



STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

RICK SNYDER
GOVERNOR

NICK A. KHOURI
STATE TREASURER

DATE: December 21, 2016

TO: John S. Roberts, State Budget Director
Ellen Jeffries, Director, Senate Fiscal Agency
Mary Ann Cleary, Director, House Fiscal Agency

FROM: Eric Scorsone, Senior Deputy State Treasurer *ES*

SUBJECT: Principal Residence Exemption Audit Report

Attached please find one copy of the Principal Residence Exemption Compliance Program 2016 Report. The report is required by Public Act 268 of 2016, the General Government Appropriations Act. Section 924 of the Act provides as follows:

(1) In addition to the funds appropriated in part 1, the department of treasury may receive and expend principal residence audit fund revenue for administration of principal residence audits under the general property tax act, 1893 PA 206, MCL 211.1 to 211.155.

(2) The department of treasury shall submit a report for the immediately preceding fiscal year to the state budget director and the senate and house fiscal agencies not later than December 31 stating the amount of exemptions denied and the revenue received under the program.

Attachments

cc: Joe Fielek, Chief Deputy Treasurer
Howard Ryan, Director of Legislative Affairs
Ed Koryzno, Director, Bureau of Local Government Services
Heather Frick, Administrator, Property Services Division

Principal Residence Exemption Audit Report

Background

Audit Cycles. Pursuant to Section 7cc(10) of Public Act 206 of 1893, the General Property Tax Act, the Department of Treasury (Department) is required to conduct audits of principal residence exemptions in any county which elects not to do so, unless the Department enters into an agreement with the assessor of a given tax-collecting unit of local government within that county. Election by counties whether or not to conduct such audits initially occurred on a biennial basis. Public Act 198 of 2008 amended Section 7cc(10) to require counties to notify the Department in advance of their election for the next audit cycle and changed the audit cycle from a two-year to a five-year period. See Appendices 1 through 4 for detailed lists of audited counties in 2013, 2014, 2015 and 2016 including those opt-in counties selected for audit. In 2014, the election by counties opened and 43 counties elected to conduct principal residence exemption audits with 40 counties requiring the Department to conduct audits for the next five years. The election by counties will open again in 2019.

State Contract. On September 15, 2006, the Department executed a contract with Tax Management Associates, Incorporated to develop an audit program and conduct principal residence exemption audits for the 30 counties for which the Department initially was responsible. A three-year contract was approved by the State Administrative Board for approximately \$3.0 million. The contract had been funded through \$500,000 annually appropriated for fiscal years 2007 through 2009, together with \$750,000 authorized to be carried forward from the 2006 fiscal year and other Department appropriations. The Department amended the contract for 2008 and 2009 to reflect the change in counties that opted not to conduct their own audits and for which the Department was therefore responsible. In 2011, the contract was rebid and a new three-year contract (through fiscal year 2014) with Tax Management Associates was signed with the option for two, one-year extensions. In 2014, a one-year extension for 2015 was granted and then in 2015, a one-year extension for 2016 was granted. In 2016, a new three-year contract (through fiscal year 2019) with Tax Management Associates was signed with the option for five, one-year extensions.

Audit Program

Contract Activity. During a given audit period, Tax Management Associates creates a database with approximately 99 percent of the property tax records for counties for which the Department is conducting audits. Review and analysis of the parcel records claiming a 100 percent principal residence exemption, including some comparisons with State data, provides the active audit parcels for an audit period. Table 1 provides information relating to contract activity for 2013, 2014, 2015, and 2016 audits.

During the audit, questionnaires are sent to property owners and, in some cases, parcel information is sent to local assessors for additional review. All returned questionnaires and local assessor reviews are processed, with approximately 70 percent of them resulting in some form of contact from taxpayers, whether by telephone call to the contact center established by the contractor, a returned questionnaire, supplemental taxpayer information, e-mail, or a combination of forms of contact.

Parcels are then categorized and reported in three general groups: (1) those owned by individuals who owned more than one parcel but who were receiving principal residence exemptions on all the parcels owned, (2) parcels owned by an entity other than an individual, and (3) parcels identified by property classification as nonresidential or that did not otherwise qualify for exemption.

