

State Tax Commission



Michigan Assessors Manual Volume III

Published February 2018

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The **Michigan Assessors Manual** consists of three volumes:

Volume 1 contains cost tables for Residential and Agricultural Property.

Volume 2 contains cost tables for Commercial and Industrial Property as well as segregated costs and Unit in Place costs.

Volumes 1 and 2 are prepared under contract with Marshall Swift.

Volume 3 of the Assessor's Manual is intended to be a guide to property assessments in Michigan. It is not intended to be a guide to how to assess property but instead to provide guidance on assessment administration topics specific and unique to Michigan. Individuals interested in guides on how to assess property should consider the Appraisal of Real Estate published by the Appraisal Institute or Property Assessment Valuation published by the International Association of Assessing Officers.

The State Tax Commission wishes to thank all individuals involved in the production of the three volumes of the Michigan Assessors Manual.

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Chapter 1: Michigan Property Tax Administration Overview

Michigan became a state in 1837 and a Constitution was adopted. The first revision to the Constitution was in 1850 when a provision was added providing for a uniform rate of taxation as well as the continuation of existing taxes and the use of cash value assessments. The county sheriff collected the taxes and that is probably why the county sheriff holds the delinquent tax sales to this day.

Michigan's property tax has been a territorial tax since it was authorized by the Northwest Land Ordinance of 1875. All property, real and personal, was taxed until the 1940s when personal property was eliminated for individual households but retained for commercial and industrial businesses.

In 1909, the Home Rule City Act was passed, which allows cities to determine the type of government they wish to form through city charter, to establish their own tax rate and to collect property tax through the city treasurer.

In 1850, only the counties, townships, and school districts were allowed to levy taxes. Today, counties, cities, townships, school districts, intermediate schools, community colleges, libraries, airport, transportation, and other agencies may levy taxes. In 1994, the state returned to the property tax business with the passage of Proposal A which will be discussed in more detail later.

Townships are still the most basic form of government in Michigan. If the population of a township exceeds 2,000, the township may become a Charter Township.

1963 Michigan Constitution

The authority of government to levy taxes is contained in Article 9 of the Constitution of the State of Michigan; Section 3 of Article 9, states that all property shall be assessed uniformly and shall not exceed 50% of true cash value.

The Michigan Constitution provides for exemption of real and personal property owned and occupied by nonprofit, religious, and educational organizations. It also requires that increases to the ad valorem tax must be submitted to the electors for a vote before the tax may be levied.

According to Section 25 of Article 9, the state is prohibited from requiring new or expanded activities to be provided by local governments unless the state provides full funding for those activities.

Article 2, Section 6. Requires the submission to the electorate of increase of ad valorem tax and for issuance of bonds.

Article 6, Section 28. In the absence of fraud, error of law or the adoption of wrong principles, no appeal may be taken to any court from any final agency [Tax Tribunal or Tax Commission, if related to classification issues] provided for the administration of property tax laws from any decision relating to valuation or allocation.

Article 7, Section 11. No county shall incur any indebtedness, which shall increase its total debt beyond 10 % of its assessed valuation.

Article 7, Section 16. The ad valorem property tax imposed for road purposes by any county shall not exceed in any one-year half of one percent of the assessed value for the preceding year.

Article 9, Section 3. The legislature shall provide for the uniform general ad valorem taxation of real and tangible personal property not exempt by law. The legislature shall provide for the determination of true cash value of such property; the proportion of true cash value at which such property shall be uniformly assessed, which shall not, after January 1, 1966 exceed 50 percent; and for a system of equalization of designated real and tangible personal property in lieu of general ad valorem taxation. The general ad valorem property tax shall be uniform upon the class or classes on which it operates.

Article 9, Section 4. Property owned and occupied by nonprofit religious or educational organizations shall be exempt from real or personal property taxation.

Article 9, Section 6. Provides for 15 mill limitation and provides for the right of initiative to increase this limitation to no more than 18 mills on each dollar of assessed valuation. This section also provides for an increase in these limitations not to exceed 50 mills if approved by a majority of the electors for a period not to exceed 20 years.

Headlee Tax Limitation

In 1978, voters approved what is known as the Headlee Amendment. The amendment is important because it was the first successful amendment to the 1963 Constitution that limited taxes. The provisions of Headlee that affect local government are as follows:

1. The state must maintain the same proportion of spending paid to local government as was paid in 1978.
2. Prohibit the state from imposing new mandates on local government unless the state funded such programs.
3. Prohibit local units from imposing new taxes, raising existing taxes, or bonding general obligation debt without the voter's approval.
4. Limited local tax revenue growth by requiring reduction of maximum authorized tax rates to offset growth in assessed values that exceed the general price level of the previous year. This is accomplished by applying a millage rollback fraction.

Truth in Taxation was passed in 1982. Its purpose was to require public notice and a public hearing before a vote can take place on a millage increase up to the Headlee limit.

Article 9, Sections 25, 31, and 33 were amended by the Headlee Constitutional Tax Limitation Amendment in 1978.

Article 9, Section 25. Property taxes and other local taxes and state taxation and spending may not be increased above the limitations specified herein without direct

voter approval. The state is prohibited from requiring any new or expanded activities by local governments without full state funding, from reducing the portion of state spending in the form of aid to local governments, or from shifting the tax burden to local government. A provision for emergency conditions is established and the repayment of voter approved bonded indebtedness is guaranteed.

Article 9, Section 31. Units of local government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an Article 9, Section 31, existing tax above that authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of local government voting thereon. If the definition of the existing base of an existing tax is broadened, the maximum authorized rate of taxation on the new base in each unit of local government shall be reduced to yield the same estimated gross revenue as on the prior base. If the assessed valuation of the property as finally equalized, excluding the value of new construction and improvements, increases by a larger percentage than the increase in the general price level from the previous year, the maximum authorized rate applied thereto in each unit of local government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the general price level, as could have been collected at the existing authorized rate on the prior assessed value. The limitations of this section shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments on contract obligations in anticipation of which bonds are issued which were authorized prior to the effective date of this amendment.

Article 9, Section 33. Definitions: The definitions of this section apply to Sections 25 through 32 of Article IX:

“Total State Revenues” includes all general and special revenues, excluding federal aid, as defined in the Executive Budget of the Governor Fiscal Year 1978-1979.

“Personal Income in Michigan” is the total income received by persons in Michigan from all sources as defined and officially reported by the United States Department of Commerce or its successor agency.

“Local Government” means any political subdivision of the state, including, but not restricted to, school districts, cities, villages, townships, charter townships, counties, charter counties, authorities created by the state, and authorities created by other units of local government.

“General Price Level” means the Consumer Price Index for the United States as defined and officially reported by the United States Department of Labor or its successor agency.

Article 9, Section 34. The legislature shall implement the provisions of Sections 25 through 33, inclusive, of this Article. The Headlee Amendment requires each unit of local government to reduce its maximum authorized millage rate when assessments on existing property increase by more than the increase in the prior year’s average consumer price index. The reduction ensures that unless the voter’s approve otherwise, a local government’s property tax revenues on existing property based on the maximum authorized rate cannot increase by more than the rate of inflation. The

revenue limitation and the millage reduction are affected by multiplying the maximum authorized rate by a millage rollback fraction. When assessments on existing property increase faster than inflation, the fraction is less than one. The greater the assessment increase is beyond the rate of inflation, the smaller the fraction and the lower the permitted millage rate.

The Michigan General Property Tax Act

The State of Michigan's General Property Tax Act, Public Act 206, was enacted in 1893. It states that "all property, real and personal, within the jurisdiction of this state, not expressly exempted, shall be subject to taxation."

Exemptions were continued for the U.S. government, state and local governments, religious, charitable, and educational organizations and exemptions were included for a variety of nonprofit organizations as well as basic exemptions for household goods, tools, and agricultural property. Public utilities, railroads, and telephone and telegraph properties as well as intangibles were taxed by the state. Through the years exemptions were added for special tools such as dies and jigs to encourage manufacturing. In the 1970s, exemptions were established for businesses that created or expanded their business in Michigan.

The procedures and schedules established by the General Property Tax Act that are still followed today are as follows:

1. Local preparation and review of the assessment roll.
2. County and state review of assessment rolls to equalize true cash values used for assessments.
3. Certification of taxes to local unit and to County Board of Commissioners.
4. County Board of Commissioners review tax levies, apportions the tax, and authorizes spread of taxes by local unit.
5. Preparation of tax rolls and delivery to the treasurer.
6. Disbursement of taxes to local units.
7. Collection of delinquent taxes by the county treasurer and execution of tax liens.

Equalization departments in Michigan were established to avoid owners of similarly valued properties from paying different amounts of state property taxes. County equalization takes place in April and state equalization is adopted in May of each year. State equalization is a function of the State Tax Commission (STC).

The General Property Tax Act, Public Act 206 of 1893, is the usual reference source regarding the assessment and taxation of real and personal. The sections of the act are outlined below:

Description
Section 211.1 All property, real and personal, within the jurisdiction of this state, not expressly exempted, shall be subject to taxation.
<p>211.2...211.6b Real Property. For the purpose of taxation, real property includes all of the following:</p> <p>(a) All land within this state, all buildings and fixtures on the land, and all appurtenances to the land, except as expressly exempted by law.</p> <p>(b) All real property owned by this state or purchased or condemned for public highway purposes by any board, officer, commission, or department of this state and sold on land contract, notwithstanding the fact that the deed has not been executed transferring title.</p> <p>(c) For taxes levied after December 31, 2002, buildings and improvements located upon leased real property, except buildings and improvements exempt under section 9f or improvements assessable under section 8(h), if the value of the buildings or improvements is not otherwise included in the assessment of the real property. However, buildings and improvements located on leased real property shall not be treated as real property unless they would be treated as real property if they were located on real property owned by the taxpayer.</p>
211.7...211.7ww Real Estate Exemptions.
211.8...211.8c Personal Property. Personal property is assessed to the owner and is assessed by the unit where it is located on December 31 (SITUS). Personal property tax bills are based on the personal property statement submitted by the business owner or agent on or before February 20 of each year. Failure to submit a personal property statement will result in the assessor setting an assessment he/she believes is
211.9...211.9o Personal Property Exemptions.
<p>211.10...211.17 Assessments. Section 211.10d addresses the certification of assessors. For a newly elected township supervisor in a community requiring a Michigan Certified Assessing Officer, a 6-month conditional certification may be granted. If a unit does not have a qualified assessor, the assessments are made by the county equalization department and the cost of preparing the roll is charged to the local assessing unit. It is a misdemeanor to certify a roll that you have not prepared or supervised.</p> <p>If a unit does not have a properly certified assessor, the State Tax Commission shall assume jurisdiction of the assessment roll and provide a certified roll. Costs are paid by the local unit.</p> <p>Section 211.14(6) states that after December 31, 2002, buildings and improvements on leased lands shall be assessed as real property. Sections 211.10 through 211.23 address assessments and how they are to be made and by whom (certified assessor using STC approved manual). If a real or personal property is not specifically exempted by the act, it is not exempt.</p>

Assessments are made on an annual basis and are determined on December 31, tax day. Assessments for a village and the assessments of the township in which it is located are made by the same assessor. If the assessor changes the assessment on a property, he/she must notify the owner of the property not less than fourteen days prior to the meeting of the Board of Review of the new assessed value. If a property owner wishes to review his/her assessment records, the assessor should make every effort to accommodate the taxpayer during normal business hours. Failure to receive a notice of assessment change does not invalidate the assessment. All assessment rolls must be completed and turned over to the Board of Review on the Tuesday following the first Monday in March.

211.18...211.23a Assessment, How to Make.

211.24...211.27e Assessment Roll.

211.28...211.33 Board of Review. The Board of Review (BOR) consists of 3, 6, or 9 electors of the local unit. The Board of Review is appointed by the council, commission, or board for two years. Elected officials and relatives of the assessor are prohibited from serving on the board. BOR meetings on the first two days must be six hours and one of the meetings must be held after 6:00 p.m. In a township, the supervisor is the secretary of the BOR or he/she may appoint someone to act as secretary. The BOR hears petitions from taxpayers or their agents regarding assessments and may also hear appeals of classification. Poverty appeals may be heard at the March, July, or December Board of Review. Appeals may be made in person or by mail.

The Board may reduce or raise an assessment on their own motion. Decisions of the Board may be appealed to the Michigan Tax Tribunal (MTT) and not to the STC with the exception of classification appeals. Notices of the decisions of the BOR must be mailed by June 1.

The Board of Review is also authorized to hold two meetings (July and December) to correct mutual mistakes of fact, clerical errors or qualified errors. The BOR may also hear principle residence appeals.

211.34...211.34e Equalization by Counties. Section 211.34c defines property classification. Real property is classified as: *Agricultural, Commercial, Developmental, Industrial, Residential, and Timber-Cutover*. Parcels used for recreational purposes are classed *Residential*. Personal property is classified as: *Agricultural, Commercial, Industrial, Residential, and Utility*.

211.35...211.38 Taxes, Certified How and by Whom.

211.39...211.41a Taxes — How to be Assessed. Sections 211.39 through 211.144 deal with taxes and how they are spread, how they are collected and delinquent taxes and how delinquent properties are handled. Taxes are spread on **taxable value** since the passage of Proposal A. Taxes are a lien on the property. Local units may add a 1% administration fee to the property taxes collected. Taxes are due by February 14 and if not paid by that date interest begins to accrue. Local treasurers collect taxes until March 1. At that time the taxes are turned over to the county treasurers as delinquent. After March 1, taxes must be paid to the county treasurer.

211.42...211.43c Tax Roll.
211.44...211.54 Collecting of Taxes.
211.55...211.59 Return of Delinquent Taxes.
211.60...211.60a Sale, Redemption and Conveyance of Delinquent Tax Lands.
211.61...211.69 Notice and Lists of Lands to be Sold.
211.70...211.73c Sale by County Treasurer.
211.74...211.79a Redemption And Annulment.
211.83...211.86 Tax Lands Held By The State.
211.87...211.91 Accounts and Settlement Thereof.
211.92...211.126 Miscellaneous Provisions.
211.127b...211.134 Inspections and Disposition of State Tax Lands.
211.135...211.157 and 209.101 through 209.107. Sections 211.146 through 211.154 as well as 209.101 through 209.107 outline the duties and responsibilities of the State Tax Commission. The State Tax Commission members are appointed by the Governor. The STC is subject to the Open Meetings Act and to the Freedom of Information Act. They are required to meet six times a year. Their duty is to supervise assessors and ensure that all property in the state subject to taxation are assessed and taxed according to statute. They also certify personal property examiners (PPE). They investigate all complaints related to fraudulently or improperly assessed properties and have the authority to correct erroneous assessments due to incorrect reporting or omitted reporting of property and to order additional tax billing or refunds.

Tax Reform

In Michigan, the earliest tax reform took place in 1932 when the Constitution was amended. The amendment included a provision that the basic tax rates allowed to be levied by local government without a vote of its citizens is limited to an amount that would not generate tax revenue that exceeded 1½% of the assessed value of the property being taxed. Several amendments have been made to this limit and to the 15-mill limit allowed by the Constitution.

In 1934, the state implemented a sales tax and left the property tax for local government to split. In 1948, the Constitution was amended to permit levying an additional tax for up to 20 years for a specific purpose. A 1955 amendment excludes from the limitation, taxes that are used for paying certain types of school bonds.

The 1963 the Michigan Constitution continued this limitation on total tax rates and it does not provide for allocation of the 15 mills (or 18 mills) among local government units. The voters of most counties have approved a fixed millage allocation for the county. For the counties that do not have a fixed millage allocation, there is a county allocation board that allocates the 15 mills. Today, due to Proposal A, the school district does not receive the 4 mills. The state receives six (6) mills for a state education tax (SET).

Proposal A

In July of 1993, the legislature voted to eliminate property taxes as the source of school funding due to the increasing reliance on property taxes for K-12 funding and the wide variation of per pupil spending between districts.

In March of 1994, the voters approved Proposal A which replaced most of the school property taxes with an increase in the sales tax from four (4) to six (6) cents per dollar. This was the first successful statewide tax proposal in 20 years.

The primary components of Proposal A are as follows:

1. School operating property taxes in all districts were reduced to 18 mills or the number of mills levied in 1993 for school operating.
2. Principle residence property and qualified agricultural property are exempt from the 18 mills.
3. Assessments are capped and a new value "taxable value" was created. Taxable value is the lower of the properties state equalized value (SEV) or "capped value". Property values for taxes were capped at the 1994 value and for tax purposes would only increase at the rate of inflation or 5%, whichever is less. When a property sells, it is uncapped and the SEV and the taxable value are the same for the next year and then the taxable value is recapped (subject to the increase limitation) until it sells again.
4. Sales tax was increased from four (4) to six (6) cents per dollar. A statewide 6-mill State Education Tax was levied on all property. Taxes were increased on alcohol and tobacco. Real estate transfer taxes (RETT) were also increased.
5. The Constitution was amended to exempt school taxes from the uniformity provision of the Constitution and any increase in school operating taxes now requires a $\frac{3}{4}$ vote of both houses of the legislature.
6. Each school district receives a per pupil allotment from the state that is funded by the increase in sales and other taxes.

The results of Proposal A were immediate. Property taxes went down dramatically for homestead (principle residence) property and to a lesser degree for non-homestead properties. Per pupil spending increased in many school districts. Property taxes were held at a lower rate even in the face of increasing property values.

Capped Value:

One of the main components of Proposal A is the cap on assessments and creation of a new "taxable value". Taxable value is the lower of the properties state equalized value (SEV) or "capped value" (See Annual STC Bulletin on the Inflation Rate Multiplier available on the STC website). Property values were initially capped at the 1994 value and thereby property taxes would only increase at the rate of inflation or 5%, whichever is less. When a property transfers ownership it is uncapped and the taxable value becomes that state equalized value. Please see the STC Publication Transfer of Ownership for more detailed information on uncapping, available on the STC website.

Personal Property Tax Reform

In December of 2012, initial legislation was passed that significantly changed the taxation of personal property. The Acts exempt personal property from taxation through two main provisions:

Small Business Taxpayer Exemption (MCL 211.9o) and Eligible Manufacturing Personal Property Exemption (MCL 211.9m and MCL 211.9n). The Acts also identified a specific replacement tax on personal property (Essential Services Assessment) and reimbursement for local unit's lost revenue.

The Small Business Taxpayer Exemption (MCL 211.9o) had an effective date of December 31, 2013 for the 2014 tax year. MCL 211.9o includes an exemption for eligible personal property which is defined as:

1. Personal property classified as industrial personal property or commercial personal property as defined in MCL 211.34c or would be classified as industrial personal property or commercial personal property if not exempt **and**
2. The combined true cash value of all industrial personal property and commercial personal property owned by, leased by or in the possession of the owner or a related entity claiming the exemption is less than \$80,000 in the local tax collecting unit **and**
3. The property is not leased to or used by a person that previously owned the property or a person that, directly or indirectly controls, is controlled by, or under common control with the person that previously owned the property.

Please see the STC Assessors Guide to the Small Business Taxpayer Exemption available on the STC website for more information.

Effective December 31, 2015 for the 2016 year, Qualified New Personal Property and Qualified Previously Existing Personal Property is exempt from taxation.

Qualified New Personal Property (MCL 211.9m) is defined as property that was initially placed in service in this state or outside of this state **after** December 31, 2012 or that was construction in progress on or after December 31, 2012 that had not been placed in service in this state or outside of this state before 2013 **and** is eligible manufacturing personal property (EMPP).

Qualified Previously Existing Personal Property (MCL 211.9n) means personal property that was first placed in service within this state or outside of this state more than 10 years before the current calendar year **and** is eligible manufacturing personal property (EMPP).

Key to both of these definitions is that the Qualified New or Qualified Previously Existing personal property must be Eligible Manufacturing Personal Property.

Eligible Manufacturing Personal Property (EMPP) is defined as all personal property located on *occupied real property* if that personal property is *predominantly used* in *industrial processing* or *direct integrated support*. For personal property that is construction in progress and part of a new facility not in operation, EMPP means all personal property that is part of that new facility if that personal property will be *predominantly used* in *industrial processing* when the facility becomes operational. Personal property that is not owned, leased or used by the person who owns or leases *occupied real property* where the personal property is located is not EMPP unless the personal property is located on the *occupied real property* to carry on a current on-site business activity. Personal property that is placed on *occupied real property* solely to qualify the personal property for an exemption under 9m or 9n is not EMPP.

These exemptions will phase in beginning in 2016 until 2023 when all Eligible Manufacturing Personal Property is exempt.

The Essential Services Assessment (ESA) is a State specific tax on eligible personal property. In effect this is a specific tax replacement for the personal property tax. Although this is a specific tax assessed and collected by the State of Michigan, assessors need to be aware of the components of the tax and the rescission provisions.

Please see the STC Publication Assessors Guide to Eligible Manufacturing Personal Property and the Essential Services Assessment, available on the STC website.

Chapter 2: Legal Descriptions, Land Value Determinations, Land Value Maps and Tax Maps

Legal descriptions, as the name implies, are the way and means by which real property, or real estate, is legally identified, conveyed, assessed and taxed.

To put this into context, suppose for a moment that you walked into a car dealership and walked out having purchased a car. How do you know that you have ownership of that particular vehicle? The answer lies in the way your vehicle is described and identified on a certificate of title. Vehicles are identified with an identification (VIN) number that is unique to each vehicle, so your ownership is validated by a title that specifically identifies your vehicle and all of its parts. When you pull into your driveway, your neighbor isn't going to claim ownership of the vehicle or demand that you give him the tires and mirrors. When real estate is transacted, it is the legal description that uniquely describes and identifies the property involved in the transaction. It is not sufficient to rely merely on an address or property identification number for this purpose. Your property ownership is "legally" identified by the legal description on your deed.

It is important to make the distinction early on that although tax descriptions and legal descriptions may be one in the same, the assessor deals with tax descriptions. Title companies and real estate agents, deal with legal descriptions.

You will find the use of legal descriptions in all types of transactions, not just those involving the sale or purchase of real estate. Legal descriptions are used in deeds of conveyance, mortgages, claims of title, leases, title insurance policies, easements, etc. It should come as no surprise then that legal descriptions are also used to identify real property on assessment and tax rolls.

