income, the taxpayer is eligible for the state homestead property tax relief program. This permits the taxpayer to claim, as a credit against the state income tax, 60% of the property tax paid in excess of 3.5% of household income.