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STATE OF MICHIGAN

JAMES J. BLANCHARD, Governor

DEPARTMENT OF TREASURY

ROBERT A. BOWMAN, State Treasurer

STATE TAX COMMISSION
4th Floor Treasury Building
Lansing, Michigan 48922 Telephone 517 373-0500

COMMISSION MEMBERS
WARD G. DEXEL
LEROY J. NELSON
ROBERT O. VANDERMARK

TO: Assessing Officers and County Equalization Directors

FROM: State Tax Commission

Re: Equalization - Recognition of Flood Damage and Single Year Appraisal Study

The State Tax Commission has received many inquiries as to targeting agricultural valuations where they are severely declining, and regarding damage to property value by the recent flooding disaster in the counties where it has occurred. Some comment regarding these subjects is therefore in order.

In order to gather information as to the adverse impact of the flooding and declining agricultural land valuations, the Property Tax Division and its staff, and the Tax Commission, has held conferences with representatives of the MSU Agricultural Economics Department and Farm Bureau. Reports were also received from the Department of State Police regarding damage estimates. The PTD has also consulted its District Supervisors, polled the Equalization Directors, and contacted Assessing Officers and others regarding the extent of damage statewide.

When the marketability of any property subject to ad valorem taxation is adversely impacted to a significant degree as of the appropriate tax day, the assessment process should recognize the loss in value by establishing the assessment at fifty percent of the amended true cash value.

It should be noted that for 1987 assessments and equalization, values are based on the condition of the property as of December 31, 1986.

It should be noted that in some instances property that is damaged and repaired by tax day may be as marketable as if no flooding had occurred. Some areas, particularly lakeshore areas, often flood and still maintain about the same level of market price. The valuation determinations upon which assessments are based depend to a large extent upon the unique characteristics of each property being valued, such as the location and the use of the property, its scarcity, market history, and utility.

Only local assessing officials can evaluate each of the individual properties within their units of local government to recognize the detrimental effect, if any, on individual property valuations.

Where applicable, equalization departments should consider the market impact of significant flood damage in their 1987 equalization recommendations to county boards of commissioners.

An example of a problem subsequent to flooding might be the plight of a commercial business district located on a flood plain. This business district, because of its location on the flood plain, may no longer be eligible for federal disaster relief. Obviously, these commercial properties are reduced in value. The business district should relocate on high ground in the future. Both the assessing officer and equalizer should recognize the valuation problem, and adjust assessments and equalized valuations accordingly.

Other flood related problems are recognition of permanent erosion or drainage damage to agricultural lands, damage to farm residences, damage to residential and commercial properties, and the destruction of dams, dikes, and artificial lakes.

STANDARDS FOR SINGLE YEAR APPRAISAL STUDIES

A single year sales or appraisal study may be a useful tool to consider the impact of flooding on township wide equalized valuations, and it will also consider declining valuations.

The State Tax Commission has adopted the following standards for single year appraisal studies to determine the revised base for beginning 1987 equalization computations. Single year appraisal studies are optional, additional studies that may be originated by assessors or equalization departments.

The single year appraisal studies shall utilize land valuations based on the entire calendar year (twelve months) of sales for the year ending with the tax day for the next assessment and equalization and the Economic Condition Factor (ECF) shall be based on the same twelve month period.

For example, for 1987 equalization, the 1986 single year appraisal study land value and ECF shall be based on sales occurring from January 1, 1986 to December 31, 1986.

Sales used for the purpose of calculating land values and ECF's should be as evenly distributed as possible throughout the twelve month period. Trending or weighting within the twelve month period is prohibited. Specific property damage is to be recognized on individual assessed valuations by the assessing officers and reported as a loss.

The rules that apply to twenty four month sales studies, twelve month sales studies, or twenty four month appraisal studies (except for the time frames in most instances), apply to single year appraisal studies. Bulletin No. 19 - June 25, 1982 - Standards for Equalization Studies, completely describes standards for one and two year sales studies.

The single year appraisal study shall be transmitted by the county equalization department to the State Tax Commission by February 1 of the year subsequent to the twelve month sales period. For example, for 1987 equalization the 1986 single year appraisal study should be transmitted to the STC by February 1, 1987.

Where a valid single year equalization study results in a significantly higher ratio of assessed to true cash value than other approved study methods, it may be utilized to begin 1987 equalization computations.