Because legal descriptions are integral to the assessment and taxation of real property, it is important for assessing officers to be able to identify and locate parcels by their legal description. This section will provide an adequate and working knowledge of the history of legal descriptions; the methods used to describe real property; reading and plotting legal descriptions; parcel numbering and arrangement of property descriptions on the assessment roll; the types of common description errors found in the assessment roll; condensing legal descriptions for the assessment and tax roll; and the types of maps used in assessment administration.

In order to maintain accurate property information, each parcel must include information on land (front foot and depth), measurements, road right of way, exemptions, restrictions, county drains, etc.

HISTORY OF MICHIGAN'S LAND DESCRIPTION SYSTEM

The Land Ordinance of 1785 was the first legislation which addressed the subdivision of public lands and established the process by which lands would be divided into states as well as the process for surveying and disposing of public lands. The plan that Thomas Jefferson and his Congressional Committee proposed became known as the Rectangular

Survey System and was based on a culmination of methods which already existed in various parts of New England at the time with many years of trial and error as its basis.¹

By providing a uniform and systematic way to locate, describe and parcel out public land in rectangles, the system would also provide for a more accurate means of tax collection over the more haphazard “metes and bounds” system brought to this country by British settlers. If you have ever been on a domestic airline flight over the Midwest, you have probably noticed the checkerboard pattern of the ground below which is characteristic of the rectangular survey system developed by Thomas Jefferson and his committee over 200 years ago.

The Land Ordinance of 1785 provided that public land was to be surveyed (using a magnetic compass and chains) into square townships that were six miles long on each side and for those townships to be divided into 36 sections, each one mile square or 640 acres. Section 16 was to be reserved for public schools and sections 8, 11, 26, and 29 were reserved to compensate Revolutionary War veterans with land bounties. The remaining sections were to be sold at public auction. The immediate goal of the ordinance was to raise money through the sale of public lands in the largely unmapped territory west of the original colonies and to provide for the orderly settlement of those lands. Though modified since its original adoption, this act continues to be the basis for all surveys of United States public lands with the exception of private land grants.

The rectangular survey provided a rational and systematic way to describe land with reference to a meridian and a base line. The method was to establish an arbitrary point within a survey district usually set by astronomical observation. From this initial point a principal meridian would extend north and south and a base line would extend east and west at right angles to the meridian. The two lines would then provide the basis for laying out the townships. The unique feature of the system was its attempt to use north-south longitude lines and the corresponding east-west lines of latitude as a fixed grid from which to work from in laying out the lattice work of townships.² However rational and scientific was the plan, “a persistent traditionalism” was apparent in the actual surveying, while principal meridians pointed true north their origins were usually established at the mouths of rivers giving less emphasis to geometry and more to the historical importance of the inland waterways in the early American west and their crucial role in penetrating the interior of the Northwest Territory.³ This practice would have also been consistent with traditional approaches to surveying which would rely on natural features for orientation.

Once the principal meridian and base line were established, townships were to be numbered north and south from the base line. For example, the first township north of the baseline would be Town 1 North and the first township south of the base line would be Town 1 South. Townships would also be numbered east and west of the Principal Meridian. For example, the first township east of the meridian would be Range 1 East and the first township west of the meridian would be Range 1 West. To take the example one step further, the first township to the north of the base line and east of the meridian would be referred to as Town 1 North, Range 1 East.

¹ Flynn, Michael. "The Origin and Development of the Rectangular Survey System"
<http://www.landman.org/landmanarchive/archive/2000404.doc>

² Flynn, Michael. "The Origin and Development of the Rectangular Survey System"
<http://www.landman.org/landmanarchive/archive/2000404.doc>

³ Faragher, John Mack. Sugar Creek, 42-43; Buley, Old Northwest, 1:95.

TYPES OF LEGAL DESCRIPTIONS

The term legal description refers to a legal tax roll description which may be different from a legal description that will stand up in court for the purpose of identifying and locating a parcel of land. For that purpose a legal description must conform to the often cited rule which says; *“If the description in a deed is such that a surveyor, by applying the rules of surveying, can locate the same, such description is sufficient and the deed will be sustained, otherwise it will be void.”*⁴

The tax law standard of a legal tax roll description is found in MCL 211.55 of the General Property Tax Act which states: *“The county treasurer at any time may reject any tax upon land which has been twice assessed, or up on any parcel which is so erroneously or defectively described upon the tax roll that it cannot be correctly and easily ascertained.”* In other words, a legal tax description must be constructed in such a way that it can be correctly and easily ascertained by the tax officials.

An assessing officer must ascertain that all land subject to taxation within their jurisdiction is identified and taxed on the tax roll. He or she must also verify that no property is being assessed twice. To accomplish this, the assessing officer must have a means by which to identify and locate each individual parcel of land. The means for this is one of the following four common types of legal descriptions: rectangular survey description, metes and bounds description, platted description and condominium description. A fifth less common type of legal description is the private claims description.

1. Rectangular Survey

Rectangular Survey land descriptions are part of a system of rectangles established to locate and identify parcel boundaries. The following is an example of a rectangular survey description: *“The North one-half of the Southwest one-quarter of Section 24, Township 22 North, Range 2 East”* or *“N1/2 SW 1/4, Sec 24, T22N, R2E”*. This description when first read may fail to make any sense, however after understanding a few simple rules, you should have no difficulty reading and locating this type of description on a map.

The common practice is to cite the general reference to the location at the end of the description and the specific location at the beginning. Therefore the cardinal rule is to read a rectangular survey description backwards, from right to left or from the largest unit to the smallest unit.

If we were to locate the parcel described in the description above, we would start with the township reference, that being T22N, R2E or **Township 22 North, Range 2 East**. This is the largest unit in the description – a 36 square mile geographical township that is located 126 miles (21 townships x 6 miles) north and 6 miles (1 range x 6 miles) east of the initial point where the principal meridian and base line intersect.

Next we would locate **Section 24** within the referenced township. Each township is divided into 36 sections, each one mile square (containing 640 acres) which are

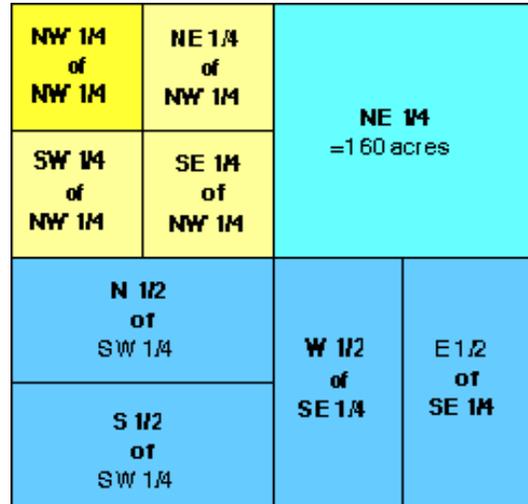
⁴ *A Treatise on the Law of Surveying and Boundaries* by Frank Emerson Clark (1922)

numbered in a back and forth manner beginning with Section 1 in the northeast corner of the township and ending with Section 36 in the southeast corner of the township. Within each section, land is referred to as half and quarter sections which can be further divided as shown below.

Township 22N, Range 2E

6	5	4	3	2	1
7	8	9	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Section 24



Next we would locate the **Southwest one-quarter**, which is the quadrant or quarter of the section where our example is located. Finally we locate the **North one-half** of that quarter of the section – that being the smallest unit in the description and the specific location of our example. By completing the exercises later on in this Chapter, you will gain a better understanding of how to read and locate rectangular survey parcel descriptions.

2. Metes and Bounds

Metes and Bounds (sometimes referred to as bearings and distance) land descriptions were used by the original colonies prior to the establishment of the rectangular survey system. It is a method whereby land is described using local geographical features in combination with directions and distances.

The term “Metes” refers to a boundary which is defined by the measurement or “metering” of each straight run specified between points and an orientation or direction indicated either by a simple compass bearing such as north, south, east or west, or a more precise orientation or bearing determined by accurate survey methods such as North 89 degrees 46 minutes, 20 seconds West. The term “Bounds” refers to a more general boundary description such as running along a creek, a fence, or an adjoining public road way.

Boundaries are described in a continuous prose style working around the parcel of land in a sequence beginning with a point of beginning and returning back to the same point, and may include references to other adjoining parcels. A typical metes and bounds description might read as follows: “Beginning 330 feet south of the N 1/4 post of Section 36, T19N, R2E, thence South 165 feet, thence running West along highway 264 feet, thence North 165 feet, thence East 264 feet back to the point of beginning, containing 1 acre.” You will notice that the description contains “metes” (e.g. the distances between

points and the compass bearings or directions followed – south, west, north and east), and “bounds” (e.g. “running west along highway”). The description sequentially works around the parcel by beginning at a point and ending at the same point. The description must always “close” meaning that it must end at the same point it began. A common mistake when using metes and bounds descriptions is the failure to “close” or meet and end at the same point.

Whether the description contains simple bearings such as north, south, east, and west, or more complex bearings such as N 87 degrees 32’44” E, a working knowledge of plotting is necessary to locating a metes and bounds description.

3. Platted Descriptions

When a rectangular survey description or metes and bounds description is further subdivided into “platted lots”, the resulting parcels are no longer described using rectangular survey or metes and bounds descriptions, but rather by reference to a specific lot number and subdivision name or lot, block and caption of the plat. The following is an example of a platted description: *Lot 10, Plat of Riverview Estates as recorded in Liber 5 Page 23 of Plats in the Office of the Ogemaw County Register of Deeds*. The condensed tax roll description might read as *Lot 10, Plat of Riverview Estates*. An exercise for locating and identifying various platted lot descriptions can be found on later on in this Chapter.

The platting process for subdivisions is governed by 1996 PA 591 or Michigan’s Land Division Act, which was formerly known as the Michigan Subdivision Control Act of 1967.

4. Condominium Descriptions

Units that are created as part of a condominium subdivision or site condominium plan are governed by Public Act 59 of 1978 which is known as the Condominium Act. A condominium project may involve a group of houses, boat slips, apartments or building sites. The following is an example of a condominium description: *Unit 12A of Victorian Manor Condominiums, according to the Master Deed recorded in Liber 475 on pages 611-656, Ogemaw County Records*. The tax roll description might read: *Unit 12A Victorian Manor Condominiums*.

The units in a condominium plan are “designed and intended for separate ownership”.⁵ When viewed from the highway, a residential site condominium may look exactly like a platted subdivision however there are significant differences. Unlike a conventional plat where the original parcel of land is subdivided or platted into a larger number of individual lots, a condominium remains one parcel regardless how many building sites or building envelopes may exist on the final plan. A condominium therefore is not a lot or a building, it is a form of ownership which binds all owners to a single master deed.

5. Private Claims Descriptions

Private Claims Descriptions are a much less common form of land description found primarily along water courses in Monroe, Wayne, Macomb, St. Clair, Cheboygan, Mackinac and Chippewa Counties. Private claims are references to government honored land titles given to settlers by French or British governments prior to United States

⁵ MCL 559.104(3)

sovereignty. These “private land claims” existed before the G.L.O. survey and replace the rectangular survey references. Rather than being referenced by section, township, and range, these descriptions are referenced by their assigned private claim numbers.

EXCEPTIONS WITHIN A LEGAL DESCRIPTION

Often within the body of a legal description an exception will be described which excludes that portion of land from the whole. An example of this might be as follows: “*The Southwest ¼ of the Northeast ¼ of Section 12, Town 21 North, Range 2 East, except the Northerly 33 feet thereof.*” This example first describes a 40 acre parcel that is 1320 feet square. A parcel of land that is 33 feet by 1320 feet or 1 acre is then excluded at the end of the description. Care should be taken to recognize when an exception exists within a legal description. If not, an assessing officer could make the mistake of assessing the same parcel of land twice.

There are several instances where land that is specifically exempt from ad valorem taxes is excluded from a legal tax roll description. This would include exceptions for railroad rights of way, county drains and public highway rights of way.

1. Railroad Rights of Way

Because operating railroad rights of way are part of the total property owned by the railroad which pays a specific tax, they are exempt from ad valorem property taxation. (MCL 211.7v) Exceptions should be made for all railroad rights of way and the acreage with the rights of way deducted from each parcel upon which a right of way traverses. Railroad rights of way are considered to be excluded from any parcel described as lying north, south, east or west of a railroad right of way. For example: *That part of the NE ¼ of Section 9, T26N, R3E, lying North of the DM RR R/W.*

The status of railroad rights of way need to be continually checked as these rights of way may at some time become abandoned by the railroad company and either be sold to private individuals in some cases or revert to the landowners of property through which the right of way passes. Information regarding these conveyances can be obtained through the railroad company or from deeds recorded with the county Register of Deeds office.

2. Public Highway Rights of Way

Land over which a public right of way is located is exempted from ad valorem property taxation and is not to be assessed pursuant to MCL 211.7e (2). This is true regardless of whether the governing body owns the land fee simple or just an easement.

Typically when a parcel lies adjacent to a public road, the portion which abuts the road is subject to such an easement. When the governing body owns the land on which the right of way is located, that portion is excluded from the tax roll description of adjacent lands. However, if the governing body only owns a surface easement over which the right of way is located, the right of way area would not typically be excluded from the tax roll description of adjacent lands because the landowners continue to own the land. In this instance care should be exercised by the assessing officer to recognize that such an easement exists and not assess the area of land subject to the right of way easement.

3. County Drain Rights of Way

The land over which a county drain is located is exempt from ad valorem property taxation pursuant to MCL 211.7e (2). As with a public highway right of way, the exemption applies regardless of whether the county possesses the land or has an easement conferring the right to use the property without possessing it. Where property ownership is subject to such a drain easement, the area encumbered by the easement should be determined and excluded from the land being assessed, but not from the legal tax roll description. Public drain easements are usually denoted on surveys or recorded plats showing where water runoff must be allowed to flow unobstructed across the property either in open ditches or through underground piping, however the tax exemption does not apply to the later.

DESCRIPTION TERMINOLOGY

The following are commonly used terms when working with legal descriptions and form the common language of the Rectangular Survey System used by surveyors, attorneys, title abstractors, and various governmental agencies when working with legal descriptions. Assessing officers should have an understanding of their meaning and place within the context of working with real property descriptions.

1. Principal Meridian

A true north and south line used for survey control which runs through an arbitrary point that is chosen as a starting point for laying out sections of land within a given area. In Michigan, this line known as the "Michigan Meridian" corresponds to the meridian of longitude 84 degrees, 21 minutes, 53 seconds west, and is one of thirty seven principal meridians established in the United States as part of the Public Land Survey System.

2. Base Line

A true or approximate parallel of latitude running through an arbitrary point that is chosen as a starting point for laying out sections of land within a given area. The General Land Office Survey (G.L.O.) would establish a base line, in addition to the meridian, that would run east and west at right angles to the meridian from which geographical townships were laid out and numbered either north or south of that line.

3. Town

A six mile square area of land containing 36 sections which is numbered according to its position either north or south of the base line. The term also refers to a horizontal row of townships in the Public Land Survey System. The description "T.3 N." denotes the third tier of townships north of the baseline.

4. Range

A range is a vertical column of townships in the Public Land Survey System. The term is used to represent the number of six mile square units (townships) east or west from the principal meridian. Thusly, Range 3E would occupy a vertical strip of land between 12 and 18 miles east of the principal meridian.

A geographical township therefore has a unique location which is not identical to any other six mile square township within the United States. The description T.3 N, R.3 E

designates a geographical township which is located in the third tier of townships north of the base line and in the third range of townships east of the principal meridian.

5. Section

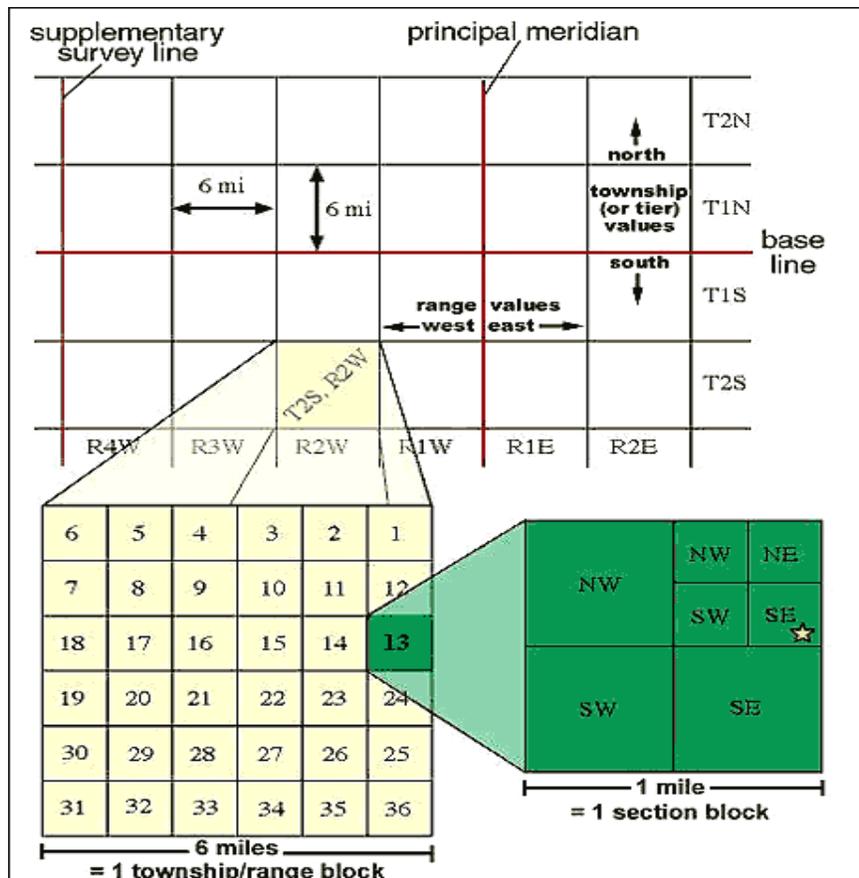
A section is a one square mile block of land containing 640 acres and comprises one thirty-sixth of a township. Not all sections are a regulation 640 acres however due to the curvature of the Earth and slight errors in measurements made during the original surveys. As a result, sections may occasionally be less than one square mile in size. To compensate for the discrepancies and provide for as many uniform sections of 640 acres as possible, an arbitrary decision was made to make all corrections to the sections bordering the north and west boundaries of each geographical township. As a result, sections 1 through 6 inclusive and 7,18,19,30 and 31 generally contain either more or less the regulation 640 acres. Furthermore, all corrections made within the above mentioned sections were made in that fraction of each section lying nearest to the north and west lines. These odd-sized subdivisions of a section are referred to as “fractional” quarters.

If the overall property description base is to be understood, there are some circumstances peculiar to Michigan that warrant review. Because the timing of the General Land Office survey was coincidental with the opening of new territory for settlement, it meant that surveys were being completed where needed while the meridian and base line were still being surveyed. The lands north of Detroit were being laid out without reference to a meridian and baseline. Consequently, the townships along the east side of the meridian were severely squeezed, and as a result, Range 1 East throughout Gladwin, Midland, Saginaw and Shiawassee Counties is only about 4 miles wide tapering almost back to the regulation 6 miles at the south side of Ingham County. As mentioned earlier in this Chapter, this sequence of surveys also necessitated the establishment of two locations for the “initial point” with the east initial point lying 935.88 feet north of the west initial point.

The General Land Office (G.L.O.) survey township maps continue to be the authority for determining the size, shape and even the existence of each section.

6. Aliquot Part or Subdivision of a Section

The Aliquot part of a section is the standard subdivisions of that section, such as half section, quarter section, or quarter-quarter section. Since the standard section is 640 acres, subdividing the section is a relatively simple process. A quarter section, or 160 acre tract, is the most common subdivision and would be described for example as the NE 1/4 of Section 13. Quarter sections are designated as NE, NW, SW, and SE quarters of the section – each being described by denoting its direction from the center of the section. The same procedure is followed with smaller subdivisions. When a quarter section is divided into quarters of 40 acres each called “quarter-quarter sections.” Each forty or quarter-quarter is described by denoting its direction from the center of the quarter section such as the SE1/4 of the NE 1/4, for example.



7. Government Lot

A Government Lot is a fractional subsection (less than a full quarter section in area) which is not described as an aliquot part of the section, but is rather designated by a number, for example, "Lot 2" or "Gov't Lot 2". Put another way, Government Lots are special subdivisions of land which were created when rivers or lakes prevented the subdivision of a section into regular 40 or 160 acre tracts. This is why these lots most always border water areas excluded from the Public Land Survey and why their acreage may vary from that of the regular aliquot parts of the section.

8. Meander Line

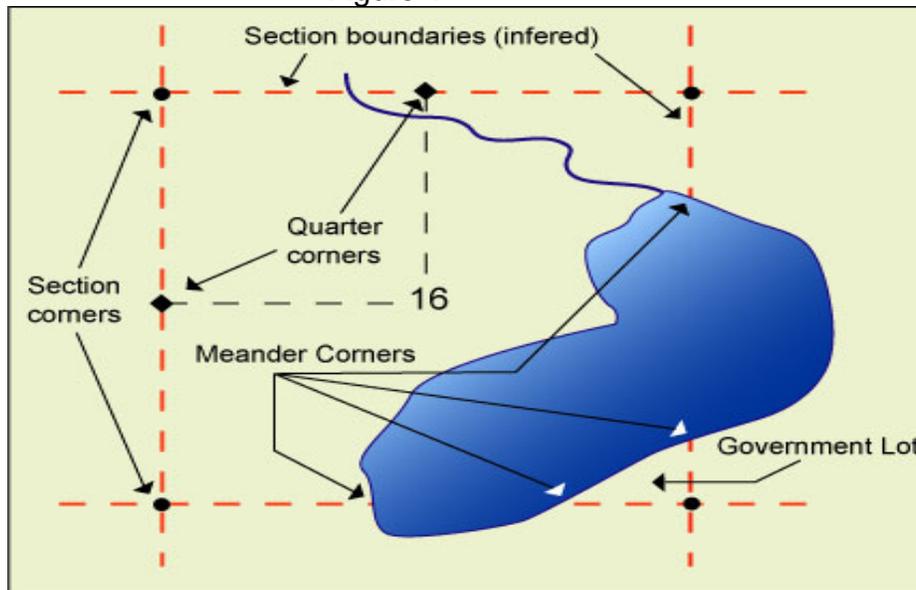
A meander line is a traverse line run along the margin of a stream or a lake and is not generally a boundary in the usual sense as the bank itself typically marks the limits of the survey.⁶ All navigable bodies of water were meandered in the public land survey system as well as many important streams and lakes not regarded to be navigable.