Exemptions Denied. The Department issued 8,234 principal residence exemption denials based upon audits conducted in 2016, issued 10,294 denials based upon audits conducted in 2015, issued 6,317 denials based upon audits conducted in 2014, and issued 5,930 denials based upon audits conducted in 2013. A comparison of the denials issued for 2013, 2014, 2015 and 2016 audits, including the basis for the denials by category, is set out in Table 2. An audit summary, by county, for the same years is attached to this report as appendices.

Under provisions of Public Act 206 of 1893, the General Property Tax Act, a taxpayer may appeal a denial of his or her principal residence exemption. The Department continues to receive appeals of the 2016 denials with approximately 629 received as of December 14, 2016, with more expected. The Department received 1,049 appeals from the 2015 audit. Of those 2015 appeals received, 199 were overturned and another 118 were partially overturned. The Department received 906 appeals from the 2014 audit. Of those 2014 appeals reviewed, 121 were overturned and another 93 were partially overturned. The Department received 924 appeals from the 2013 audit. Of those 2013 appeals reviewed, 111 were overturned and another 37 were partially overturned.

Revenue Received. Table 3 presents potential savings to the School Aid Fund and potential interest revenue resulting from the 2013, 2014, 2015 and 2016 audits. The estimates are based on assessment data gathered by Tax Management Associates during the audit process. However, several factors appear to be impacting the actual savings and interest collections, as well as the timing of the realization of those savings and interest revenue.

First, there is the matter of statutory timeframes for the denial and billing process. As audits are finalized, denials are processed by Treasury staff and notification of those denials are forwarded to the unit of local government in which the property is located, and to the property owner who has the right to appeal the denial. The local treasurer, or county treasurer, depending upon who has possession of the tax roll, is responsible for billing property owners any supplemental taxes and monthly interest computed from the date the taxes were last payable without interest and penalty within 30 days of receiving a denial. A taxpayer then has 60 days to remit the supplemental taxes and interest without accruing additional interest. For the 2016 Fiscal Year, the Department received \$2,239,518.00 in late interest from local units and bona fide purchaser billings.

Second, there is the matter of taxable valuation adjustments. County treasurers are responsible for reporting any upward adjustment in taxable valuations that result from principal residence exemptions being denied to the Department of Education. The timing of when such adjustments are reported generally tends to vary by county treasurer. The timeliness with which these taxable valuation adjustments are reported will determine when savings to the School Aid Fund are realized. Although the Department of Treasury instructed county treasurers to make taxable valuation adjustments associated with the denials in a timely manner, it is general practice of county treasurers to bill first, collect, and then make adjustments. In addition, it is their practice to make adjustments to the current tax roll after the tax roll has been turned over to the counties by the local units, usually after the first of March following the tax year in question. Therefore, it is anticipated that many of the necessary adjustments related to audit activity will not occur until later in the year following the completion of audits for a given year.

Finally, there is the matter of the property owner appeal process. A property owner has the right to appeal the denial of his or her principal residence exemption to the Department of Treasury within 35 days of the receipt of the notice of denial. As noted earlier, the Department has received 560 appeals from property owners from the 2016 audit, 1,049 appeals from the 2015 audit, 906 appeals from the 2014 audit, and 924 appeals from the 2013 audit. These appeals have been, or are being, reviewed to determine if the principal

residence exemptions should be reinstated. However, a property owner may also appeal any final decision rendered by the Department of Treasury to the Small Claims Division of the Michigan Tax Tribunal within 35 days of the final decision. The timeliness and outcome of any appeals affect the actual savings realized by the School Aid Fund and interest revenue.

Leads. In addition to audit requirements, the General Property Tax Act requires the Department to provide a “leads list” of potentially questionable principal residence exemptions to counties that have elected to conduct their own principal residence exemption audits. In 2016, the Department sent 2,357 leads to opt-in counties.

In an outreach effort and to further facilitate understanding of the evolution of principal residence exemptions, the Department has conducted several training sessions statewide throughout 2016, attended by hundreds of county and local government officials.

Table 1

Principal Residence Exemption Audit Contract Activity

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Counties Reviewed:	48	57	58	57
Parcels Reviewed:	3,957,919	4,210,517	4,241,632	4,171,386
Exemptions Reviewed:	2,525,387	2,548,563	2,572,491	2,536,743
Active Audit Parcels:	33,125	32,927	30,550	21,380
Questionnaires Mailed:	8,887	12,364	12,665	10,120

Table 2

Principal Residence Exemption Denials by Basis

<u>Basis for Denial:</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unqualified Land:	473	212	112	154
Rental Property:	822	1,621	1,090	1,025
Partial Exemption Granted:	44	68	78	72
Not Owner Occupied:	2,263	2,501	2,072	2,511
Non-Resident Owned Property:	126	438	91	73
Property Owned By Company:	<u>135</u>	<u>165</u>	<u>52</u>	<u>240</u>
Denials:	3,863	5,005	3,495	4,075
Failure to Respond to Request for Information:	<u>2,067</u>	<u>1,312</u>	<u>6,799</u>	<u>4,159</u>
Total Denials:	5,930	6,317	10,294	8,234

Table 3

Potential Revenue Estimates from Principal Residence Exemption Audits

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Potential School Aid Fund Savings From Additional Taxes:	\$14.8 MM	\$14.1 MM	\$18.3 MM	\$14.7 MM
Potential Interest Charges Applied to Additional Taxes:	\$3.3 MM	\$3.2 MM	\$4.3 MM	\$3.3 MM
Total	<u>\$18.1 MM</u>	<u>\$17.3 MM</u>	<u>\$22.6 MM</u>	<u>\$18.0 MM</u>
Potential Interest Available For Deposit Into the Principal Residence Property Tax Exemption Audit Fund:	\$2.3 MM	\$2.2 MM	\$3.0 MM	\$2.3 MM

APPENDIX 1
Michigan Department of Treasury
2013 PRE Audit
Denials by County

	COMPANY NAME	RENTAL PROPERTY	UNQUALIFIED LAND	NON-RESIDENT	NOT OWNER OCCUPIED	PARTIAL EXEMPTION	FAILURE TO RESPOND	TOTALS
ALLEGAN*	0	10	24	3	41	3	42	123
ALPENA	1	20	15	6	73	1	46	162
ANTRIM	3	27	80	18	219	3	147	497
ARENAC*	2	4	5	0	12	0	11	34
BARRY	1	9	8	2	29	2	35	86
BAY	2	8	15	0	34	2	25	86
BENZIE	3	1	3	0	7	0	3	17
BRANCH	3	5	4	1	12	0	13	38
CALHOUN*	4	10	3	0	28	0	36	81
CHARLEVOIX	2	14	36	10	96	4	40	202
CHIPPEWA	1	1	0	1	6	0	2	11
CLARE	0	6	13	0	36	1	17	73
CLINTON	0	7	15	0	15	0	10	47
CRAWFORD	1	3	2	0	5	0	5	16
DICKINSON	0	1	7	1	18	0	21	48
GENESEE	4	34	11	1	109	1	114	274
GRAND TRAVERSE*	0	9	2	0	30	0	16	57
HILLSDALE*	4	10	4	0	33	1	16	68
HURON	1	5	3	0	24	1	8	42
INGHAM*	3	35	13	2	64	3	50	170
IOSCO	0	1	1	0	12	0	5	19
IRON	2	1	6	3	12	0	10	34
JACKSON	0	7	13	0	28	1	32	81
KALAMAZOO	4	23	5	7	61	0	50	150
KENT*	0	30	7	0	51	0	47	135
KEWEENAW	0	0	0	0	0	1	0	1
LAKE	1	3	4	2	21	0	17	48
LENAVEE*	1	12	11	0	35	0	34	93
LIVINGSTON*	0	9	10	2	28	0	13	62
LUCE	0	0	2	1	4	0	1	8
MACOMB	8	54	7	4	108	1	107	289
MASON	0	3	3	1	22	0	17	46
MISSAUKEE	1	1	2	0	14	0	1	19
MONROE	3	12	0	2	15	1	13	46
OAKLAND*	25	140	26	23	246	2	363	825
OCEANA	1	8	9	0	31	0	23	72
ONTONAGON	0	0	1	0	1	0	1	3
OSCODA	0	0	0	0	1	0	0	1
OTSEGO	0	2	1	0	14	0	10	27
OTTAWA*	2	14	8	2	29	0	16	71
PRESQUE ISLE	0	0	15	1	14	0	2	32
ROSCOMMON	0	3	6	0	26	0	15	50
SAGINAW*	1	94	26	18	202	3	178	522
SANILAC	1	1	5	0	21	0	14	42
SHIAWASSEE	0	3	3	0	11	0	9	26
WASHTENAW*	2	24	9	3	44	1	44	127
WAYNE	45	155	23	11	293	11	372	910
WEXFORD*	3	3	7	1	28	1	16	59
TOTALS	135	822	473	126	2,263	44	2,067	5,930