9. Meander Corner

As shown below, a meander corner is set at each point where a standard township or section line intersects the bank of a navigable body of water or other meandered streams and lakes.

⁶ Hardin v. Jordan (140 U.S. 371). Meander lines, as shown by government surveys of land bounded by a lake or river, are merely for the purpose of ascertaining the quantity of land to be conveyed, and do not constitute its boundary. The water is the real boundary.

Figure 1



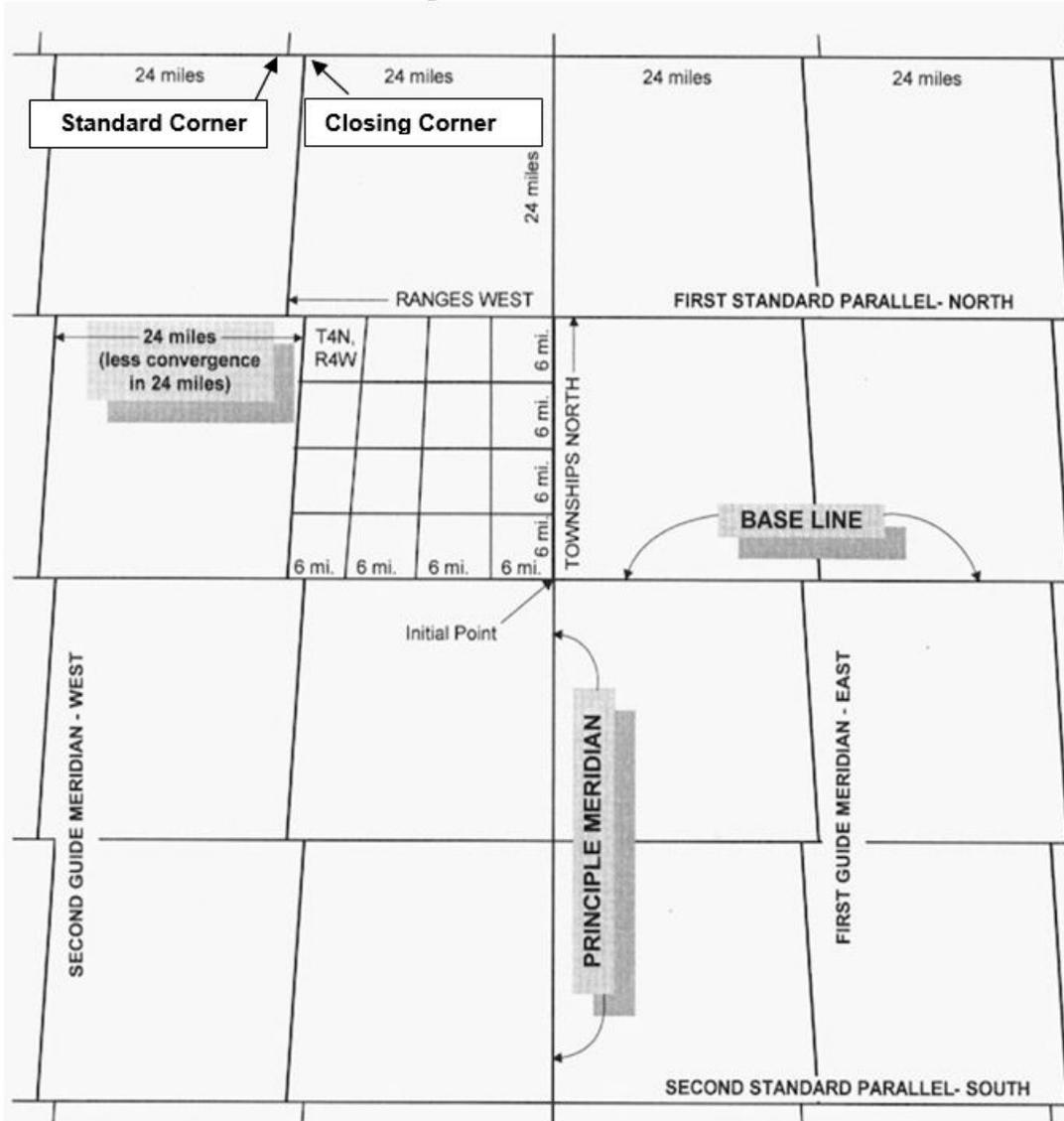
10. Standard Parallels (Correction Lines) and Guide Meridians

Along the principal meridian, points were marked at defined distance intervals, usually every 24 miles. However, in some of the earlier surveys, these points were marked at 30, 36 or 60 mile intervals. From these points, lines called “standard parallels”, also called “correction lines”, were extended east and west paralleled to the base line. Standard parallels are numbered consecutively north and south of the base line and designated, for example, as First Standard Parallel North, Second Standard Parallel North, and so on, or 1st Correction Line, 2nd Correction Line, etc. In Michigan, there are five such correction lines which are located at the north line of every tenth township north of the base line except in Saginaw, Tuscola and Sanilac Counties.

Along each standard parallel, points are marked at 24 mile intervals east and west from the principal meridian. These points are called “standard corners”. From each “standard corner”, a line is run true north (not magnetic north) called a “guide meridian”. Due to the convergence of these guide meridians as they extend northward because of the curvature of the earth, the guide meridian does not intersect with the standard corner set along the next standard parallel lying to the north.

Consequently, the point at which the guide meridian does intersect with the next standard parallel to the north is called a “closing corner”. As a result, each standard parallel has a set of both standard and closing corners. This means that each township and section that borders on a standard parallel or correction line will have double corners as shown in Figure 12.

Figure 12



Without the establishment of these correction lines, the south line of townships would be longer than the north line with the differences becoming greater the farther north the survey is extended. These lines therefore allowed the original surveyors to maintain their 6 mile square townships without varying from the true north and south lines by more than a few degrees, and if the surveyor did maintain true north-south and east-west lines, the correction line provided a new base line for the townships lying north of the correction line allowing for consistency with the 36 square mile township standard.

PLOTTING AND CHECKING LEGAL DESCRIPTIONS

The process of plotting and checking legal tax roll descriptions begins with an understanding of how to read both rectangular survey and metes and bounds descriptions. By this point, you have been acquainted with the history and terminology of legal descriptions. The following pages will build the foundation for plotting and identifying both the rectangular survey and metes and bounds descriptions by introducing the tools

(starting with the most common), methods, and system of measurements and compass directions needed to do so effectively and accurately.

MEASUREMENTS USED IN LAND DESCRIPTIONS

The system of measurement which was used in the public land surveys was based on a statute mile or 5,280 feet. Distances in early public land surveys were measured in chains and links, not feet and inches. A measuring chain was 66 feet long so there are 80 chains in a mile. Each chain is composed of 100 links each of which are 7.92 inches in length. Because there are 100 links in a chain, the measurement can easily be converted to a decimal, (e.g. 20 chains and 56 links could be converted to 20.56 chains). To convert chains to feet, you would multiply the number of chains by 66, (e.g. 20.56 chains x 66 = 1356.96 feet). There are still many legal tax roll descriptions that continue to contain references to chains and links.

Another unit of measurement found today in many legal tax roll descriptions is the rod. A rod is a metal bar which is 16.5 feet long and was used as a standard of length in early surveys. An example of a legal tax roll description containing this unit of measurement might read: *“Commencing 80 rods East and 20 rods North of the Southwest corner of Section 15, T.21N, R.3E; thence North 10 rods; thence East 16 rods; thence South 10 rods; thence West 16 rods to the place of beginning”*. Locating this parcel by converting the rods to feet, you would begin at the southwest corner of the section, and then proceed easterly 1320 feet and northerly 330 feet for a point of beginning. The boundary of the parcel is then described as running North 165 feet, East 264 feet, South 165 feet and West 264 feet back to its point of beginning.

TAX ROLL DESCRIPTIONS OTHER THAN REAL PROPERTY

There are several types of descriptions found in the tax roll other than those types of legal descriptions used to describe real property.

Personal Property Descriptions

1. The personal property assessment roll should be separate from the real property roll and begin after the final page of real property descriptions.
“The taxable value of personal property located on a parcel of real property and assessed to the same person shall be calculated separately from the calculation of taxable value of the real property under section 27a.” MCL 211.8b
2. Although the word, “personal” may be used as the description for personal property⁷, it is advisable for the description to also include locational references necessary to identify the assessable sites or location of the personal property.
3. When personal property is under same ownership but located in more than one school district within a unit, separate descriptions and assessed values should be established.

Public Act 189 of 1953 (MCL 211.181 and 182)

An Act 189 property is real property owned by a tax-exempt entity that is being leased to an individual, association, or corporation who is conducting business for profit. It is

⁷ *“The description of personal property on said roll may be made by using the word “personal”.* MCL 211.26

recommended that the necessary number of pages from the assessment roll be segregated as a separate roll (referred to as the Act 189 roll) and identified by the heading: "Act 189 of 1953 as amended". For purposes of equalization and the application of the proper equalized value multiplier, Act 189 valuations are included as part of the real property.

"Taxes levied under this act shall be assessed to the lessees or users of real property and shall be collected at the same time and in the same manner as taxes collected under the general property tax act..." MCL 211.182(1)

It is for this reason that the Act 189 roll should be located between the real property roll and the personal property roll.

Commercial Forest Reserves

Commercial Forest Reserves property is real property that is exempt from ad valorem taxes and not subject to equalization. Instead a specific tax is levied on this type of property. As such, these properties should be segregated from the assessment roll and identified on a separate roll at a location following the personal property roll and identified with the heading: "Commercial Forest Reserves 1994 PA 451 Part 511".

To facilitate cross-checking descriptions in the regular assessment roll that are exempt C.F.R. lands with those in the C.F.R. roll, the descriptions in the C.F.R. roll should be arranged in the same sequence as they are in the regular assessment roll.

Industrial Facilities Tax (IFT) Public Act 198 of 1974

Real (excluding land) and personal property included in an Industrial Facilities Exemption Certificate is exempt from ad valorem taxation and equalization and subject instead to a specific tax. These properties should be segregated from the assessment roll to a separate roll at a location following the personal property roll and identified with the heading: "Industrial Facilities Tax, 1974 Act 198". The land upon which this type of property is located continues to be described in the same fashion as other real property on the ad valorem assessment roll.

The description should include the duration of the certificate, whether the exemption is for real or personal property, whether the certificate is for a new facility or rehabilitation of an existing facility, and the certificate number. A typical description might read: "*IFT New Facility 12/31/2001 through 12/31/2013, Certificate #2001-299 Real Property*"

ARRANGEMENT OF PROPERTY DESCRIPTIONS ON THE ROLL

The manner in which real property is to be described, arranged and numbered within the assessment and tax roll for townships, cities, and villages is defined within MCL 211.25.

MCL 211.25(1) states that real property may be described as follows:

1. Entire sections by section number, town and range
2. A subdivision of a section by designation of subdivision (quarter-section), section number, town and range.

3. A tract less than a subdivision of a section as “*a distinct part of the subdivision, or in a manner as will definitely describe it*”. This could include either a rectangular survey or metes and bounds description of the “distinct part”.
4. *Recorded Plats by “reference to the plat and by the number of the lots and blocks thereof.”*

MCL 211.25(2) states that real property shall be arranged in the following manner:

1. Acreage descriptions are to be listed “*in numerical order of section beginning with section 1 of each township*”, and completely listing the parcels within a survey or geographical township before the next township, if any⁸, is entered.
2. Government Lots are to be listed numerically.
3. Private claim descriptions “*if more than 1 private claim is located in the same township, the description of each claim shall be listed numerically.*”
4. Island descriptions listed by the number or name of island.

MCL 211.25 provides no guidance or direction regarding the arrangement of acreage descriptions within the sections of a township, nor does it provide direction for the arrangement of platted descriptions within cities and villages. The STC recommends that a definite arrangement for acreage parcels and plats be followed in each city, township and village roll, so that a parcel can readily be located by all concerned, in particular, the county treasurer who must work with rolls from several assessing units which are not uniformly arranged.

In addition to the guidelines provided above by MCL 211.25, the STC recommends the following sequence of descriptions for city, township and village assessment rolls:

1. Original Plat (Cities and Villages) listed in lot and block order.
2. Acreage parcels (listed in numerical order by section) When it is impractical to split a parcel lying in two or more sections, the parcel should be listed in the section in which it first appears.
3. Private claims (listed in numerical order)
4. Recorded Plats (listed in alphabetical order) Lots in recorded plats are arranged in the roll by their numerical order within each block and blocks are listed according to their numerical or alphabetical order in the plat. If the plat is not platted into blocks, lots are to be listed numerically throughout the entire plat. Outlots are to be arranged in numerical or alphabetical order following the last numerical or alphabetical block or numbered lot.
5. Condominiums (listed in numerical order) Units within condominiums are to be listed in sequence and described by reference to the unit number indicated in the condominium plan and the caption thereof together with the liber and page or document number of the county records in which the master deed is recorded.⁹

While MCL 211.25 states that Government Lots in any section shall be listed numerically, the STC has interpreted this to mean that Government Lots must be described by the Government Lot number and not that they should be listed numerically following the regular subdivisions of the section as has been the practice in some assessing units.

⁸ Political townships may range in size from one which contains less than one section to another which contains 20 survey or geographical townships.

⁹ Michigan Compiled Laws Section 559.101

Also, while tax laws state that land included in an unincorporated village may be arranged without separation as to sections within any township, it is the belief of the STC that this is a poor practice. The STC therefore recommends that acreage descriptions in unincorporated villages be listed in the same manner as any other acreage descriptions in the township.

Assessment rolls for incorporated as well as unincorporated villages, should follow the arrangement of the township roll as closely as possible for the descriptions common to both governmental units. However, if there is an “original plat” for the village, the original plat should precede the acreage descriptions. In cities, townships, and villages, recorded plats, with the exception of the original plat, should be arranged alphabetically by the plat caption or title. Following, are the types of recorded plats and the definition and method for indexing each:

Original Plat: A plat constituting the original layout of a municipality such as a city or village. If the word “original” does not appear in the plat caption, the oldest recorded plat would then be considered to be the original plat.

Proprietor’s Plat: A plat prepared for recording by a private individual, firm, association, partnership, corporation or a combination thereof. The proprietor’s name usually appears in the caption of such plats and this type of plat should be indexed alphabetically according to the surname of the proprietor. If there is more than one proprietor, the surname of the first one listed would be used.

Assessor’s Plat: A plat prepared and recorded by the assessor who derives authority from the governing body of the municipality in which the plat is located. Assessor’s Plats should be indexed under “Assessors” and, if more than one Assessor’s Plat exists, they should be indexed numerically following Assessor’s Plat No. 1 or according to the succession in which they were recorded.

Supervisor’s Plat: A plat prepared and recorded by a Supervisor who derives authority from the governing body of the township. Supervisor’s Plats should be indexed under “Supervisor” and, if there is more than one Supervisor’s Plat, they should be indexed numerically following Supervisor’s Plat No. 1 or according to the succession in which they were recorded.

Re-Plats: These are re-platted portions of a previously recorded plat whereas the word “Re-Plat” typically appears in the plat caption. Re-Plats should be indexed following the plat of which they are a re-plat.

Additions: This type of plat is usually a platted addition to some previously recorded plat and the word “Addition” appears in the plat caption. Additions are to be indexed numerically following the plats to which they are an addition to.

Condominiums: These are a form of real property ownership which are similar to recorded plats except that individual ownerships are described by unit number and carry with them an appurtenant percentage of the general common elements described within a master deed, which includes among other things, land occupied by the entire project. Condominiums may be indexed alphabetically by the plan caption.

NUMBERING OF PROPERTY DESCRIPTIONS

Parcel Identification Numbers (PIN) help to easily and readily identify descriptions which have been plotted on the tax map. Each separately assessed description is assigned a number whether the description constitutes one lot, three lots, or a fraction of a lot. These numbers are used for filing and locating assessment record cards, tax bills, receipts, assessment change notices, and so forth. The parcel identification number also appears in the assessment and tax roll opposite the description of each parcel when used in addition to the legal tax roll description.

Parcel identification numbers prove valuable in locating parcels rapidly, especially for many taxpayers who cannot locate their property by description, but can identify their property by looking on a tax map, from which their property identification number can be obtained; thus allowing them to locate any other type of property tax record associated with that number quickly.

Parcel numbers are a supplement to the narrative descriptions and not a substitute for legal tax roll descriptions, except as provided for by Public Act 101 of 1965 which provides for a system of real estate index numbers, which upon written approval from the State Tax Commission, may be used in lieu of the narrative descriptions on assessment rolls, tax rolls and tax statements.

Although there are several systems of numbering parcels in use in Michigan, the most common is a geographically defined permanent parcel numbering system known as the Sidwell numbering system. The Sidwell number commonly referred to as a parcel identification number or PIN, is part of an index numbering system that uniquely identifies each property description and can be used in addition to, or in lieu of, the method of listing property by legal description.

“An assessing officer, with the approval of the governing body of the city or township, may establish a real estate index number system for listing real estate for purposes of assessment and collection of taxes, in addition to, or in lieu of, the method of listing by legal description provided in this act. The system shall describe real estate by county, township, section, block and parcel or lot. The numbering system shall be approved by the state tax commission. The assessing officer shall establish and maintain cross indexes of numbers assigned under the system with the complete legal description of the real estate to which such numbers relate. The assessing officer shall assign individual index numbers and the assessment rolls, tax rolls and tax statements shall carry the index numbers and not the legal descriptions, except that both the legal description and the index number shall be shown on the tax statements for the first year after this section is effective. Indexes established hereunder shall be open to public inspection.” 1965 PA 101, being MCL 211.25a

The standard Sidwell number, or parcel identification number (PIN) contains 12 digits which are a combination of the county code, governmental survey township, section, quarter section or subdivision/block number and parcel number, each designation defined within a separate group of digits as follows:

Group 1: Two (2) digits designate the county. There are 83 counties in Michigan. Therefore the first county listed alphabetically would be coded as 01 and the last county would be 84 (*The code number 83 was assigned to the City of Detroit*). A table of county codes is shown below.

Group 2: Two (2) digits designate the survey or geographical township, also known as the congressional township.

Group 3: Two (2) digits designate the survey section number. Section 1 would be 01 and section 36 would be 36.

Group 4: Three (3) digits designate the quarter-section or subdivision/block number. Parcels are assigned a number in a 100, 200, 300 or 400 series depending on the quarter in which they are located, beginning with the Northeast quarter (100) and proceeding in a counter-clockwise manner to the Southeast quarter (400).

Group 5: Three (3) digits designate the individual parcel number. A typical Sidwell or PIN would be 63 19 24 377 011. In this example, the number 63 designates Oakland County; the 19 designates Bloomfield Township; the 24 designates section 24; the 377 designates a subdivision lying within the Southwest quarter of the section; and the 011 designates the individual parcel or lot. Although there may be variations of this numbering system throughout the state, the general format is usually followed.

An assessor must be attentive to changes to property descriptions which may be the result of property transfers and involve a change in legal description such as:

1. Divisions of one parcel into two or more smaller parcels.
2. The combination of two or more parcels into a single parcel.
3. The sale of a portion of a parcel to the owner of an adjoining parcel.
4. Descriptions which change from acreage to platted whenever acreage is subdivided into a new recorded plat.

If a legal description changes because of one of these reasons, the existing PIN is “retired and new numbers assigned to the resulting parcel or parcels. Maintaining description records varies depending upon local and county policies or procedures. Assessors should be familiar with the specific policies and procedures of their unit(s). Changes to legal descriptions and PIN numbers must also be made to the unit’s tax maps.

Michigan County Codes

1	ALCONA	33	INGHAM	65	OGEMAW
2	ALGER	34	IONIA	66	ONTONAGON
3	ALLEGAN	35	IOSCO	67	OSCEOLA
4	ALPENA	36	IRON	68	OSCODA
5	ANTRIM	37	ISABELLA	69	OTSEGO
6	ARENAC	38	JACKSON	70	OTTAWA
7	BARAGA	39	KALAMAZOO	71	PRESQUE ISLE
8	BARRY	40	KALKASKA	72	ROSCOMMON
9	BAY	41	KENT	73	SAGINAW
10	BENZIE	42	KEWEENAW	74	SAINT CLAIR
11	BERRIEN	43	LAKE	75	SAINT JOSEPH
12	BRANCH	44	LAPEER	76	SANILAC
13	CALHOUN	45	LEELANAU	77	SCHOOLCRAFT
14	CASS	46	LENAWEE	78	SHIAWASSEE
15	CHARLEVOIX	47	LIVINGSTON	79	TUSCOLA
16	CHEBOYGAN	48	LUCE	80	VAN BUREN
17	CHIPPEWA	49	MACKINAC	81	WASHTENAW
18	CLARE	50	MACOMB	82	WAYNE
19	CLINTON	51	MANISTEE	83	WEXFORD
20	CRAWFORD	52	MARQUETTE		
21	DELTA	53	MASON		
22	DICKINSON	54	MECOSTA		
23	EATON	55	MENOMINEE		
24	EMMET	56	MIDLAND		
25	GENESEE	57	MISSAUKEE		
26	GLADWIN	58	MONROE		
27	GOGEBIC	59	MONTCALM		
28	GRAND TRAVERSE	60	MONTMORENCY		
29	GRATIOT	61	MUSKEGON		
30	HILLSDALE	62	NEWAYGO		
31	HOUGHTON	63	OAKLAND		
32	HURON	64	OCEANA		

WRITING CONDENSED ASSESSMENT ROLL DESCRIPTIONS

The process of condensing an assessment roll consists of reducing the number of legal descriptions by combining all contiguous acreage parcels and lots under same ownership using accepted abbreviations and eliminating all unnecessary words from each description. The authority for reducing the number of descriptions by combining contiguous parcels and the use of abbreviations is found in the following tax laws:

Michigan Compiled Laws Section 211.24(1) (a) states that *“All contiguous subdivisions of any section that are owned by one person, firm or corporation...shall be assessed as one parcel unless demand in writing is made by the owner or occupant to have each subdivision of the section or each lot assessed separately. However, failure to assess contiguous parcels as entirities does not invalidate the assessment as made.”*

However, MCL 211.25(1) (e) requires that permission be obtained from the owner prior to combining and assessing as one valuation. *“The assessing authority shall send a*

notice of intent to assess the parcels by 1 valuation to the owner or owners. Permission shall be considered obtained if there is no negative response within 30 days following the notice of intent.”