*Opt-in county selected for audit

APPENDIX 2
Michigan Department of Treasury
2014 PRE Audit
Denials by County

	COMPANY NAME	RENTAL PROPERTY	UNQUALIFIED LAND	NON-RESIDENT	NOT OWNER OCCUPIED	PARTIAL EXEMPTION	FAILURE TO RESPOND	TOTALS
ALGER*	1	1	3	1	2	0	8	16
ALLEGAN*	5	14	5	5	36	0	20	85
ALPENA	1	4	1	1	6	1	11	25
ANTRIM	4	5	4	3	19	2	18	55
ARENAC*	0	3	1	6	6	0	4	20
BARRY	1	9	5	2	16	1	14	48
BAY	0	9	1	2	11	0	7	30
BENZIE	1	14	11	6	70	2	32	136
BRANCH	0	7	0	8	14	0	7	36
CALHOUN*	1	11	1	12	39	1	18	83
CHARLEVOIX	1	5	2	3	9	0	3	23
CHIPPewa	2	3	6	11	13	0	5	40
CLARE	0	6	0	3	16	1	19	45
CLINTON	1	11	0	3	17	0	10	42
CRAWFORD	0	0	0	2	5	0	4	11
DELTA*	7	4	4	2	22	0	16	55
DICKINSON	1	8	1	7	12	1	7	37
GENESEE	2	74	14	12	97	2	119	320
GOGEbic*	5	4	22	21	36	1	20	109
GRAND TRAVERSE*	2	10	0	8	14	1	13	48
GRATIOT*	4	12	2	0	22	0	30	70
HILLSDALE*	1	6	4	6	21	0	13	51
HOUGHTON*	0	5	7	12	28	0	1	53
HURON	1	6	6	5	19	0	3	40
INGHAM*	2	42	2	11	37	3	24	121
IOSCO	0	3	0	2	10	0	0	15
IRON	3	6	2	11	13	0	0	35
ISABELLA*	2	7	5	1	18	3	23	59
JACKSON	2	20	1	4	27	0	10	64
KALAMAZOO	4	38	8	7	48	1	16	122
KENT*	2	51	2	10	69	2	11	147
KEWEENAW	0	1	0	0	1	0	0	2
LAKE	1	2	1	5	6	0	6	21
LENAWEE*	2	13	11	21	35	1	10	93
LIVINGSTON*	2	27	0	14	18	0	4	65
LUCE	0	4	0	1	5	0	0	10
MACOMB	1	202	7	24	372	0	37	643
MASON	0	6	1	6	14	1	2	30
MISSAUKEE	2	2	0	3	10	1	0	18
MONROE	2	17	0	6	19	0	2	46
OAKLAND*	10	237	5	46	255	3	366	922
OCEANA	2	5	0	6	14	0	8	35
ONTONAGON	0	1	1	2	3	0	0	7
OSCEOLA*	5	7	5	1	19	0	13	50
OSCODA	0	0	1	0	5	0	0	6
OTSEGO	0	5	0	2	7	0	5	19
OTTAWA*	3	15	1	8	23	0	2	52
PRESQUE ISLE	0	0	0	0	0	1	2	3
ROSCOMMON	0	2	3	3	17	0	18	43
SAGINAW*	0	13	1	5	22	0	4	45
SANILAC	1	10	0	3	14	0	1	29
SHIAWASSEE	2	16	0	2	21	0	5	46
ST. CLAIR*	11	45	12	11	85	8	87	259
ST. JOSEPH*	6	19	7	9	44	1	9	95
WASHTENAW*	1	61	2	9	48	0	20	141
WAYNE	56	499	33	64	653	30	212	1,547
WEXFORD*	2	14	1	0	19	0	13	49
TOTALS	165	1,621	212	438	2,501	68	1,312	6,317