The above laws are interpreted to mean that contiguously owned parcels located in different sections cannot be assessed together as one parcel, except for land located within an unincorporated village. In other words, all land in Section 1 should be listed on the assessment roll followed by all land in Section 2, and so forth. There are several reasons for listing property this way, not the least of which is the fact that it would be very difficult to check an assessment roll to insure that all acreage is listed and accounted for if property descriptions were not listed according to section in numerical order.

Parcels considered to be non-contiguous would also include those that are split by a railroad or highway right-of-way. However, it has been the recommendation of the STC that these parcels be assessed under one valuation in rural areas. When a single description is discovered on the roll that aggregately describes parcels which are not contiguous, it is to be corrected by splitting it into two or more parts as required and writing new descriptions for the non-contiguous parts.

Use of Abbreviations

It is a common misunderstanding that an assessing officer must copy descriptions to the assessment roll in the exact manner in which they appear in a written deed. This is not the case. An assessing officer has the authority to rewrite any description if it correctly and effectively describes the parcel in such a way that it can meet the standard provided for in MCL 211.55, that the description can be “*correctly and easily ascertained*” by tax officials. The re-writing of descriptions should only be attempted when thoroughly familiar with the procedure. Otherwise the probable result will be many erroneous descriptions. Michigan Compiled Laws Section 211.25(1) (f) states: “*It shall be sufficient to describe the real property assessed upon a roll and in other proceedings under this act in the manner heretofore in use by initials, letters, abbreviations, and figures.*”

The following table lists the most common initials, letters, abbreviations and figures used when condensing legal property descriptions for an assessment roll.

<u>Term</u>	<u>Abbreviation</u>	<u>Term</u>	<u>Abbreviation</u>
Acre	A.	Meridian	Mer.
Addition	Add.	Mile	Mi.
Angle	∠ or Ang.	Minutes	' or M.
And Others	Et. Al.	More or Less	M. or L.
And Wife	Et. Ux.	Miscellaneous	Misc.
Assessors	Ass'rs		
Beginning	Beg.	North	N.
Between	Bet.	Northeast	NE.
Bound	Bd.	Northwest	NW.
Boundary, Boundaries	Bdy., Bdrs.	Northeasterly	NE'ly
Block	Blk.	Northwesterly	NW'ly
		Number	No.
Center	Cent.	Original	Orig.
Center Line	C.L.		
Chain	Ch.	Page	P.
Commence	Com.	Parallel	or Par.
Commencing	Com.	Point	Pt.
Continue	Cont.	Point of Beginning	P.O.B.
Continuing	Contn.	Point of Curvature	P.C.
Continued	Contd.	Point of Ending	P.O.E.
Corner, Corners	Cor., Cors.	Point of Tangency	P.T.
Correction	Corr.	Private Claim	P.C.
Dedication	Ded.	Quarter	Qtr. or 1/4
Description, Described	Desc.		
Degree	° Degree	Radius	Rad.
District	Dist.	Railroad	R.R.
East	E.	Railway	Rwy.
Easement	Ease.	Range, Ranges	R., Rs.
Except	Exc.	Reserve	Res.
Foot or Feet	Ft.	Right	Rt.
Fourth	1/4	Right of Way	R/W or
Fraction	Fr.	Rods	R.O.W.
Fractional	Frl.	Running	Rds.
			Rng.
General Land Office Survey	G.L.O.	Seconds	" or S.
Government Lot	Gov't Lot	Section, Sections	Sec., Secs.
Half	1/2	Square	Sq.
Highway	Hwy.	South	S.
Incorporated	Inc.	Southeast	SE.
Inch, Inches	In.	Southwest	SW.
Intersection	Int.	Southeasterly	SE'ly
Left	Lt.	Southwesterly	SW'ly
Liber	L.	Street	St.
Link, Links	Lk., Lks.	Streets	Sts.
		Subdivision	Sub.
Thence	Th.	Supervisor, Supervisors	Super.,
Town	T.	Supers.	
Township, Townships	Twps., Twps.	Variation	Var.
		Village	Vill.
Unincorporated	Uninc.	Viz	"Namely" or
Undivided	Und.		"described as follows"
		West	W.
		Westerly	Wly.

Excess Words or Phrases to be Eliminated

All words which are not necessary to correctly and effectively describe or plot a parcel may be eliminated from the parcel description. For example, when the bearing and distance is given for a meander, only the bearing and distance is necessary. All other words associated with the meander can be eliminated.

The following description illustrates the most common forms of excess words and phrases found in deeded descriptions. The bold italicized parts should be eliminated.

That part of the S 1/2 of the NE 1/4 of the NE 1/4 of Section 12, T 3 N, R 4 E, commencing at the NE corner of said NE 1/4 of the NE 1/4, Sec. 12, T 3 N, R 4 E, thence W 66 feet to W. Boundary of Highway U.S. 16, thence south along said right-of-way a distance of 660 feet for a point of beginning; thence West along south line of Fred Jones lands a distance of 594 feet to the SW corner of the NE 1/4 of the NE 1/4 of the NE 1/4 ; thence south a distance of 660 feet from said SW corner of the NE 1/4 of NE 1/4 of the NE 1/4 to an oak stake four inches in diameter on the S line of the

NE 1/4 of the NE 1/4, Section 12, T 3 N, R 4 E; thence East ***a distance of 594 feet along said South line of said NE 1/4 of the NE 1/4 to a point on the west boundary of the right-of-way of Highway U.S. 16***; thence North ***a distance of 660 feet along west boundary of said right-of-way*** to ***the*** point of beginning.

By eliminating the bold italicized words and using standard abbreviations, the result is the following condensed form of the description:

Com. at NE cor Sec. 12, T 3 N, R 3 E; th W 66 ft; th S 660 ft to P.O.B.; th W 594 ft; th S 660 ft; th E 594 ft; th N 660 ft to P.O.B.

Two phrases often eliminated which are, in fact, necessary to plotting descriptions on a map are those including “parallel” and “are right angle to”. For example: “*Thence northerly parallel to East line 100 feet*” denotes a line bearing which is identical to the East line. If the bearing of the East line is given, this bearing may be used in the description instead of the phrase, “parallel to East line”.

MICHIGAN’S LAND DIVISION ACT

The legal partitioning or splitting of land in Michigan is governed by 1996 PA 591, known as the Land Division Act, and formerly known as the Subdivision Control Act of 1967. This act substantially revised the way un-platted land in Michigan could be divided by eliminating the rules which allowed four parcel splits under ten acres every ten years and an unlimited number of splits if the resulting parcels exceeded ten acres.

The Act establishes a requisite local approval process whenever, “*for the purpose of sale, or lease of more than 1 year, or of building development*”, a parcel or tract of un-platted land is split and the split results in at least one parcel which is less than 40 acres or the equivalent. If the proposed division complies with the requirements of Sections 108 and 109 of the Act, it will qualify as a legal division under the act and thus be exempted from the Act’s platting requirements.

Section 108 contains the formulas for determining the number of parcels allowed to be split without being platted. If the number of parcels resulting from a split is allowed according to one or more of the formulas found in Section 108, the resulting parcels must then meet the basic requirements of Section 109 which are as follows:

1. Each parcel must have an adequate and accurate legal description and be depicted in a tentative parcel map, drawn to scale showing the area, parcel lines, approximate dimensions, public utility easements and accessibility,
2. Each parcel that is 10 acres or less must have a depth of not more than four times the width, unless there is a local ordinance requiring a depth to width ratio that is smaller or larger.
3. Each parcel must have a width and area not less than the minimum required by a local ordinance.
4. Each parcel must be accessible and have adequate easements for public utilities.

In the vast majority of local jurisdictions, the assessing officer will be involved in the local approval process; therefore a working knowledge of the Act and its requirements is necessary.

In addition to a likely role in the local approval process, an assessing officer also has a duty to refer a suspected violation of the Act to the stated authorities, and give notice to the person(s) requesting the division on the assessment and tax rolls, as well as the person(s) suspected of the violation, before recording the description(s) of the suspected non-conforming parcel split(s) in the assessment and tax rolls. MCL 211.53(3):

“If an assessing officer has reason to believe that a violation of the subdivision control act of 1967, Act No. 288 of the Public Acts of 1967, being sections 560.101 to 560.293 of the Michigan Compiled Laws, has occurred with respect to property for which a division is being requested pursuant to subsection (2) or section 24, or that such a division does not conform with the requirements of the subdivision control act of 1967, Act No. 288 of the Public Acts of 1967, the assessing officer shall not recognize a division of that property requested pursuant to subsection (2) or section 24 on the tax roll or assessment roll until he or she refers the suspected violation or potential nonconformity to the county prosecuting attorney and gives written notice to the plat section of the department of commerce, the person requesting the division, and the person suspected of the violation or potential nonconformity, of such referral to the prosecuting attorney.”

There are three categories of land splits defined within the Act which are listed below:

1. Subdivision – a parcel split that is subject to the platting requirements of the Act. *(The term “subdivision” as used in the context of this Act should not be confused with the same term used earlier in this Chapter when referencing the subdivision of public lands)* This definition does not include a transfer of land between two adjoining parcels.
2. Division – a parcel split for the purpose of sale, lease for more than one year, or building development; that is not subject to the platting requirements of the Act, but is subject to and complies with the requirements found in Sections 108 and 109. This definition does not include a transfer of land between two adjoining parcels.
3. Exempt Split – a parcel of at least 40 acres or the equivalent (means 40 acres or a quarter-quarter of a section not less than 30 acres or Government Lot not less than 30 acres) that is not subject to the platting requirements of the Act provided the parcel is accessible.

Land Value Determinations

An assessor is responsible for developing a land value for every taxable parcel of property which is valued using the cost approach. Similarly, County Equalization Departments must also develop land values to appraise parcels included in equalization appraisal studies. In developing land values, you must consider the general forces (economic, social, environmental (or physical), and governmental (or legal) that affect the parcels' use, utility and ultimately its value as well.

Economic forces include, but are not limited to, considerations for examples including trends and changing in employment needs, unemployment, wage levels, and household incomes. Assessors study changes in employment, industrial expansions and contractions, the economic base of a community (if applicable), pricing levels, cost and availability of mortgage credit, occupancy and vacancy rates, stock of available vacant

and improved property and any new development anticipated and/or proposed, construction costs, pricing patterns, and rental rates.

Social forces include, but are not limited to, considerations for examples including population demographic trends and changes, education levels and needs for recreational facilities. Assessors study changes in age, rate of household formations, perceptions towards education, law and order, and lifestyle changes.

Environmental and or physical forces include, but are not limited to, considerations for examples including location, site size, depth, frontage and view along amenities (such as lakes, streams and other natural resources) as well as building size, floor plan, height, power and utilities, and other relevant characteristics. Assessors study climate conditions, topography and soil conditions, and primary transportation systems (including state highways, railways, airports, and navigable waterways).

Governmental and/or legal forces include, but are not limited to, considerations for zoning, building codes and known and/or potential tax law changes. Assessors study public service capacity and future needs, national, state and local fiscal policies, rent control laws, principle residence exemption statutes, and legislature that may affect the types and availability for loans, loan terms, and investment amounts.

Several methods are available for the land valuation process that are described in detail in the PAV and in the Appraisal of Real Estate.

LAND VALUE MAPS

Please review the STC video presentation on land value maps available on the STC website.

Land value maps are a graphical presentation of land values for an entire assessment unit (i.e., an entire City or Township). A graphical display of land values enables the assessor to explain and defend the results of his or her land value analysis to taxpayers. Constructing land value maps also helps keep the assessor informed of land value changes or patterns in the assessment jurisdiction. Significant information which might not otherwise be noticed often becomes apparent when land value information is presented graphically.

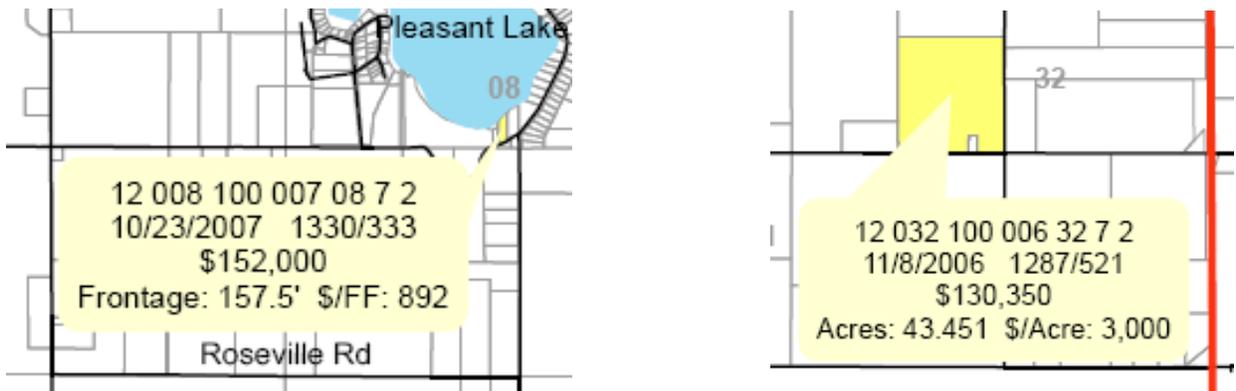
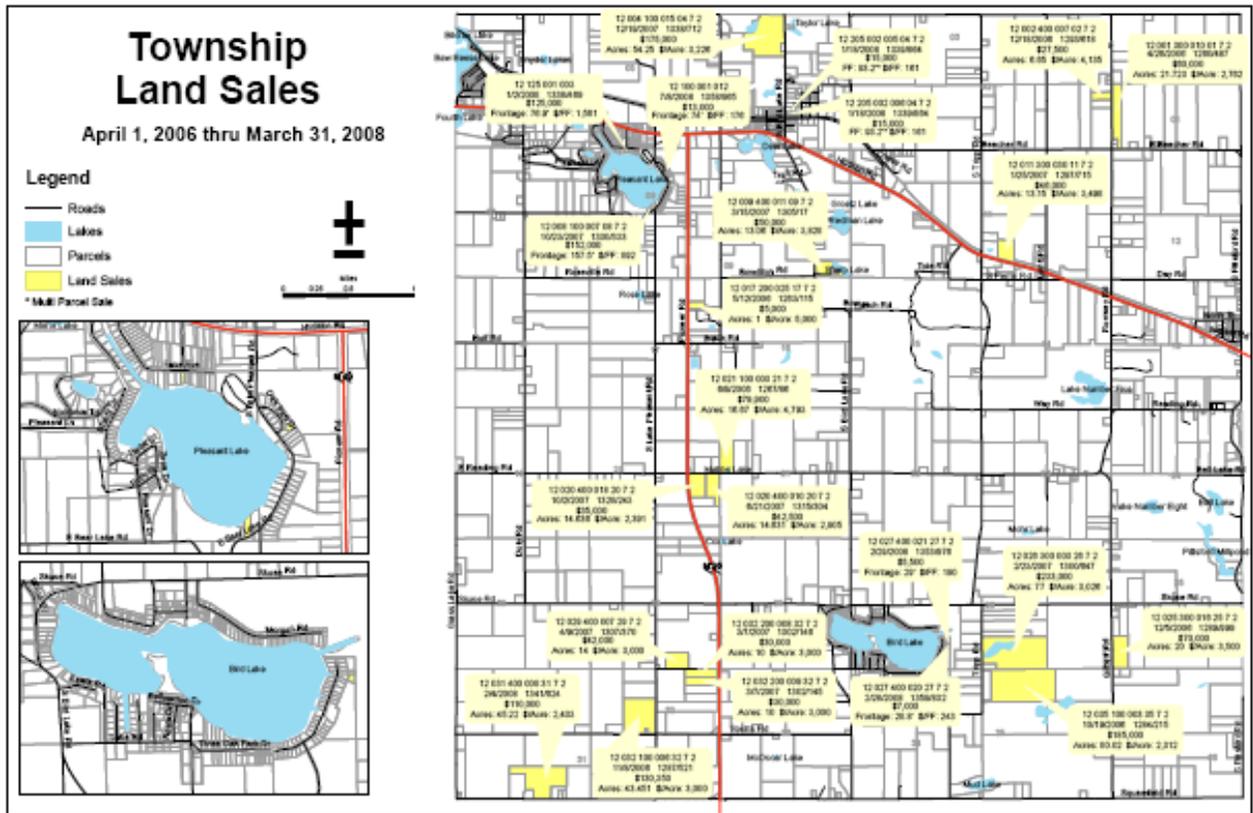
MCL 211.10e requires that assessors maintain land value maps consistent with the standards provided in the State Tax Commission's Assessor's Manual. Land value maps are defined in the Assessor's Manual as "maps on which are recorded the front or square foot value of platted property and the square foot or per acre value of acreage property." A good set of land value maps will contain both, the value conclusions for land used by the assessor to determine assessments, and the vacant land sales information used by the assessor to reach those conclusions. This may take the form of two sets of maps (one with sales information and the other with the assessor's value conclusions). It is a good practice to have individual land value maps, for different classes of property such as agricultural, residential, commercial, etc., or color coded at a minimum.

To set up a land value map system, you have to put together a set of maps for the entire assessing district. Types of maps that can be used include, but are not limited to, copies of property tax maps; copies of recorded plats of subdivisions; City, Township, and County street maps; aerial photographs with map overlays; and zoning and land use maps. Maps need to be at a useful scale. Once a set of maps has been put together, known vacant land sales information which has been verified should be added to the maps. The sales information should be put on the map in an appropriate unit of comparison for the type of property involved. The land value conclusions of the assessor should also be added to the maps. This information will enable a property owner to see how his or her land has been valued as well as the supporting information behind that valuation. This graphical presentation can be extremely helpful in explaining and defending assessments.

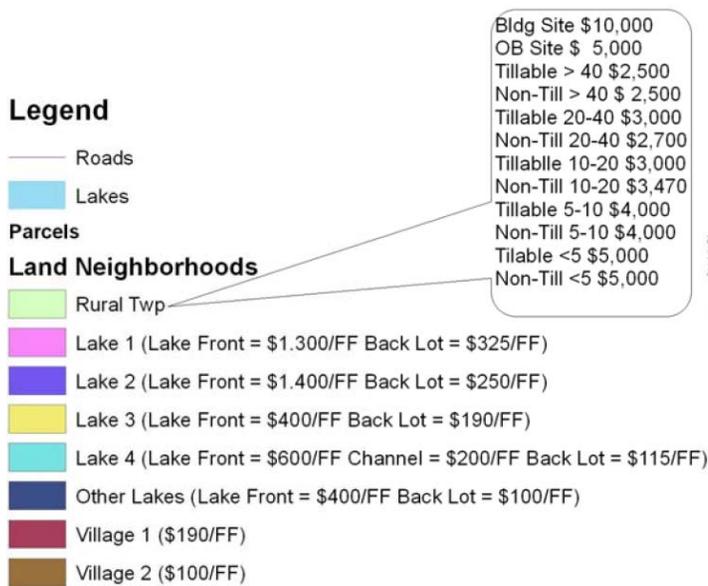
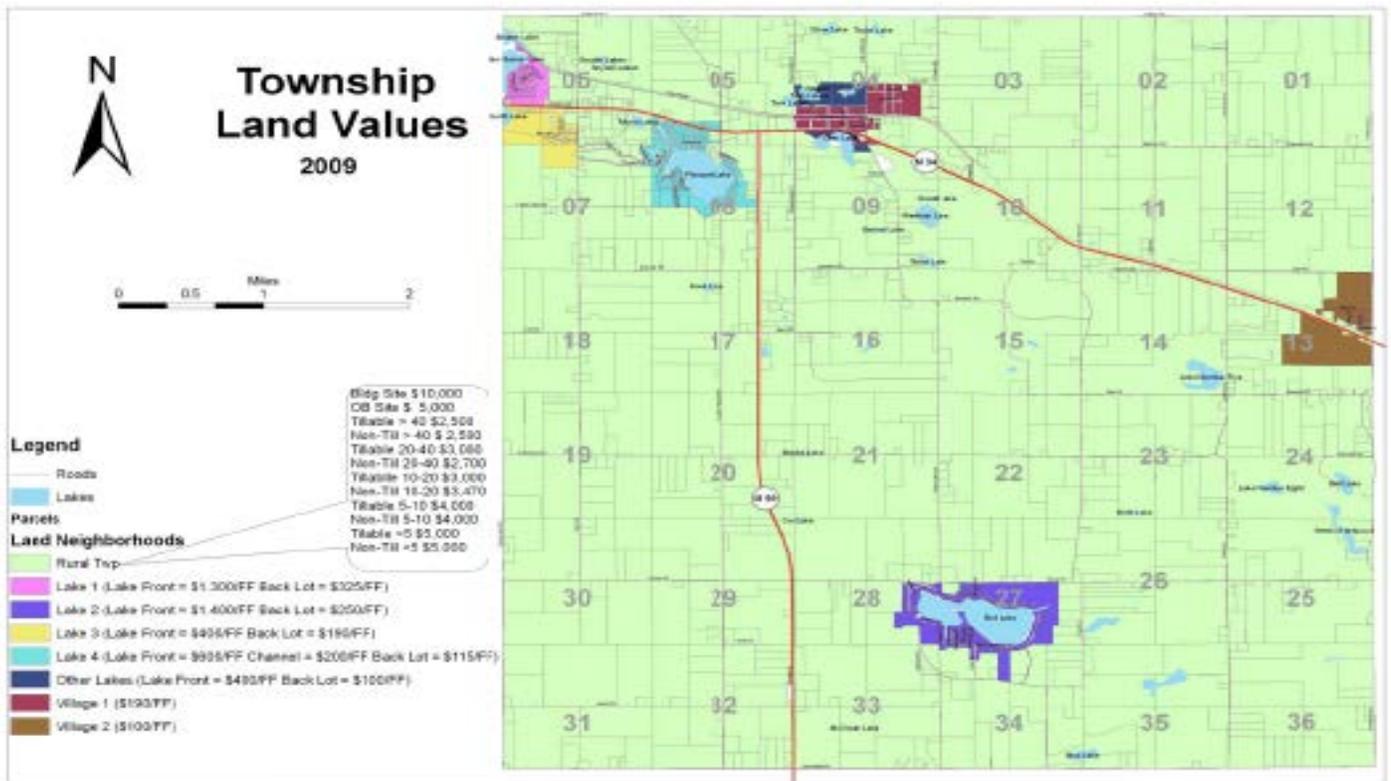
TYPES OF LAND VALUE MAPS

Land value maps can be prepared in different formats depending on the circumstances. A land value map for an urban area will be different from a land value map for a rural area. While the land value maps presented here were produced through the use of computers, it is not necessary to have that level of technology to produce an acceptable land value map; acceptable land value maps can also be produced by hand. Assessors must be able to produce a map and be able to explain to taxpayers how their land values and those of surrounding parcels were developed.

The following map shows vacant land sales information. The map is for a rural Township. Portions of the map have also been reproduced below the map to make them large enough to be read. Maps should be printed in a scale that would allow the map to be legible. The sold parcels have been highlighted on the map and details regarding the land sale have been noted. The parcel number, the date of sale, the total sale price, and the sale price expressed in terms of a unit of comparison have all been noted for each sale on the map. This information is useful in establishing land values to be applied by the assessor.



The map shown above is one half of what is considered to be sound assessing practices with regard to land value maps. The other half is a map showing the land value conclusions used by the assessor to determine assessments. The map below is for the same rural Township pictured in the map above but includes the value conclusions.



The legend from this map has been enlarged so that you can see the land value neighborhoods and the rates used for each neighborhood. Neighborhoods are broken out for tillable and non-tillable acreages, for lake areas and for the Villages within the Township (i.e., more dense developments). Any commercial or industrial areas should also be included. In many cases, this type of land value neighborhood breakdown will be sufficient. For a rural Township it is not usually necessary to have a significant number of land value neighborhoods. Often in cases like this, 'less is more' when it comes to land value analysis. Having too many land

value neighborhoods can result in land value analysis complications due to a lack of sales information in each neighborhood.

PROPERTY TAX MAPS

Property tax maps are simply line maps showing the current parcel and usually have road, section boundaries, rivers, villages, or cities. You should be able to find any parcel in question by looking at a property tax map. Property tax maps are essential to doing splits

and determining Principal Residence Exemptions on adjacent vacant land and as an overall aide in the assessment process. In order to properly assess, you have to know what and where you are assessing.

Essential items to be included on a property tax map are:

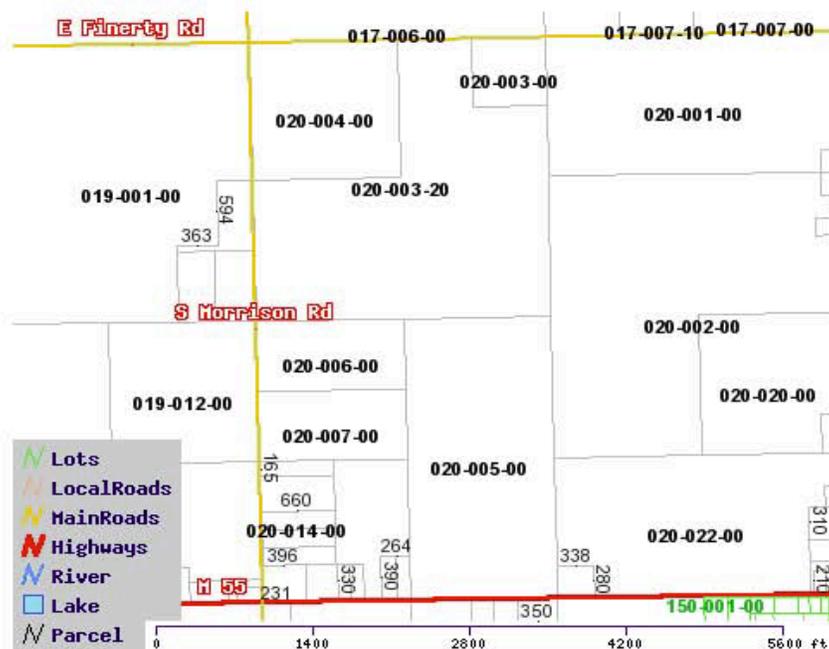
1. Location and name of all streets, roads, alleys, lakes, railroads and other outstanding physical features.
2. The location of lot lines, property lines, or both; the dimensions, bearings and acreage where required.
3. Lot numbers, block numbers, and parcel number by means of which each parcel as assessed may be identified.

Other information which may be included on a property tax map:

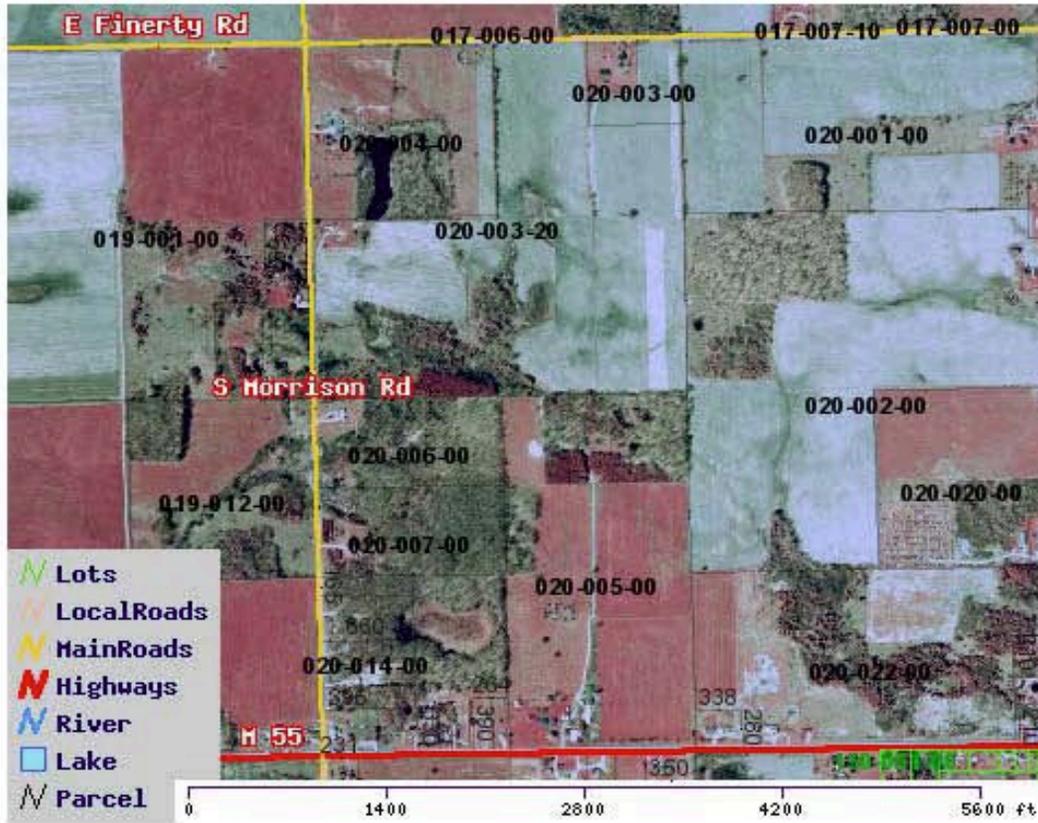
1. Ward or assessment district boundaries.
2. Names of public buildings, parks, churches, and other more or less permanently tax exempt properties.
3. Names of property owners may be entered on the property tax map however; the cost of keeping the map up-to-date is increased due to the necessity of making frequent changes of ownership on the map.

House numbers, assessed valuations, public utility services and location of improvements should not be placed on the property tax map unless the scale of the map is 100 feet to the inch or more.

Property Tax Map Examples:



Property Tax Map Overlay on an Arial Photo:



Chapter 3: Development of Economic Condition Factors

What is an Economic Condition Factor (ECF)? An ECF adjusts the assessor's use of the Assessors Manual to the local market. County multipliers are provided by the State Tax Commission and adjusted annually to reflect change in the market of the construction costs found in the State Tax Commission Assessor's Manual (Assessors Manual) and to "bring" those costs to the County level. But economic condition factors are necessary, and developed annually by assessors to further refine these costs to the local market.

"An ECF must be determined and used in cost appraisal situations where the Assessor's Manual is used." It is not appropriate to declare that one isn't used because the assessor relied on a recently published Assessor's Manual, or because the improvements are newly constructed. The ECF is used to adjust the costs of the Assessor's Manual to local markets. An ECF must be used regardless of the age of the improvements being valued.

According to the Michigan Constitution, Article IX, Section 3, assessments are developed annually, uniformly and not to exceed 50% of a property's true cash value. Because of the diversity of properties Michigan assessors must value every year in their respective jurisdiction(s), assessors often rely on mass appraisal models to accomplish this task. Most mass appraisal models rely on a cost-less-depreciation approach and adjust its results to what properties are selling for through the use of an ECF. The ECF is prepared by analyzing properties which have sold and then comparing their respective cost-less-depreciation of the buildings (i.e., building value) to that portion of the sale prices attributable to those buildings.

Calculation of Economic Condition Factors

An ECF is developed by analyzing verified property true cash value level sale prices. The portion of each sale price attributed to the building(s) only on the parcel is compared to the value on the record card of the same building(s). The ECF represents the relationship between the appraised value of the building and calculated using the Assessors Manual and its respective building value (i.e., the sale value of that building). When the building value is added to the value of the land and the land improvements, an indication of true cash value is developed for assessment purposes.

Generally, the sales used for the ECF analysis should be from the same time period used for the sales study utilized for Equalization. This is often a 24-month time period.

Michigan assessors must consider the following guidelines when developing and applying ECFs:

1. The time period of sales for the ECF study should be the same as the County Equalization Department study.
2. The County multiplier used by the assessor should be the same as the County Equalization Department.
3. The ECF is not applied to land value or the land improvements.
4. The ECF is only applied to building improvements.
5. The ECF is not applied to any buildings that are assessed as "flat-values".

Assessors should start the ECF calculation by identification of an ECF “neighborhood”. The neighborhood should be established so properties sharing similar value-related property characteristics are analyzed together. Borders for ECF neighborhoods may be natural and/or human made. They can also be based on the age of the buildings, construction type and qualities of the buildings, general location amenities, as well as a number of other attributes. ECF’s are typically calculated for a group of properties based upon the primary structure and its characteristics. For example, the neighborhood may consist of masonry/brick one-story homes built in the 1950’s in a subdivision developed with 800 lots or wood frame two-story homes built in the 1960’s throughout a small community.

Assessors can make the mistake of having too many neighborhoods. Assessors set up neighborhoods based on subdivisions and the parcel count is simply too small to do any type of analysis. Within the commercial and industrial classes, ECF’s are sometimes calculated for different types of properties (e.g., apartments, warehouses, strip retail centers, big box retail stores, manufacturing plants, and research and development buildings)

It is critical that the ECF analysis be based upon a sufficient number of verified arms-length sales transactions and that the sales be representative of the properties being assessed using the ECF. In some rural townships, there may be insufficient sales to develop an ECF. In this case, the assessor may have to analyze sales in adjoining communities to assist in developing an ECF. The assessor may need to include sales having occurred outside the normal period, requiring the use of a market conditions adjustment (i.e., time). It may be necessary to compare the subject area to another area with a known ECF and make adjustments in much the same way as comparable sales are adjusted to a subject property in a market appraisal.

An assessor should verify the sale price and terms of sale for each parcel used in its ECF analysis. An assessor should also make a physical inspection of the property to determine if there were any physical changes that may affect the sale price. Physical changes could include remodeling a basement, an addition to the building, or a new garage. These changes must be noted so that the assessor can properly value the property as it existed prior to the sale, or so the property can be removed from the ECF analysis. The assessor should use the effective age as of the date of sale or the assessment date.

The proper development of land value is essential to an accurate ECF. The estimate of the depreciated value of the land improvements is also critical. It is important that the land values used to set the ECF are also the land values used for the assessments of those properties. These items are removed from the sale price when developing an ECF.

In terms of comparisons, assessors should try to use properties with small amounts of land and land improvements. Fewer and smaller the deductions will allow for the most accurate ECF because, in most cases, the most value is in the structure. An example would be trying to use a parcel with a house on an 80 acre parcel compared to a similar house on a 1 acre parcel. Chances are the 80 acres are worth more than the house. A slight value difference in the land would cause a huge value change in the residual for the house.

ECFs should generally be applied as calculated. Any variation from the calculated ECF must be fully documented. The detailed calculations used to develop the ECF must be kept on file to be used in defense of appeals, necessary in AMAR audits, explaining assessment to property owners, etc.

The following table contains an example of reproduction costs of four homes which are identical except for their location and are located in six different counties. The base cost is multiplied by the appropriate County multiplier to give the final cost new for each house in each County.

County	Base Reproduction Cost New	County Multiplier	Final Reproduction Cost New
Alcona	\$100,000	1.05	\$105,000
Marquette	\$100,000	1.13	\$113,000
Sanilac	\$100,000	1.14	\$114,000
Kent	\$100,000	1.19	\$119,000
Wayne	\$100,000	1.36	\$136,000
Van Buren	\$100,000	1.13	\$113,000

After getting an estimate of cost new, you subtract depreciation which gives an estimate of cost-new-less-depreciation. To develop an ECF, the depreciated cost of the building which has sold is compared to the sale value of that same building. The ECF indicator for each sale is calculated by dividing the sale price of the building by its cost new (with county multiplier applied) less any and all depreciation associated with the building. One ECF indicator is not sufficient for the development of a reliable ECF. Use of a sufficient number of sales is necessary to ensure the accuracy of an ECF.

Although the individual ECF calculations are shown in the ECF analysis, the separate ECF indicators are **not averaged** to develop the final ECF. The separate ECF indications are listed so an assessor can easily observe and review “outlying” ECFs. Also, showing the individual ECF indications allows the assessing officer an opportunity to observe if there is consistency or patterns reflected by the analysis. It is a good practice to plot the individual ECF indications on a map of the ECF area. Plotting individual ECF indications on a map may help an assessor’s ECF evaluation. This same procedure is followed to develop commercial and industrial ECFs.

The development of an ECF is relatively simple if there are a sufficient number of recent, relevant, and reliable sales in the area. Sales for the ECF analysis should be limited to those occurring during the same time period as the sales study used to set the starting base. It is not necessary, or appropriate, to adjust sales for market conditions (i.e., time) if they transacted within the proper sale study time period.

Chapter 4: Use of the Michigan Assessor's Manuals

Michigan Compiled Law (MCL) 211.10e indicates:

All assessing officials, whose duty it is to assess real or personal property on which real or personal property taxes are levied by any taxing unit of the state, **shall use only the official Assessor's Manual or any Manual approved by the state tax commission**, consistent with the official assessor's Manual, with their latest supplements, as prepared or approved by the state tax commission as a guide in preparing assessments. Beginning with the tax assessing year 1978, all assessing officials shall maintain records relevant to the assessments, including appraisal record cards, personal property records, historical assessment data, tax maps, and land value maps consistent with standards set forth in the assessor's Manual published by the state tax commission.

The law requires that the Assessor's Manual (Manual) be used as a guide in the property tax process — both for valuing property and for maintaining appraisal record cards, land value maps, etc. To create the Manual, information from actual construction costs is compiled and organized; the costs contained in the Manual represent actual construction projects for the Manual's various occupancies. In developing the costs, special consideration was given to Michigan's climate.

The *Assessor's Manual* is used throughout the state to produce estimates of cost new for different types of structures (i.e., occupancies). These estimates of cost new are adjusted by county multipliers to localize the cost estimates to particular counties. Economic condition factors are used to further adjust the cost estimates for various neighborhoods or types of construction in certain localities.

The *Assessor's Manual* consists of two volumes. Volume I of the *Assessor's Manual* contains cost data for residential structures — including manufactured housing, mobile home structures, log homes, townhouses, and duplexes. Volume I also contains cost data for most agricultural structures. Volume II of the Manual contains cost data for virtually all types of commercial and industrial structures. It also contains some cost data for some agricultural structures. Volume II also contains a section on unit-in-place (UIP) with breakdowns and details for building components.

Volume I and Volume II contain more detailed information on class of construction and how to use the manuals. The following is a high level summary of the use of the manuals.

Measuring and Listing:

Appraising any property requires firsthand information from an inspection of the property. All three approaches to value require accurate and up to date descriptive records. On-site inspections are mandatory. Assessors inventory significant features of the property and evaluate the neighborhood. Taxpayers, Township, County Equalization and the State all depend on assessors having up to date and accurate information.

Prior to beginning any inspection of property, assessing officers must review Bulletin 2 of 2014 regarding property inspection available on the STC website. This Bulletin provides

critical information and guidelines that assessing officers must follow when conducting property inspection.

General Information

Specific property data must be comprehensive enough to:

- Provide the data needed to process each parcel of property to an indication of value
- Generate the tax roll and related tax accounting output
- Provide assessing officials with a permanent record to facilitate maintenance functions and to administer taxpayer assistance and grievance proceedings.

The data gathered should include the parcel identification number, ownership and mailing address, legal description, property address, property classification code, local zoning code, neighborhood identification code, site characteristics, and structural characteristics.

All the data should be recorded on a single property record card, the format of which has been approved by the State Tax Commission. The specific property data will be compiled from existing assessing records and field inspections. The parcel identification number, ownership, mailing address, and legal description will be obtained from existing tax rolls. Property classification codes will also be obtained from existing tax rolls (whenever available) and verified in the field. Local zoning codes will be obtained from existing zoning maps. Neighborhood identification codes will be obtained for the neighborhood delineation maps. Sizes and acreage will be obtained from existing tax maps. The property address and the site and structural characteristics will be obtained by making an exterior and interior inspection of each property.

Field inspections must be conducted by qualified individuals and if not the assessor, under the close supervision of the assessor. Each property must be personally visited and the following information should be collected:

- Verify the ownership. If rental property, collect information. If a transfer has occurred collect sales information.
- Record the property address.
- Verify the current property classification
- Verify zoning codes and permitted uses.
- Inspect the interior of the building (if allowed access) and record all pertinent physical data.
- Measure and inspect the exterior of the building, as well as all other improvements on the property, and record the story height, and dimensions and/or size of each.
- Record a sketch of the principle building(s), consisting of a plan view showing the main portion of the structure along with any significant attached exterior features, such as porches, etc. All components must be identified and the exterior dimensions to the nearest half foot shown for each.
- Select and record the proper quality grade of the improvements.
- Select and record the proper costs or cost adjustments for all field priced items.
- Review the property record card for completeness and accuracy.

Complete and accurate data are essential to the program. Definite standardized data collection and recording procedures must be developed and followed. When preparing a replacement cost estimate of a residential structure, assessors should follow an established routine to avoid omitting details which might necessitate a trip back to the property. The normal procedure is:

- Start with the exterior inspection, measurements and description.
- Move to interior inspection and description if allowed inside the home.
- Measure and describe the outbuildings and miscellaneous items.
- Price the nonstandard items.
- Determine the class of construction.
- Determine the depreciation or percent good.
- Don't forget to photograph the major structures on the property. With this, the field work on the appraisal card is now complete and the card is ready to complete the replacement cost estimate.

All dimensions should be rounded to the nearest half-foot. Measurements of four inches and under should be dropped; Measurements five inches and over should be rounded up to the nearest half-foot.

An assessor's equipment should include a 50-foot cloth tape, clipboard, a small plastic scale, a supply of well-sharpened pencils and a camera.

Example of Procedures for Single Family Home Appraisal

A good process starts in the office by printing off copies of the current appraisal record cards, sketches and photos. Obtain a line map with parcels and roads and an aerial with the line map overlaid.

When arriving at the property, it is always a good idea to check for dogs first before getting out of the vehicle. If the owner is home, discuss why you are there and what you are there to look at. If the owner asks you to leave the property, you have to leave. If no one is home, leave a card or letter in the door explaining why you were there. Assessors can't go inside buildings unless invited by the homeowner and certainly can't peek in windows to see what the inside of the home looks like.

Photographing the Property:

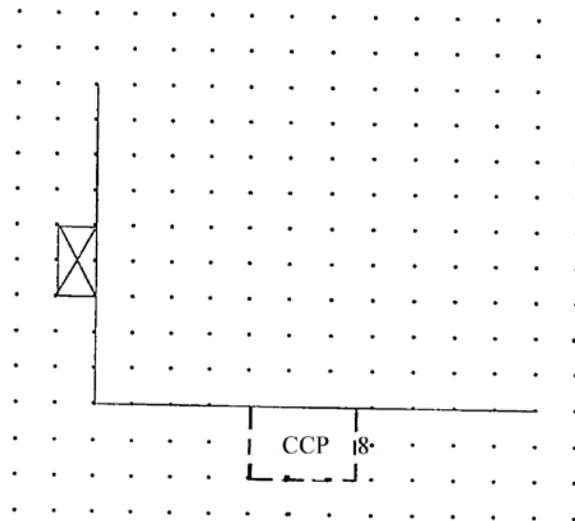
Photograph the major structures and all other structures on the property. Attach the photograph to the "residential property record card" in the appropriate place. Whatever photographing method used, be sure the photographs are clear. Start by taking photos of all sides of the house and any outbuildings. This may be important, for example, to determine where the first story stops and the second story starts.

Measurement and Exterior Inspection:

Start the measurements at either the left front or right front corner of the structure. At the same time, mark the starting point on the grid in either the lower left-hand or lower right-

hand portion of the grid. Measurements can start either clockwise or counterclockwise around the house, using outside measurements.

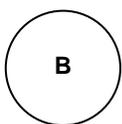
Try to pick up decks and sidewalks, etc. as you move around the structure. Also try to measure the distances of various components from a certain point (the 6 x 12 deck is 6 ft from the corner or the 1 story addition is 8' past the 2 story part, although not actual square footage dimensions, they do provide locations). Many times those odd dimensions will help close a sketch or help to figure out what the square footage is of a certain part. As you take each measurement, lay out and mark the scaled distance on the grid. Porches should be drawn on the grid in broken lines and fireplaces in solid lines as shown below.



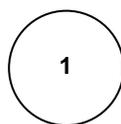
The road is always at the bottom of the sketch with the sketch oriented to the road; if not set up this way, then a note explaining why must be included. Most assessors sketch a box with the dimensions in the approximate location and for various outbuildings and later do a proper sketch. Windows in the foundation are a good indication of a basement, vents of a crawl space, a door less than a foot off of the ground is a good indication of a slab.

When measurement is completed, connect the points on the grid to complete the diagram. Write dimensions on the outside, except where it is necessary to place them inside the diagram for clarity. Make certain that the dimensions close, on the interior as well as the exterior.