*Opt-in county selected for audit

APPENDIX 3
Michigan Department of Treasury
2015 PRE Audit
Denials by County

	COMPANY NAME	RENTAL PROPERTY	UNQUALIFIED LAND	NON-RESIDENT	NOT OWNER OCCUPIED	PARTIAL EXEMPTION	FAILURE TO RESPOND	TOTALS
ALCONA*	0	2	11	0	19	1	10	43
ALGER*	0	1	0	0	1	1	2	5
ALLEGAN*	0	20	7	4	46	1	37	135
ALPENA	0	7	0	0	9	0	14	30
ANTRIM	0	7	2	1	21	0	7	38
BARAGA	0	2	2	0	5	0	2	11
BARRY	0	3	1	0	13	0	27	46
BAY	0	35	4	2	107	0	81	229
BRANCH	1	5	0	0	15	0	26	47
CALHOUN*	0	8	0	1	26	1	61	97
CHARLEVOIX	0	10	1	0	10	0	11	32
CHIPPEWA	0	2	0	0	3	0	7	12
CLARE	0	8	1	0	17	0	33	59
CLINTON	0	19	0	1	40	1	32	93
CRAWFORD	0	3	2	0	8	0	4	17
DELTA*	0	5	0	0	15	1	14	35
DICKINSON	0	1	1	2	15	0	17	36
GENESEE	0	31	1	2	80	0	311	445
GOGEBIC*	2	1	0	0	8	0	20	31
GRATIOT*	1	5	0	1	15	0	9	31
HILLSDALE	0	10	6	1	23	0	43	83
HOUGHTON	0	4	0	0	10	1	28	43
HURON	0	5	0	1	16	0	18	40
INGHAM*	0	25	3	4	60	0	133	225
IOSCO	1	1	0	0	6	0	19	27
IRON	0	6	0	2	16	0	26	50
ISABELLA*	0	5	2	0	15	0	18	40
JACKSON	0	16	5	0	44	0	110	175
KALAMAZOO	0	22	0	1	51	1	129	204
KENT*	0	34	2	0	80	8	201	345
KEWEENAW	0	0	0	0	3	0	2	5
LAKE	0	1	1	0	15	0	7	24
LENAWEE*	0	11	7	1	29	0	69	117
LIVINGSTON*	0	11	0	0	13	0	39	63
LUCE	0	1	0	1	4	0	5	11
MACOMB	0	83	2	7	113	3	479	687
MASON	0	1	1	0	13	0	27	42
MIENOMINEE	3	2	2	0	7	0	10	24
MIDLAND*	1	13	3	1	17	1	31	67
MISSAUKEE	0	2	2	0	14	0	16	34
MONROE	0	12	0	0	9	0	44	65
OAKLAND*	1	141	8	16	194	3	514	877
OCEANA	0	7	6	1	40	0	47	101
OGEMAW*	0	12	12	3	57	0	62	146
ONTONAGON	0	0	0	0	3	0	2	5
OSCEOLA*	0	4	0	0	10	1	12	27
OSCODA	0	2	0	0	2	0	9	13
OTSEGO	0	6	0	0	5	0	10	21
OTTAWA	0	18	1	2	38	0	60	119
PRESQUE ISLE	0	0	1	0	3	0	6	10
SAGINAW*	1	16	3	2	44	1	101	168
SANILAC	0	4	0	0	17	0	22	43
SHIAWASSEE	0	13	0	0	39	0	58	110
ST. CLAIR*	0	10	0	2	20	1	38	71
ST. JOSEPH	1	11	1	6	13	0	83	115
WASHTENAW	1	38	1	3	51	4	131	229
WAYNE	39	314	9	23	488	48	3,381	4,302
WEXFORD	0	12	1	0	17	0	44	74
TOTALS	52	1,090	112	91	2,872	78	6,799	10,294