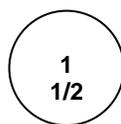
Designate the various areas on the diagram by placing the story number in a small circle on the diagram as follows:



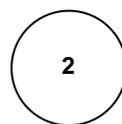
Bsmt.



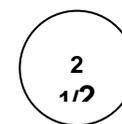
1st. Sty. Area



1 1/2 Sty. Area



2nd. Sty. Area



2 1/2 Sty. Area

Interior Inspection and Description:

If the taxpayer grants access to the inside of the house, make a careful inspection of the interior finish and construction details and record these details in the appropriate place on the cost record. Note all details which vary from the base for the construction class so that proper adjustments can be made.

Other Improvements Measurement and Inspection:

Measure and inspect other improvements on the property such as concrete flat work, detached garages, patios, sheds, etc that were not picked up when doing the initial measurements. Where possible, show these on the diagram at their approximate location, and enter and describe them in the proper place on the cost record. If there is more than one major structure on the property, use a separate card for each. Then number the cards 1 of 2, 2 of 2, etc.

Remember, all improvements to the property **must** be listed on the record card.

Pricing Nonstandard Items:

Nonstandard items may include fireplaces, patios, barbecues, sheds, fences, sprinklers, pools (in ground and above ground), ponds, gazebos, etc. By referring to the various sections of the Manual, you will build up unit costs for these items then enter them on the record card at the appropriate place.

Class of Construction and Depreciation:

After a thorough inspection of the property, determination of age and observed condition, it is now time to determine the class of construction and estimate the depreciation, or more properly, the remaining percent good.

If the condition of the structure is average for its age and shows no signs of excess depreciation or does not reflect conditions which would warrant increasing the percent good, the percent good reflected by the actual age is sufficient. If, however, either of the above conditions exist, adjust the depreciation upward or downward in the depreciation section of the cost record.

Keep in mind several issues while updating record cards and remember every community is different:

1. Some owners do excellent maintenance, some just “get by” and others don’t do any.
2. Does the level of maintenance affect the structural integrity?
3. When property sells, most people fix it up – few sell as is.

Compare structural and finished details with the base specifications in the manual to find the proper class of construction. Then enter the details in the appropriate place on the record card.

Data Entry:

Whether entering into computer software or writing up the final card by hand, it is a really a good idea to have the person who did the measuring enter the data.

Sample Worksheet or Questionnaire for Residential and Commercial Properties:

Dwelling Information		Property Address:						
Column 1	Column 2	Column 3	Column 4	Column 5	Column 6			
Type		Doors		Type of Heat				
Single Family		Solid		Gas				
Manufactured Home		Hollow Core		Oil				
Frame		Floors		Wood				
Wood		Vinyl		Steam				
Concrete		Carpet		Central Air				
Other		Ceramic Tile		Yes				
Building Style		Other		No				
Ranch		Ceiling Height in Basement		Electric Service				
2 Story		6 feet		100 AMP				
1 1/2 Story		7 feet		150 AMP				
Other		8 feet		200 AMP				
Year Built		9 feet		Other				
Year Remodeled		Other		# of Bathrooms				
# Bedrooms		Basement		1				
Exterior		None		1 1/2				
Wood		Full		2				
Vinyl		Part		2 1/2				
Brick		(if part please indicate size)		Other				
Aluminum		Basement Walls		(note, 3 fixture = 1)				
Other		Poured Concrete		Windows				
Insulation		Cement Block		Wood Frame				
Ceilings		Stone		Vinyl				
Walls		Other		Double Hung				
None		Basement Finish		Casement				
Interior		Living Area		Double Glass				
Drywall		Rec Room		Horizontal Sliders				
Plaster		(please indicate SF)						
Paneling		Walkout, Yes/No						
Other		Fireplace						
Septic & Well		Prefab						
Size Septic (gal)		Wood Stove						
Depth of Wall		Masonry						
Built in Appliances		Floor Support						
Dishwasher		2x6						
Stove		2x8						
Oven		2x10						
Jacuzzi		Other						
Hot Tub		Wood Center Support						
Central Vacuum		Steel Center Support						

GUIDE TO THE CALCULATION OF GROUND AREA LIVING AREA AND WALL AREA

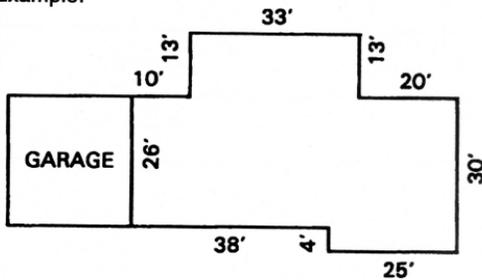
Calculation of Ground Area

Ground area is defined as the area computed from the exterior dimensions of the ground floor.

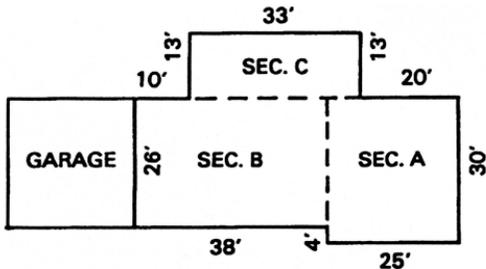
Step 1 – To calculate ground area, measure all exterior dimensions of the ground floor only, excluding garage, and construct a diagram showing these measurements.

***Note:** Measurements should be made at a place on the exterior wall where there is exterior finish, NOT at the ground level where there is no exterior finish on the wall. Do not add to the size of a house where owner has installed new siding over old siding.

Example:



Step 2 – Divide the diagram of the ground floor into sections approximating squares or rectangles.

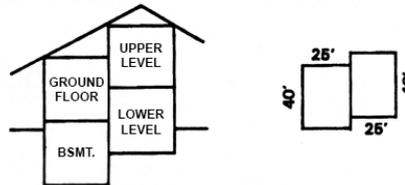


Step 3 – Calculate the area of each square and/or rectangle.

- Section A: $30' \times 25' = 750$ sq.ft.
- Section B: $38' \times 26' = 988$ sq. ft.
- Section C: $33' \times 13' = 429$ sq. ft.
- Ground Area = 2,167 sq. ft.
- Size for Rates = 2,150 sq.ft.

A tri-level home has its ground floor split into two levels. To compute ground area, add the area of the lower level in the bi-level section and the area of the ground floor in the 1-story section.

Example:



Ground Floor:

$$40' \times 25' = 1,000 \text{ sq. ft.}$$

Lower Level:

$$40' \times 25' = 1,000 \text{ sq. ft.}$$

$$\text{Ground Area} = 2,000 \text{ sq. ft.}$$

$$\text{Size for Rates} = 2,000 \text{ sq. ft.}$$

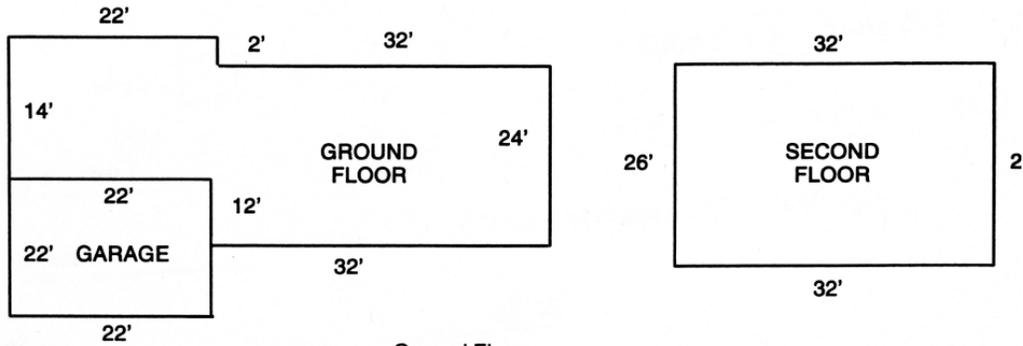
Calculation of Living Area

Living area is defined as the area computed using the exterior dimensions of the entire living area of the residence. Minimum ceiling height of living area is 7 feet.

In a 1-story house, living area and ground area are equal, and calculations are the same as those for ground area. To compute living area in a residence other than 1-story, add the area of the upper floors to the total ground area.

Example:

(Note: drawing not to scale)



Ground Floor:

$$24' \times 32' = 768 \text{ sq. ft.}$$

$$14' \times 22' = 308 \text{ sq. ft.}$$

$$\text{Total} = 1,076 \text{ sq. ft.}$$

Second Floor:

$$26' \times 32' = 832 \text{ sq. ft.}$$

$$\text{Total Living Area: } 1,908 \text{ sq. ft.}$$

CALCULATION OF EXTERIOR WALL AREA

Measure the number of linear feet and the height of all exterior walls, including walls separating attached garage from living area and excluding basement walls and foundation walls.

Multiply wall length by wall height to compute wall area.

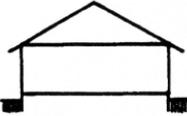
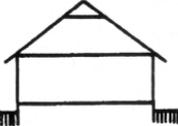
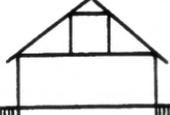
Example: Calculate wall area of the 2-story residence described above.

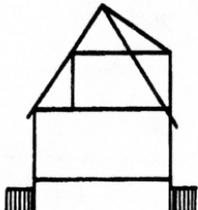
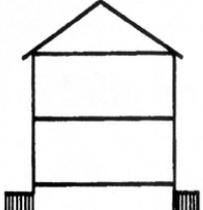
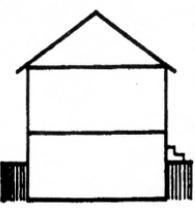
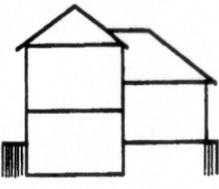
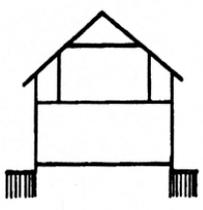
$$\text{Ground floor: } 32' + 24' + 32' + 2' + 22' + 14' + 22' + 12' = 160 \text{ L.F.} \times 8' \text{ high} = 1,280 \text{ sq. ft. of wall area}$$

$$\text{Second floor: } 32' + 26' + 32' + 26' = 116 \text{ L.F.} \times 8' \text{ high} = 928 \text{ sq. ft. of wall area}$$

$$\text{TOTAL: } 1,280 + 928 = 2,208 \text{ sq. ft. wall area}$$

GUIDE TO SELECTING STORY HEIGHT

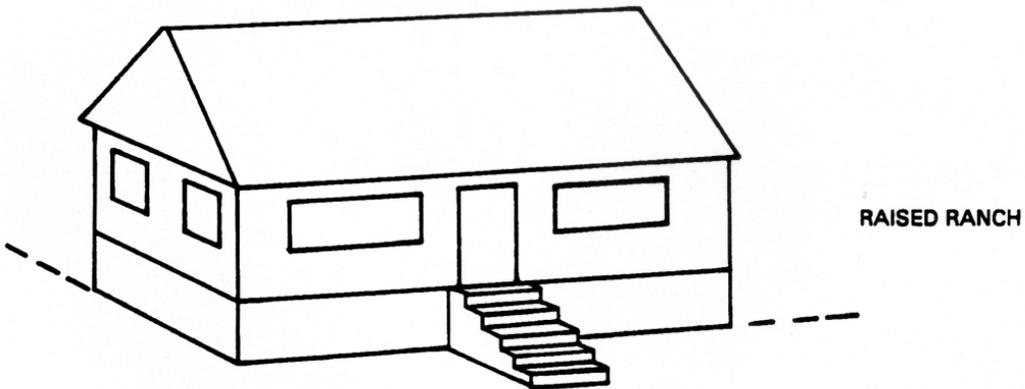
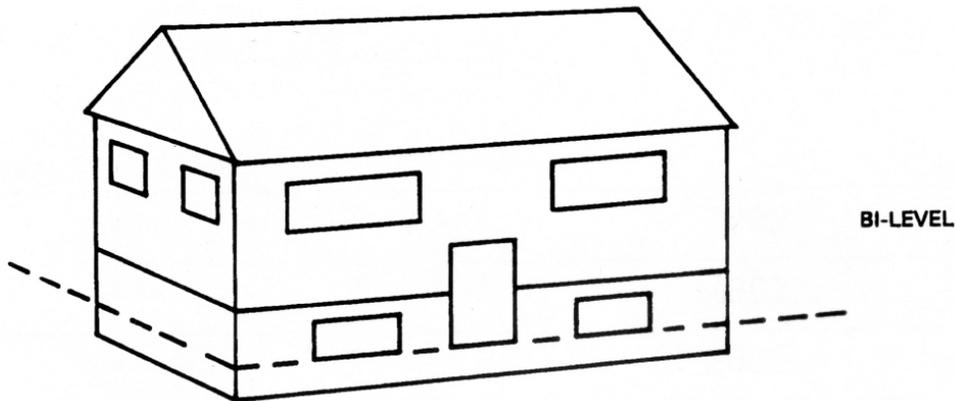
1-Story	1+ -Story	1-1/4-Story	1-1/2-Story
<p>A 1-story residence has no attic and one floor of living area at or near grade level.</p>	<p>A 1-story residence with an unfinished attic (having a ceiling height of at least 7 feet) with a floor and an area approximating 25% of that of the first floor.</p>	<p>A 1-story residence with a finished attic and an attic area (where the ceiling height is at least 7 feet) approximately 25% of that of the first floor.</p>	<p>A 1-story residence with a finished attic and an attic area (where the ceiling height is at least 7 feet) approximating 50% of that of the first floor. If the attic is unfinished, use 1-1/4-Story.</p>
			 

1-3/4-Story	2-Story	Bi-Level	Tri-Level
<p>A 1-story residence with a finished area (where the ceiling height is at least 7 feet) approximating 75% of that of the first floor. If the attic is unfinished, use 1-1/4-story.</p>	<p>A 2-story residence has two floors of living area, one at grade and one above grade, both with full ceiling heights.</p>	<p>A bi-level residence typically has a lower or ground level 4 feet below grade and an upper level 4 to 5 feet above grade, both with full ceiling heights. Entry is at grade level. Full-size windows in the lower level make the area suitable for a family room or a bedroom. Typically the lower level is 80% finished, allowing an unfinished area for utility and mechanical needs. Bi-levels are often located on a sloping lot so the lower level is partially exposed. Bi-levels have no basements.</p>	<p>A tri-level residence has three levels of living area; one 4 feet below grade, one at grade, and one 4 feet above grade, all with full ceiling heights. The pricing schedules include a basement in the base rates for the level at grade.</p>
			
			

BI-LEVEL VS RAISED RANCH

The bi-level residence is a two-level structure typically having its lower level 4 feet below grade and its upper level 4 to 5 feet above grade. Two characteristics of the bi-level residence are the split-foyer entry and the fact that the lower level includes required elements of living area, those usually being the living/dining area or bedrooms. The bi-level should be distinguished from the raised ranch, which is merely a 1-story plus

basement with basement walls partially exposed. The raised ranch typically has its entrance at the upper level, and the upper level contains all the required elements of the living area, those being living room, kitchen, dining area, bathroom and bedrooms. The raised ranch should be priced as a 1-story plus basement with additions for walk-out basement, basement garage and basement finish as needed.

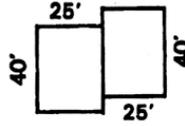
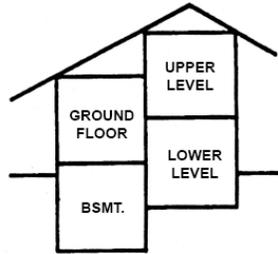


The bi-level schedules assume that the lower level is 80% finished. If the lower level is completely unfinished, price as a 1-story with basement. If the lower level is completely finished, price as a 2-story

on a slab. For finished levels of 20%, 40% and 60%, adjust the base rate by the amount listed under "Lower Level Finish" located on the Square Foot cost page.

TRI-LEVEL

The tri-level is a house which has living area on three different levels. The tri-level can be thought of as a combination of a bi-level and a 1-story structure.



Ground Area:

1-S + BSMT

$$40' \times 25' = 1,000 \text{ sq. ft.}$$

Bi-level

$$40' \times 25' = 1,000 \text{ sq. ft.}$$

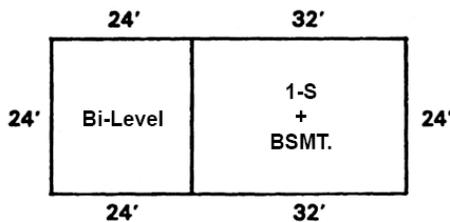
$$\text{Total Ground Area} = 2,000 \text{ sq. ft.}$$

The square foot rates are applied to the total ground area, which in the case of the example above is 2,000 sq. ft. The basement adjustment for the 1-story section must be applied to the total ground area, as the rates have already been adjusted for the fact that

only 1/2 of the house would need a basement adjustment. A tri-level with an equal split between the 1-story and bi-level sections has been included as one of the pricing examples in this chapter.

If the ground area of the tri-level is not approximately equally split between the 1-story and bi-level sections, the tri-level pricing schedule cannot be used. In this situation, the bi-level section should be priced separately from the bi-level schedule, and the 1-story section should be priced separately as a 1-story plus

basement, crawl space or slab as the facts dictate. The size for rates is determined from the combined ground area of the 1-story and bi-level sections. The resulting answer must then be increased by 8% to reflect the extra cost built into a tri-level house. Below is an example of this pricing procedure.



Ground Area:

1-S + BSMT

$$24' \times 32' = 768 \text{ sq. ft.}$$

Bi-level

$$24' \times 24' = 576 \text{ sq. ft.}$$

$$\text{Total Ground Area} = 1,344 \text{ sq. ft.}$$

$$\text{Size for Rates} = 1,350 \text{ sq. ft.}$$

As an example, the Class C rates for the example above follow:

1-S + BSMT	768' x \$63.83 =	\$49,021
Bi-level	576' x \$82.20 =	<u>\$47,347</u>
	Total	\$96,368
	Add 8%	<u>x 1.08</u>
		\$104,077

WALL-HEIGHT ADJUSTMENTS (VAULTED CEILINGS)

In the single-family sections, the base interior wall height is 8 feet for each floor. For each foot of variation, add to or deduct from that portion of the residence *base cost only*, 2% for all masonry exterior walls of residences, including brick and stone veneers, and 1.5% for siding exterior walls.

When measuring wall height, include the height of the sidewalls only. Do not include the distance from the second floor ceiling intersect to the peak of the roof. The following example illustrates the procedure for pricing the vaulted ceiling portion of a 2-story house where the vaulted ceiling portion is actually a 1-story area with walls that are 2 stories high (16 feet). If the house is a class C and has 1500 square feet of 2-story area and 500 square feet of vaulted ceiling area, the pricing would be as follows:

CALCULATION:

Size for rates = 2000

Exterior = siding

2-story area = 1500 sq. ft. x 95.39

1-story area = 500 sq. ft. x 60.29 x 1.12

The multiplier of 1.12 for the 1-story area is calculated by multiplying the 8 feet of extra wall height in the vaulted ceiling area by 1.5%.

**DEPRECIATION TABLE FOR RESIDENCES
(All Classes)**

Age	Remaining Condition	Age	Remaining Condition
1	99%	31	69%
2	98%	32	68%
3	97%	33	67%
4	96%	34	66%
5	95%	35	65%
6	94%	36	64%
7	93%	37	63%
8	92%	38	62%
9	91%	39	61%
10	90%	40	60%
11	89%	41	59%
12	88%	42	58%
13	87%	43	57%
14	86%	44	56%
15	85%	45	55%
16	84%	46	54%
17	83%	47	53%
18	82%	48	52%
19	81%	49	51%
20	80%	50	50%
21	79%	51	49%
22	78%	52	48%
23	77%	53	47%
24	76%	54	46%
25	75%	55	45%
26	74%	Older	45%
27	73%		
28	72%		
29	71%		
30	70%		

The depreciated condition will be held at 45% as long as the residence is habitable.

Age = Tax Year - date of construction

Example: A 2003 assessment is being figured for a building constructed in 1983. The age is 20 years.

The appraiser is to recognize exceptional maintenance, remodeling, replacements and additions in adjusting the % condition from that listed in this table to the actual observed condition. Exceptionally poor maintenance is also to be recognized.

The Calculator Cost Method

The calculator cost method is the primary method used by assessing officers in Michigan to value structures. The calculator cost method uses average construction costs for different types (and qualities) of construction. This method includes the average costs of actual construction projects. The calculator cost method is used to produce quick estimates of cost new. Although this method can produce accurate results when correctly used, the calculator cost method does not account for, nor should a user try to account for, relatively minor structural features and amenities.

The construction costs provided for residences in Volume I of the *Assessor's Manual* are organized by quality or class of construction. Within each class of construction, costs are provided for different construction types (i.e., wood frame, wood frame with brick veneer, and masonry). The construction costs provided for commercial and industrial structures in Volume II of the *Assessor's Manual* are organized primarily by occupancy (i.e., how the structure is currently being used) and within each occupancy different costs are provided for qualities of construction (i.e., excellent, good, poor, etc.).

It is important to read the Manual and understand what is included and what is not included, in the average costs. What is and is not included varies between Volumes I and II of the Manual. For example, water and sanitary sewer (or septic) are not included in the cost per square foot provided in Volume I of the Manual for site-built residences and additional costs must be added for these items. However, water and sanitary sewer (or septic) are included in the square foot costs of commercial and industrial occupancies in Volume II of the Manual and it would generally be incorrect to add for these items separately. Another example is cement slabs at the entryway of structures. The average costs per square foot for residences contained in Volume I do not include these items and it is necessary to add for concrete platform porches (CPP), etc. The average costs in Volume II do include these items and it is not normally necessary to add them separately.

Establishing Class of Construction

One of the first steps in the cost approach is determining a quality of construction. The Assessor's Manual divides the "Residential Classes" of construction into six major categories, ranging from a class A at the highest level to a class D at the lowest quality level. The six major classifications have been broken down in the Assessor's Manual to assist in the proper determination of classification.

Adjustments to the classification are adjustments to the cost schedules in increments from the class C quality. The assessor must weigh all factors of the neighborhood with added attributes that are slightly greater or lesser than the next classification. The assessor must make an accurate assessment of the neighborhoods quality and conditions to determine if an attribute is considered a plus adjustment or if the subject property is overbuilt for the neighborhood.

HOW TO DETERMINE CLASS OF CONSTRUCTION

	Class D Economy	Class CD Tract Type	Class C Standard
	Constructed with cost as the primary determining factor. Materials and workmanship may or may not meet Federal or local building codes. Basement, if present, of minimum head room.	Constructed with materials and workmanship meeting minimum Federal and local building codes. Mass produced from standard plans, or prefabricated. The primary determining characteristic is that the residence is usually found among others of same design or with minor exterior modifications.	Construction with average-quality materials and workmanship from stock-type plans with little or no architectural change. Some interior and exterior aesthetic features available as stock items. Built-ins few and of average quality. Interior surfaces drywall.
Exterior Walls			
Height	8 feet	8 feet	8 feet
Sheathing	1/2" insulation board	1/2" insulation board	1/2" insulation board
Insulation	None	3-1/2" batt	3-1/2" batt
Interior	3/8" drywall	3/8" drywall	1/2" drywall
Roof			
	210# asphalt shingles	235# asphalt shingles	235# asphalt shingles
	3/8" plywood	3/8" plywood	1/2" plywood
	2" x 4" truss, 24" o.c.	2" x 4" truss, 24" o.c.	2" x 6" rafters, 16" o.c.
Interior Partitions			
Partition height	8 feet	8 feet	8 feet
Partition surface	3/8" drywall	3/8" drywall	3/8" drywall
Trim	Softwood	Softwood	Softwood
Floor finish	Softwood and linoleum or carpet and pad and linoleum	Softwood and vinyl, carpet and pad and vinyl sheets	Carpet and pad with underlayment and vinyl sheet
Basement walls	10 course, 8" concrete block	10 course, 8" concrete block	11 course, 8" concrete block
Basement floors			
Concrete	3" floor	3-1/2" floor	4" floor
Base	3" gravel base	4" gravel base	4" gravel base
Floor construction			
Subfloor	1/2" plywood	1/2" plywood	1/2" plywood
Joists	2" x 8", 16" o.c.	2" x 8", 16" o.c.	2" x 10", 16" o.c.

Class BC Standard Deluxe	Class B Custom	Class A Class
Constructed with average-quality materials and workmanship using modified stock-type plans. Built-ins of average to better than average quality. Some distinguishing interior and exterior qualities for individuality. Interior surfaces plaster.	Constructed with good-quality materials and workmanship from custom-made plans and specifications. Some built-ins and special interior and exterior features. Interior surfaces plaster. Roof with asphalt shingles.	Constructed with excellent-quality materials and workmanship. Includes many built-ins and special interior and exterior features. Interior wall surfaces are plaster. Roof with better than average shingles.
8 feet 25/32" insulation board 3-1/2" batt Plaster on 1/2" drywall 290# asphalt shingles 5/8" plywood 2" x 6" rafters, 16" o.c.	8 feet 5/32" insulation board 3-1/2" batt Plaster on 5/8" drywall 290# asphalt shingles 5/8" plywood 2" x 8" rafters, 16" o.c.	8 feet 25/32" insulation board 6" batt Plaster on lath 290# asphalt shingles 1 x 6" plywood 2" x 8" rafters, 16" o.c.
8 feet Plaster on 1/2" drywall Hardwood Carpet and pad, hardwood, vinyl tile, ceramic tile 11 course 12" reinforced concrete block	8 feet Plaster on 5/8" drywall Hardwood Carpet and pad, hardwood vinyl tile, ceramic tile 12" reinforced concrete block	8 feet Plaster Hardwood Carpet and pad, hardwood vinyl tile, ceramic tile, slate 12" reinforced concrete block
5" floor 6" gravel base	6" floor 6" gravel base	6" floor 6" gravel base
5/8" plywood 2" x 10", 16" o.c.	5/8" plywood 2" x 12", 16" o.c.	5/8" plywood 2" x 12", 16" o.c.

Exterior Walls

Height
Sheathing
Insulation
Interior

Roof**Interior Partitions**

Partition height
Partition surface
Trim

Floor finish**Basement walls****Basement floors**

Concrete
Base

Floor construction

Subfloor
Joists

This spreadsheet is to assist in the classification of structures according to the Assessor's Manual . The information is compiled from the first page in each sq. ft. section.										
Directions: For each component insert an "x" inside the green box that corresponds to an improvement. The spreadsheet sums each component, giving an indication of class. Example, if the home you are appraising has vinyl siding, insert an "x" after vinyl. If the home has 2" x 6" studs, 24 "OC then you would put an X after "24" on center.										
Building Class Component I Walls & Doors										
Exterior Walls -Wood frame	A	B	BC	C	CD	D				
Aluminum	x	x	x	x	x	x				
Wood	x	x	x	x	x	x				
Vinyl	x	x	x	x	x	x				
Asbestos				x	x	x				
Asphalt						x				
Brick Veneer	x	x	x	x	x	x				
Native or Foreign Stone	x	x								
SubTotals	1	1	1	1	1	1				
Building Class Component VI Ceiling										
3/8" drywall, painted 1 coat							x			x
1/2" drywall, painted 2 coats							x		x	x
5/8" drywall, painted 2 coats								x		
Plaster on lath, painted 2 coats								x		
Skim coat plaster								x	x	
4" insulation										x
6" insulation										x
8" insulation							x		x	x
10" insulation								x		
12" insulation								x		
2"x8" joists, 18"OC							x			x
2"x8" joists, 16"OC								x	x	
2"x10 joists, 16"OC								x		
SubTotals	2	2	1	2	2	2				
Building Component VII Excavation										
10 course (block)										x
11 course (block)							x		x	x
8' basement							x	x		
SubTotals	0	0	1	1	0	0				
Building Component VIII Basement Walls										
8" concrete block							x		x	x
12" concrete block								x		
12" reinforced concrete							x	x		
8"x18" footings										x
8"x18" footings										x
8"x24" footings								x	x	
10"x24" footings							x	x		
12"x24" footings							x			
Waterproofing							x	x	x	x
Drain tile, 1 side								x	x	x
Drain tile, 2 sides							x	x		
SubTotals	2	2	1	2	2	2				
Building Component IX Basement Floor										
3" gravel base, 3" concrete										x
4" gravel base, 3 1/2" concrete										x
4" gravel base, 4" concrete with vapor barrier							x		x	
6" gravel base, 5" concrete with vapor barrier								x		
6" gravel base, 6" concrete with vapor barrier							x	x		
Wire mesh							x	x	x	
SubTotals	1	1	1	1	0	0				
Building Component X Floor Construction										
Felt lining							x	x	x	x
1/2" plywood									x	x
5/8" plywood							x	x	x	
2"x8" joists, 18"OC										x
2"x10" joists, 18"OC							x		x	
2"x12" joists, 18"OC							x	x		
Bridging							x	x	x	x
Wood beam, wood posts										x
6" steel I-beam, 3" steel posts										x
8" steel I-beam, 3" steel posts									x	
8" steel I-beam, 4" steel posts							x	x	x	
SubTotals	3	3	4	2	1	0				
Building Class Component II Windows										
10% of wall area										x
12% of wall area							x	x	x	
Wood double hung								x	x	x
Wood sliding w/wood storm & scr.										x
Wood double hung with alum storm & scr.								x	x	
Vinyl with double pane							x	x	x	
Wood casement w/insulated glass & scr.							x	x		
SubTotals	2	2	2	1	0	0				

STC Manual Table	
House Class	% of C
A+10	238%
A	216%
A-10	195%
B+20	171%
B+10	156%
B	142%
B-5	135%
B-10	128%
BC	121%
C+10	110%
C+5	105%
C	100%
C-5	95%
CD	90%
D+10	82%
D	74%
D-10	67%

Minimum Record Card Requirements

The appraisal record card is an official State of Michigan form. The card is a permanent record of the history of each parcel of land and the buildings on it. The appraisal record card (ARC) is an inventory of all elements of a parcel first. Then it is a calculation worksheet. The assessor should strive to complete all of the informational data on the ARC even if it will not be used for calculation purposes. Much of the information will be used later to assist in the determination of the property building class and items that will need to be analyzed for special valuation techniques.

There are two different sections to an appraisal record card, the first is descriptive and the second is used to price out the various components. An appraisal record card is an inventory sheet first and a calculations sheet second. The following are items on the front of the State Tax Commission residential property record card (form 639, formally L-4188) are minimum requirements of a residential property record card.

Labeled spaces for the following:

- 1) Owner's name and room for address
- 2) Unit of government
- 3) Real property description
- 4) Parcel code number
- 5) Property address
- 6) Public improvements
- 7) Land value computations
- 8) Land improvements computations
- 9) Building value
- 10) Total value of property
- 11) Assessment history
- 12) Examination date

The following are items on the back of the State Tax Commission residential property record card (form 639) are minimum requirements of a residential property record card.

Space set aside for describing major structural components of residential buildings (e.g. windows, roof, interior, floors, ceilings, and electrical) including specific labeled spaces for the following:

- 1) Year built and year remodeled
- 2) Exterior wall type
- 3) Basement, crawl space, and/or slab on ground (may be noted on drawing)
- 4) Type of basement walls
- 5) Basement finish: specific space to note type of basement finish including "walkout"
- 6) Heat: specific space to note type of heat
- 7) Plumbing: specific space to make all entries requiring plumbing adjustments in the Assessor's Manual
- 8) Water & waste disposal: specific space to note whether there is public water, a well, public sewer, or a septic system

- 9) Built-ins: specific space to make entries requiring adjustment: under the heading "Built Ins" in the Assessor's Manual
- 10) Fireplaces: specific space for making entries requiring adjustments under "Fireplaces" in the Assessor's Manual
- 11) Porches: specific space to note type and size of porches and decks
- 12) Garage: specific space to make all notes needed to accurately price garages and carports
- 13) Class of house
- 14) Size for rates
- 15) Space for a sketch of the house
- 16) An area for calculating cost new less depreciation including a specific space for county multiplier, depreciation, and ECF multiplier

There should also be sufficient space to handle the pricing of breezeways, solar rooms, Michigan basements, and living area overhang.

The format of the descriptive portion of the record card must use the same numbering system as found on the record card in the Instructions Chapter of Volume I of the Assessor's Manual.

The format of the pricing section of the record card must be easily understood and easily traceable back to the descriptive section of the card.

- 1) The pricing section should use the same numbering system as the descriptive section of the card.
- 2) A reader should be able to identify which individual items are priced as adjustments and additions and what their prices are.
- 3) Adjustments and additions for items in the same category or sub-category in the Assessor's Manual should be priced together in the same place. Thus a garage and garage finish should not be priced in two different areas.
- 4) The county multiplier, the % good depreciation multiplier, and the ECF multiplier should each be listed separately and not be combined with each other. Of these three, the ECF should appear last. The best arrangement is to multiply base costs by the county multiplier to get an estimate of cost new, then multiply cost new by the depreciation multiplier to get depreciated cost, and finally multiply depreciated cost by the ECF to get an estimate of true cash value for the building improvements.
- 5) The use of abbreviations is discouraged. The porch abbreviations in the Manual may be used.

Minimum Requirements of a Commercial / Industrial Property Record Card

The following are items appearing on the front of the State Tax Commission commercial/industrial property record card (form 640, formerly L-4189) which are minimum requirements of a commercial / industrial Property record card.

Labeled spaces for the following:

- 1) Owner's name and room for address
- 2) Unit of government
- 3) Real property description
- 4) Parcel code number
- 5) Property address
- 6) Public improvements
- 7) Land value computations
- 8) Land improvements computations
- 9) Building value
- 10) Total value of property
- 11) Assessment history

The following are items on the back of the State Tax Commission commercial / industrial property record card (form 640) are minimum requirements of a commercial / industrial property record card.

Specific labeled spaces of sufficient size to describe the following:

- 1) Building type i.e., the use the building is being put to
- 2) Building class
- 3) Building quality
- 4) Number of stories
- 5) Building height
- 6) Foundation
- 7) Frame
- 8) Floor structure
- 9) Floor cover
- 10) Ceiling
- 11) Interior
- 12) Plumbing
- 13) Sprinklers
- 14) Heating and cooling
- 15) Electric and lighting
- 16) Roof structure
- 17) Roof cover
- 18) Exterior wall
- 19) Elevator
- 20) Year built and year remodeled
- 21) Examination date

- 22) Space for a sketch of the building.
- 23) An area for summarizing cost new less depreciation calculations including a specific space for the county multiplier, depreciation, and the ECF multiplier.

The descriptive section of the record card must use the same numbering system as the State Tax Commission record card (form 640, formerly L-4189). This is not necessary when the description of the building components and their pricing are done together at the same place on the card.

The cost calculations should be done using a pricing format similar to the State Tax Commission forms 621 and 622. The format of the calculator system pricing section must be easily understood. The format of the segregated system pricing section must be easily understood and easily traceable back to the descriptive section of the card.

Chapter 5: The Equalization Process

Article IX, Section 3 of the Michigan Constitution of 1963, as amended, establishes five requirements; the Legislature shall provide for:

1. Uniform general ad valorem (by value) taxation of real and tangible personal property.
2. The determination of true cash value of such property.
3. The proportion of true cash value at which such property shall be uniformly assessed (not to exceed 50%).
4. Establish a system of equalization of assessments.
5. The taxable value of each parcel of property.

Equalization is the process to ascertain whether the real and personal property in the respective townships, cities and counties of the State have been equally and uniformly assessed at 50% of true cash value.

The Michigan Legislature has outlined the steps to meet these requirements in the General Property Tax Act (GPTA). The GPTA assessment/equalization process has three levels of responsibility: Local Unit of Government (Assessor & BOR), County (Equalization) and State (Equalization)

Local Unit Responsibilities in the Assessment and Equalization Process

The assessment and equalization process begins with the local units assessors. Each local assessor is statutorily required to determine the taxable status of all real and tangible personal property within the local unit's jurisdiction. Taxable status is determined as of December 31, and is known as Tax Day (MCL 211.2(2)). The local assessor also ensures that, within the jurisdiction, each individual property is equally and uniformly assessed at 50% of true cash value.

All property which may be subject to ad valorem property taxation is listed in an orderly method in the local unit's assessment roll. This listing must identify all property within the Township or City, regardless of any exemption allowances.

For each property the local assessor determines:

1. An Assessed Value (AV) reflective of 50% of the individual's property True Cash Value (TCV).
2. A Capped Value (CV) calculated in accordance with Michigan statute and Michigan STC guidelines.
3. A final determination of Taxable Value (TV).

The local assessor must complete the preparation of the assessment roll by the first Monday in March (MCL 211.24). Upon completion of the assessment roll, the local assessor delivers the roll to the Board of Review. It is the responsibility of the Board of

Review to review the roll to ensure the assessments are equitable and the capped and taxable valuations are properly calculated (MCL 211.28, 211.29, 211.30).

The Board of Review (BOR) is required to complete its business on or before the first Monday in April (MCL 211.30a). The BOR certifies the assessed valuation, capped valuation, and taxable valuation totals for each class of real property separately and for all classes of personal property together as one. When the assessment roll review and certification has been finalized, the local assessor submits forms L-4021, L-4022 and the Board of Review assessment roll to the County for review and Equalization.

County Responsibilities in the Assessment and Equalization Process

The second phase of the assessment/equalization process is County Equalization. The County's responsibility in Equalization occurs primarily during April. Once the roll is final and certified at the local level, it is delivered to the Equalization Department of the County in which the local unit is located no later than the Wednesday following the first Monday in April (MCL 211.30a). The statutory responsibility of reviewing each assessment roll for the units within each individual County rests with the County Board of Commissioners (the Board). The Board is required to establish and maintain a department to survey assessments and assist the Board in matters of equalization of assessments.

As with many statutory requirements, specific time frames are established for the County review. MCL 209.5 requires each Board to meet on the Tuesday following the second Monday in April to review and equalize the assessed valuations as set forth by the local units. The bottom line equalization duty of the County Board of Commissioners is to equally distribute the County-wide tax burden among the Townships and Cities. The Board in each County must determine whether the six classes of real property and total personal property have been equally and uniformly assessed.

If the Board determines that an inequality exists, the Board is statutorily required to correct the inequality. The Board adds to or deducts from the totals of the individual Township's or City's class or classes of property an amount which, in its judgment, will represent the correct valuation of the individual class of real property and the total personal property (MCL 211.34).

The action taken by the Board in equalizing the rolls of the individual Townships and Cities does not change the established assessments of individual properties. However, if the Board adds to or deducts value from a class of property in a unit, County Equalized Value, instead of local assessed value will then be compared to the capped value. Taxable values can then be changed as a result of County Equalization.

The Board must complete their work by the first Monday in May (MCL 211.34). Once they have met and set the County equalized values by class for each local unit, form L-4024, "Personal and Real Totals" is filled out and filed with the State Tax Commission.

State of Michigan Responsibilities in the Assessment and Equalization Process

The third level of responsibility in the assessment/equalization process is State Equalization. The State's roll in equalization occurs during the month of May. It is the role of the Michigan State Tax Commission (STC) to determine and establish the uniform valuation of the six classes of real property and total personal property between Michigan's 83 Counties. The STC adds to or deducts from the totals of the individual County's class or classes of property an amount which, in the STC's judgment, will represent the correct valuation of the individual class of real property or the total personal property. The STC issues its preliminary determinations of state equalized valuations (SEV) on the second Monday in May (MCL 209.2) and its final determination on the fourth Monday in May (MCL 209.4).

The three levels of responsibilities in the assessment/equalization process make up a system of "checks and balances."

- Local units check assessments of individual properties and adjust assessments to 50% of true cash value, and certify the total assessed value for the six classes of real property and total personal property within the unit.
- County Boards of Commissioners check the total assessed value determinations of the six classes of real property and total personal property for each local unit, and equalize each class in each unit to reflect 50% of true cash value (TCV).
- The STC checks the total County equalized valuation determinations of the six classes of real property and total personal property for each of the 83 Counties, and equalizes each class to reflect 50% of true cash value.

Appeal of Equalization

At the local level, the individual property owners may appeal an assessment, capped value calculation, taxable value calculation, and/or property classification to the local Board of Review. Further appeal of local action about values can be filed with the Michigan Tax Tribunal (MTT). Further appeal of property classification can be filed with the State Tax Commission.

Each local Township and City has the right to appeal the action taken by the County Board of Commissioners during County equalization. The local unit must present its arguments and reasons to the County Board of Commissioners during the Board's equalization session to protect the unit's right to further appeal to the MTT.

All 83 Counties may exercise their right to appeal the action of the Michigan STC. At the hearing to determine the SEV, an authorized representative of each County Board of Commissioners is provided the opportunity to address the STC. This preserves the County's right to further appeal the STC action and determinations to the Michigan Court of Appeals.

Classification Definitions

Proper property classification is essential to the assessment and equalization process. MCL 211.34c requires every assessor to not later than the first Monday in March classify every item of assessable property according to the definitions contained in 211.34c. Please note that classification of property is an annual requirement. Property is not classified one time and then remains that classification indefinitely. It is important to note that in most cases, property is classified according to its current use and use can change from year to year. The statutory definitions contained in MCL 211.34c and the description of each classification of assessable property is as follows:

Class 100 – Ag: Agricultural Real Property

(a) Agricultural real property includes parcels used partially or wholly for agricultural operations, with or without buildings. For taxes levied after December 31, 2002, agricultural real property includes buildings on leased land used for agricultural operations. If a parcel of real property is classified as agricultural real property and is engaged in agricultural operations, any contiguous parcel owned by the same taxpayer, that is a vacant parcel, a wooded parcel, or a parcel on which is located 1 or more agricultural outbuildings that comprise more than 50% of the taxable value of all buildings on that parcel as indicated by the assessment records for the local tax collecting unit in which that parcel is located, shall be classified as agricultural real property. Contiguity is not broken by a boundary between local tax collecting units, a section boundary, a road, a right-of-way, or property purchased or taken under condemnation proceedings by a public utility for power transmission lines if the 2 parcels separated by the purchased or condemned property were a single parcel prior to the sale or condemnation. For purposes of this subsection, contiguity requires that the parcel classified as agricultural real property by reason of its agriculture use and the vacant parcel, wooded parcel, or parcel on which is located 1 or more agricultural outbuildings must be immediately adjacent to each other, without intervening parcels that do not qualify for classification as agricultural real property based on their actual agricultural use. It is the intent of the legislature that if a parcel of real property is classified as agricultural real property and is engaged in agricultural operations, any contiguous parcel owned by the same taxpayer, that is a vacant parcel, a wooded parcel, or a parcel on which is located 1 or more agricultural outbuildings that comprise more than 50% of the taxable value of all buildings on that parcel as indicated by the assessment records for the local tax collecting unit in which that parcel is located, shall be classified as agricultural real property even if the contiguous parcels are located in different local tax collecting units. Property shall not lose its classification as agricultural real property as a result of an owner or lessee of that property implementing a wildlife risk mitigation action plan. As used in this subdivision:

- (i) "Agricultural outbuilding" means a building or other structure primarily used for agricultural operations.
- (ii) "Agricultural operations" means the following:
 - (A) Farming in all its branches, including cultivating soil.
 - (B) Growing and harvesting any agricultural, horticultural, or floricultural commodity.
 - (C) Dairying.

(D) Raising livestock, bees, fish, fur-bearing animals, or poultry, including operating a game bird hunting preserve licensed under part 417 of the natural resources and environmental protection act, 1994 PA 451, MCL 324.41701 to 324.41712, and also including farming operations that harvest cervidae on site where not less than 60% of the cervidae were born as part of the farming operation. As used in this subparagraph, "livestock" includes, but is not limited to, cattle, sheep, new world camelids, goats, bison, privately owned cervids, ratites, swine, equine, poultry, aquaculture, and rabbits. Livestock does not include dogs and cats.

(E) Raising, breeding, training, leasing, or boarding horses.

(F) Turf and tree farming.

(G) Performing any practices on a farm incident to, or in conjunction with, farming operations. A commercial storage, processing, distribution, marketing, or shipping operation is not part of agricultural operations.

(iii) "Project" means certain risk mitigating measures, which may include, but are not limited to, the following:

(A) Making it difficult for wildlife to access feed by storing livestock feed securely, restricting wildlife access to feeding and watering areas, and deterring or reducing wildlife presence around livestock feed by storing feed in an enclosed barn, wrapping bales or covering stacks with tarps, closing ends of bags, storing grains in animal-proof containers or bins, maintaining fences, practicing small mammal and rodent control, or feeding away from wildlife cover.