*Opt-in county selected for audit

APPENDIX 4
Michigan Department of Treasury
2016 PRE Audit
Denials by County

	COMPANY NAME	RENTAL PROPERTY	UNQUALIFIED LAND	NON-RESIDENT	NOT OWNER OCCUPIED	PARTIAL EXEMPTION	FAILURE TO RESPOND	TOTALS
ALCONA*	0	0	3	1	5	0	6	15
ALLEGAN*	3	10	3	0	24	2	20	62
ALPENA	0	3	0	0	12	1	12	28
ANTRIM	1	5	0	0	19	0	9	34
BARAGA	0	1	0	0	4	0	2	7
BARRY	1	5	4	1	18	0	17	46
BAY	1	15	5	0	24	0	25	70
BRANCH	3	4	0	0	14	0	15	36
CALHOUN*	0	8	1	0	28	1	27	65
CASS*	4	14	9	1	37	1	40	106
CHARLEVOIX	0	3	0	0	13	0	4	20
CHEBOYGAN*	3	3	3	0	18	1	13	41
CHIPPEWA	0	0	0	1	3	0	4	8
CLARE	5	4	1	0	25	0	14	49
CLINTON	0	1	1	0	8	0	10	20
CRAWFORD	0	0	0	0	8	0	4	12
DICKINSON	0	2	1	1	18	0	6	28
EATON*	1	2	4	2	8	1	23	41
GENESEE	8	44	3	1	85	1	168	310
HILLSDALE	0	9	0	1	17	0	22	49
HOUGHTON	2	5	2	1	12	1	6	29
HURON	1	14	4	0	89	0	63	171
INGHAM*	1	28	1	2	46	0	57	135
IOSCO	0	4	0	0	6	0	1	11
IRON	0	2	1	1	5	0	10	19
JACKSON	0	10	3	2	39	0	51	105
KALAMAZOO	2	28	2	2	56	1	61	152
KENT*	5	15	5	1	39	1	55	121
KEWEENAW	0	0	1	0	1	0	1	3
LAKE	0	0	2	0	23	0	4	29
LENAWEE*	0	7	7	1	29	0	17	61
LIVINGSTON*	0	9	1	0	32	0	23	65
LUCE	0	0	1	0	1	0	3	5
MACOMB	6	69	1	1	99	5	130	311
MASON	0	3	1	0	8	0	5	17
MENOMINEE	2	4	15	12	76	1	41	151
MIDLAND*	0	5	0	0	17	0	13	35
MISSAUKEE	0	3	3	0	10	0	7	23
MONROE	0	6	0	2	13	0	14	35
MUSKEGON*	7	10	2	0	46	2	49	116
OAKLAND*	8	86	3	3	179	3	202	484
OCEANA	3	8	0	1	23	1	16	52
OGEMAW*	0	2	2	0	9	0	7	20
ONTONAGON	0	2	0	4	15	0	12	33
OSCODA	0	0	0	0	4	0	0	4
OTSEGO	0	7	2	0	10	0	7	26
OTTAWA	2	39	7	0	111	2	51	312
PRESQUE ISLE	0	0	0	0	2	0	1	3
SAGINAW*	1	17	1	0	37	0	30	86
SANILAC	1	16	0	0	118	4	48	187
SHIAWASSEE	0	23	1	0	25	1	16	66
ST. CLAIR*	0	3	1	0	15	1	17	37
ST. JOSEPH	0	19	3	3	51	0	59	135
TUSCOLA*	8	27	17	2	73	1	76	204
WASHTENAW	5	50	6	4	65	1	75	206
WAYNE	156	366	20	22	716	39	2475	3794
WEXFORD	0	5	1	0	23	0	15	44
TOTALS	240	1,025	154	73	2,511	72	4,159	8,234

*Opt-in county selected for audit