(B) Minimizing wildlife access to livestock feed and water by feeding livestock in an enclosed area, feeding in open areas near buildings and human activity, removing extra or waste feed when livestock are moved, using hay feeders to reduce waste, using artificial water systems to help keep livestock from sharing water sources with wildlife, fencing off stagnant ponds, wetlands, or areas of wildlife habitats that pose a disease risk, and keeping mineral feeders near buildings and human activity or using devices that restrict wildlife usage.

(iv) "Wildlife risk mitigation action plan" means a written plan consisting of 1 or more projects to help reduce the risks of a communicable disease spreading between wildlife and livestock that is approved by the department of agriculture and rural development under the animal industry act, 1988 PA 466, MCL 287.701 to 287.746.

Note: It is important for assessors to follow the requirement that these parcels be "used" for an agricultural operation. The highest and best use argument is not applicable. Additionally, the definitions to be Qualified Agricultural Property and classified agricultural Property are different and should not be confused or substituted for each other. Turf and tree farming is defined by Attorney General in Opinion number 5702 dated May 6, 1980 (included in the STC Publication: The Classification of Property available on the STC website)

Class 200 - Com: Commercial Real Property

Commercial real property includes the following:

- i. Platted or unplatted [or condominium] parcels used for commercial purposes, whether wholesale, retail, or service, with or without buildings
- ii. Parcels used by fraternal societies
- iii. Parcels used as golf courses, boat clubs, ski areas, or apartment buildings with

- more than 4 units
- iv. For taxes levied after December 31, 2002, buildings on leased land used for commercial purposes

Class 300 – Ind: Industrial Real Property

Industrial Real Property includes the following:

- i. Platted or unplatted [or condominium] parcels used for manufacturing and processing purposes, with or without buildings
- ii. Parcels used for utilities sites for generating plants, pumping stations, switches, substations, compressing stations, warehouses, rights-of-way, flowage land, and storage areas
- iii. Parcels used for removal or processing of gravel, stone, or mineral ores, whether valued by the local assessor or by the state geologist
- iv. For taxes levied after December 31, 2002, buildings on leased land used for industrial purposes
- v. For taxes levied after December 31, 2002, buildings on leased land used for utility purposes

Note: Many assessors confuse subsection ii to read that all warehouses should be classified industrial real. This is not the case. This subsection refers to warehouses associated with utility sites only.

Class 400 – Res: Residential Real Property

Residential real property includes the following:

- i. Platted or unplatted [or condominium] parcels, with or without buildings, and condominium apartments located within or outside a village or city, which are used for, or probably will be used for, residential purposes
- ii. Parcels that are used for, or probably will be used for, recreational purposes, such as lake lots and hunting lands [or condominium boat slips], located in an area used predominantly for recreational purposes
- iii. For taxes levied after December 31, 2002, a home, cottage, or cabin on leased land, and a mobile home that would be assessable as real property under section 2a except that the land on which it is located is not assessable because the land is exempt

Class 500 - T-C: Timber-Cutover Real Property

Timber-Cutover Real Property includes parcels which are stocked with forest products of merchantable type and size, cutover forest land with little or no merchantable products, and marsh lands or other barren land. However, when typical purchases of this type of land are for residential or recreational uses the classification shall be changed to residential.

Class 600 - Dev: Developmental Real Property

Developmental real property includes those parcels containing more than 5 acres without buildings or more than 15 acres with a market value in excess of its value in use.

Developmental real property may include farm land or open space land adjacent to a population center or farm land subject to several competing valuation influences.

The classifications of assessable personal property are:

Class 150 - Ag P: Agricultural Personal

Agricultural Personal Property includes any equipment and produce not exempt by law.

Note: Most agricultural personal property is exempt under 211.9: Property actually used in agricultural operations and farm implements held for sale or resale by retail servicing dealers for use in agricultural production. As used in this subdivision, "agricultural operations" means farming in all its branches, including cultivation of the soil, growing and harvesting of an agricultural, horticultural, or floricultural commodity, dairying, raising of livestock, bees, fur-bearing animals, or poultry, turf and tree farming, raising and harvesting of fish, collecting, evaporating, and preparing maple syrup if the owner of the property has \$25,000.00 or less in annual gross wholesale sales, and any practices performed by a farmer or on a farm as an incident to, or in conjunction with, farming operations, but excluding retail sales and food processing operations.

Class 250 - Com P: Commercial Personal Property

Commercial personal property includes the following:

- (i) All equipment, furniture, and fixtures on commercial parcels, and inventories not exempt by law
- (ii) Outdoor advertising signs and billboards
- (iii) Well drilling rigs and other equipment attached to a transporting vehicle but not designed for operation while the vehicle is moving on the highway
- (iv) Unlicensed commercial vehicles or commercial vehicles licensed as special mobile equipment or by temporary permits

Class 350 - Ind P: Industrial Personal Property

Industrial personal property includes the following:

- (i) All machinery and equipment, furniture, and fixtures, and dies on industrial parcels and inventories not exempt by law
- (ii) Personal property of mining companies

Class 450 Res P: Residential Personal Property

Residential Personal Property includes home, cottage, or cabin on leased land, and mobile homes which would be assessable as real under section 2a except that the land on which it is located is not assessable because the land is exempt.

Note: Most residential personal property is exempt under MCL 211.9: The personal property owned and used by a householder such as customary furniture, fixtures, provisions, fuel, and other similar equipment, wearing apparel including personal jewelry, family pictures, school books, library books of reference, and allied items. Personal property is not exempt under this subdivision if it is used to produce income, if it is held for speculative investment, or if it constitutes an inventory of goods for sale in the regular

course of trade. One exception would be a wind turbine at a residence would be classified residential personal.

Class 550 - Util P: Utility Personal Property

Utility personal property includes the following:

- (i) Electric transmission and distribution systems, substation equipment, spare parts, gas distribution systems, and water transmission and distribution systems
- (ii) Oil wells and allied equipment such as tanks, gathering lines, field pump units, and buildings
- (iii) Inventories not exempt by law
- (iv) Gas wells with allied equipment and gathering equipment
- (v) Oil or gas field equipment stored in the open or in warehouses, such as drilling rigs, motor, pipes, and parts
- (vi) Gas storage equipment
- (vii) Transmission lines of gas or oil transporting companies

Note: There is significant confusion over the utility personal property classification. There is no utility real classification. Therefore, utility personal property is generally sited on an industrial real parcel.

Multiple Use on a Parcel

MCL 211.34c(5) states that if the total usage of a parcel includes more than one classification, the assessor shall determine that classification which most significantly influences the total valuation of the parcel.

Please see the STC Publication: The Classification of Property available on the STC website.

Equalization Studies

County Equalization Directors and their Departments, on behalf of their respective County Boards of Commissioners, conduct equalization studies for each class of property in each assessing unit in their County each year. Sharing study information between the local assessing unit and the County Equalization Department allows for the best possible information to be included in equalization studies. Studies are conducted by classification of property (six real classes individually and the five personal classes combined into a total personal class).

Equalization studies for real property may be conducted utilizing a Sales Study or an Appraisal Study or a combination of the two. Regardless of the procedure used, the goal remains the same: to determine an assessment to market value ratio which is then used to compute County equalization.

P.A. 162 of 2013 amended the requirements for sales to be included in agricultural sales studies and added an additional verification requirement:

(4) In finalizing sales studies for property classified as agricultural real property under section 34c, an assessor and equalization director shall determine if an affidavit for the property has been filed under section 27a(7)(n). If an affidavit has not been filed, the property shall be reviewed to determine if classification as agricultural real property under section 34c is correct or should be changed. The assessor for the local tax collecting unit in which the property is located shall contact the property owner to determine why the property owner did not file an affidavit under section 27a(7)(n). Unless there are convincing facts to the contrary, the sale of property classified as agricultural real property under section 34c for which an affidavit under section 27a(7)(n) has not been filed shall not be included in a sales study.

The following guidelines are suggested for conducting sales/ratio studies.

General Considerations:

Sales data must be sufficient enough to provide a representative sampling of comparable sales. Sales data is best kept in a grid or spreadsheet. All sales data should include the parcel ID number, the property classification, month and year of sale, selling price, assessed value as of the date of the sale, source of the information and a reliable judgment as to whether or not the sale is representative of a true arm's length transaction and if the price is enhanced due to creative financing.

- Sale prices obtained from any source may be listed
- Transfer instruments should be screened for details that indicate other than a usual selling price
- The most recent sale will usually be listed in the case of more than one sale of the same property in a single year (October 1 – September 30)
- Sales will not be excluded from a list just because it is alleged the buyer paid too much or perhaps was not fully informed. There must be some support that a particular buyer was an "uninformed buyer"
- In most circumstances, developers' lot sales must be listed. There may be situations that warrant breaking out ratios for vacant lot sales on the form L-4018
- The remaining unpaid balance of a special assessment that has been assumed by a grantee should be added to the stated sale price. The same applies to other assumed liens or obligations that directly involve the real property such as back taxes
- Lot sales involving building demolition should not have demolition costs added to the stated sale price if the lot was encumbered by a building on tax day and on the date of transfer. (Lot sales involving building demolition should have demolition costs added to the sale price for appraisal studies where the purpose is to get site value for sites not encumbered by a building)

Sales Usually Included in Assessment/Sales Study

- Warranty Deeds
- Land Contracts and Purchaser Assignments of Land Contracts
- Sales of partial assessments where the assessment is not changed in the following year, or where the assessment change is reported as a plus adjustment

- Sales where a poverty exemption is not properly documented
- Sales where a non-consideration of the value of normal repairs, replacements, or maintenance is NOT properly documented
- Sales involving mortgage assumptions where the total prices are stated, or where the mortgage amount assumed and the amount paid down on the mortgage are both known
- Sales transferring property in its entirety by partial interest
- Sales involving properties whose use is changing provided that the sale property is representative of other property in the classification and the sale is not conditioned on a documented contingency. An example would be a property being used for farming purposes which is sold to a developer where the sale is not conditioned on the rezoning of the property and there are other parcels in the Agricultural Real Classification that would currently sell to developers for similar purposes
- Sales involving creative financing shall be included in the sales ratio study and shall be analyzed separately in the manner described in STC Bulletin 11 of 1985 available on the STC website.

Sales Usually Deleted from an Unverified Sales Study

- Quit claim deeds
- Deeds of administrator or executor
- Sheriff's deeds
- Tax deeds
- Family sales
- Sales with life lease or life estate
- Sales to or from public and quasi-public government (taxpayer) funded bodies, such as state, county, school, or similar agencies
- Sales to and from lending institutions where the bank held a mortgage on the property. Sales where the bank is acting as a trustee for a private trust and the sale is a normal sale for the benefit of the trust should be considered
- Transfer instruments referring to a prior sale between the seller and buyer of this property, example the fulfillment of a 1990 land contract.
- Deeds with mortgage assumptions where the mortgage balance or total price is unknown
- Sales with new deed restrictions that significantly reduces the price. For example, a situation where all of the development rights in a parcel were deeded earlier in the year to an exempt organization and the seller deeds the remaining rights to a third party for a nominal price
- Sales that includes a significant or unknown value for exempt property, such as seawalls or Christmas trees
- Deeds evidencing splits or transfers of only part of a property assessed
- Transfer instruments with odd dollar considerations, such as \$11,273 or \$17,129.38. See note below
- Sales conditioned on a change of some documented contingency, such as rezoning or restrictions that are part of the public record
- Sales whose assessments have been affected by 211.27(2), "non-consideration" of normal repairs, replacement of maintenance items. (PA 25 of 1978) and the "non-consideration" are properly documented

- Sales where the condition and/or extent of improvements on tax day was different than on the date of sale
- Deeds conveying significant, provable, amounts of personal property together with the real estate
- Sales where the grantee's name appears on the assessment roll corresponding to the year of the sale or prior year
- Sales with conveyance of a partial interest, such as undivided 1/4 interests, sale of leased fee, etc., unless the entire property is included
- Conveyance where there is a common interest relationship between the grantor and the grantee such as where a corporation sells to an officer of the corporation
- Sales involving poverty exemptions where such full or partial exemption is properly designated in the assessment roll
- Sales involving multiple assessments where the separate assessments are for different classifications
- Deeds pursuant to a land contract entered into prior to a study period.
- Land contracts with unusual circumstances, such as low interest or no down payment should be considered creatively financed, included in the study, but analyzed in the manner set forth in the STC Bulletin 11, 1985

Note: After verification, some sales may be used that likely would have been deleted from the study had they not been verified.

Under some circumstances, a sale involving parcels from more than one classification can be used in a sales study, provided that there is a reliable source of information for determining the amount of the sale price attributable to the parcels in each classification.

Identifying Creatively Financed Sales

To receive separate treatment as a creatively financed sale, the sale must have BOTH of the following characteristics:

1. The seller participated in the financing of the property transferred.
2. The seller participation in the financing is significant (it is reasonable to conclude that the seller participation inflated the selling price).

If EITHER characteristic is missing, the sale is not creatively financed for the purposes of Michigan property tax administration.

Seller Participation

There is seller participation when at least ONE of the following situations occurs:

1. The seller allows the buyer to assume seller's mortgage.
2. The seller pays buy-down points on buyer's mortgage. BUYERS paid buy-down points do not cause a sale to be creatively financed. Seller paid points most commonly occur with FHA, VA, and MSHDA financing, but currently do not occur with FmHA financing.

3. The seller extends part **or** all of the financing (land contract or purchase money mortgage).

Significant Seller Participation

The seller participation must be significant for a sale to receive separate treatment as a creatively financed sale. As demonstrated below, the criteria for significance varies somewhat with the extent of verification of the impact that the terms of financing had on the sale price. For sales where the impact of the terms financing are not verified beyond a Real Property Statement (this includes most residential sales), seller participation is significant (therefore, recognized as creatively financed) where at least ONE of the following is present:

1. The seller participation results in a contractual interest rate that is more than one percentage point below the State Tax Commission certified prevailing interest rate (STCCPIR) for the month of the sale and for the property type. A contractual Interest rate greater than the STCCPIR does not cause a sale to be creatively financed.
2. The seller participation results in a down payment that is less than 10% of the purchase price.

For sales where the impact of the terms of financing on the sale price is verified, seller participation is significant (and, therefore, recognized as creatively financed) where at least ONE of the above two significance tests is met, it inflates the sale price. For example, the buyer paid more for the property to get these financing terms or the seller would have accepted less to be cashed out. A sale financed by a low down payment and a below market interest rate is not treated as creatively financed, if the parties to the sale indicate that the terms did not inflate the sale price.

Critical Question: Did the seller's participation in the financing inflate the sale price?

In general, all other usable sales are treated as conventionally financed sales. For example, a sale financed with all of the following:

1. no down-payment,
2. a contractual interest rate that is two percentage points below the State Tax Commission certified prevailing interest rate,
3. a new, conventional mortgage,
4. but no seller participation, is not creatively financed.

This is true because the financing lacks seller participation. In other words, new institutional financing is conventional, regardless of the rate of interest or the amount of down payment, when the seller does not contribute to the reduction of the interest rate.

Guidelines for Foreclosure Sales

Market sale transactions for real property are used by Michigan Assessors and Equalization Directors to compare the assessor's assessments of particular properties that have sold in arms-length transactions with the actual sale prices for those same properties. The average ratio between the assessments and the sale prices should be

50%, since the assessment of the property should be at 50% of true cash value, as required by MCL 211.27a. However, since the market for real estate constantly changes, the average ratio actually found will usually not be 50%. In such cases, the County Equalization Director will require the assessor to adjust his or her level of assessment the next year so that the 50% ratio is reestablished. Further, within each local assessment jurisdiction, the assessor must conduct similar ratio studies to determine the levels of assessment in the various neighborhoods or sub-markets in the jurisdiction.

The proper selection of sales for inclusion in these ratio studies is critically important to the development of uniform and accurate assessments. The State Tax Commission has established guidelines to be used when reviewing sales for sales-ratio studies. The purpose of the guideline is to provide direction when compiling a “desk-reviewed” sales study. Desk-review means determining whether a particular sale will be used in a study based on transfer documents and other information in the office without additional investigation or field inspection.

Deviation from the guidelines should be based on investigation of the transaction beyond the normal steps of a desk review process. An increase in foreclosures will have an impact on the real estate market in the state. While the following guidelines are specifically addressed to foreclosure sales, similar steps should be used in determining the use of any sale that would normally be excluded from study in a sales study.

- Sales to financial institutions are excluded from a sales ratio study unless the financial institution is using the property for its operations and it was not previously held as collateral.
- Sheriff’s deeds are not typically included in sales ratio studies.
- If it is determined that sales from financial institutions are open market transactions the sales may be used if they have been verified.
- All sales must be analyzed and verified to ensure they are arms-length transactions. The appropriate verification process contains but is not limited to:
 1. A determination as to whether the type of sale being reviewed is a measurable portion of the market
 2. A determination that the sale property was properly exposed to the market. For example, by listing with a real estate company
 3. A physical inspection of the property to make a determination that the assessment reflects the condition of the property at the time of sale unless the condition can be verified by other means
 4. Receipt of a properly completed real property statement to determine the terms and conditions of the sale unless adequate alternative statistical procedures are utilized to ensure the sales are an adequate part of the market
 5. A determination that the parties to the transaction were not related and each was acting in their own best interest

- Additional analysis specific to foreclosure transactions:
 1. Was a market value appraisal obtained before listing?
 2. Did the seller have the right to refuse all offers?
 3. Did the property have full market exposure after governmental intervention?
 4. Was the property marketed for an adequate period of time?
 5. Whether the seller was obligated to prorate taxes in accordance with local custom and provide evidence of title and a warranty deed to the purchaser
 6. Was the property purchased “as is” and was the property well maintained during the marketing period?
 7. Was purchaser supplied with a disclosure and/or lead paint statement?
 8. Did seller help with financing? If yes, then the sale must also be treated as a creative financed sale and be treated under the same rules established for adjusting creatively financed sales.
 9. Were concessions involved and if so, are they typical of market?
 10. Were sale conditions affected by the financial institutions requirement to dispose of the foreclosed property within 1 year to avoid the uncapping of taxable value or because of banking regulation conditions requiring special treatment of property owned by the institution?

- If a sale is used in the sales ratio study, it is also used to help determine land values and Economic Condition Factor.

- Counties and local units using “usually excluded sales” in a sales study for a particular period must maintain documentation of the verification process for each sale included in the study.

- Once verified for use in a study, a sale is included in the study, in the appropriate year, in the same manner as all other sales used in the study.

- Please note that if the foreclosing institution is also financing the sale for the new owner, the property is subject to analysis for creative financing as outlined in State Tax Commission Bulletin 11 of 1985.

Equalization Forms

County Equalization Directors prepare equalization forms that must be filed with the STC prior to the first Monday in May using the STC electronic E-File for Equalization website.

New, Loss, Addition and Losses

Prior to the passage of Proposal A, tax dollars were based on the State Equalized Value (SEV) of a property multiplied by the millage rate. In 1978 Richard Headlee, a Shiawassee County Drain Commissioner, led a tax reform movement that among other things limited the amount of increases in property taxes to the rate of inflation. The core of this property tax limit was to reduce the millage rate if a unit’s total SEV exceeded the rate of inflation less any New and Loss from various sources. The problem was the terms New, Loss, and Adjustment applied only to Assessed Value (AV) or SEV and not to millage rates or millage calculations.

Because the terms New, Loss and Adjustment applied only to AV or SEV, the legislation defined “Additions” and “Losses” to identify the Values used in the millage reduction calculations. While most of the time “New” and “Additions” will be one in the same, and “Loss” and “Losses” will be one in the same, there are enough unique circumstances that new terms were warranted.

Proper identification of these value terms can have a serious impact on the millage rates and revenues of all units of government that levy operating millages. The failure to identify “New” and “Additions” properly often results in an over reduction in millage rates, which results in loss of revenue to the local units. Likewise, the failure to identify “Loss” and “Losses” correctly can result in an under reduction of millage rates which is illegal under, what is commonly referred to as, the Headlee amendment. With the passage of Proposal A, the terms “Additions” and “Losses” are applied to the Capped Value formula and ultimately affect Taxable Values.

The term “New” is used to describe added True Cash Value (TCV) for property that is described for the first time on the assessment roll or was formerly exempt from taxation. “New” would include value added for a new piece of equipment, a new building, a new structure (including value added for completion of construction for a structure which was partially valued in a prior year), etc. “New” also includes value added for the platting of land and value added for a change in a parcel’s description (e.g., a combination of two parcels).

The term “Loss” is used to describe assessment decreases resulting from a reduced true cash value because property was removed from the assessment roll (i.e., annexed to another assessment unit), because property was destroyed or became exempt from taxation, or because property was removed from a parcel description (e.g., split from a parcel). “Loss” also includes a reduction in the assessed value of personal property because the value of the personal property decreased compared to the prior year.

The terms “Additions” and “Losses” are used in assessment administration to mean increases and decreases, respectively, in the Capped Value formula. The term “Additions” includes value added for omitted property, new construction, previously exempt property, replacement construction, and remediation of environmental contamination. The term “Losses” includes value reductions for property destroyed or removed, property which has become exempt from taxation, property which has experienced a decrease in value due to decreased occupancy rates, and property which has experienced a decrease in value due to environmental contamination.

The term “Adjustment” refers to positive or negative changes (i.e., plus or minus Adjustments) made for the equalization process. Technically speaking, “Adjustment” covers all assessment increases or decreases other than the changes covered by “New” or “Loss.” “Adjustment” is commonly considered to be a change in value to set assessments at 50 percent of TCV as required by law.

The table below identifies how each item defined above affects Assessed Value and/or Capped Value. As a rule of thumb, generally most items that are New are also Additions and most Loss are also Losses. However, there are some circumstances when you will have New or Loss but not Additions or Losses so assessors need to exercise care in

making their determinations. These would include things like: splits, combinations, platting, and annexation. It is important that assessors understand these terms as they are critical to the understanding of the relationship between Assessed Value and Taxable Value.

Term	Affects Assessed Value/SEV	Affects Capped Value
New	Yes	No
Loss	Yes	No
Additions	No	Yes
Losses	No	Yes
Adjustment	Yes	No

Examples of New and Additions

New Construction: New construction is property which was not in existence on tax day (December 31st) for last year's assessment roll and is new on the current year's roll. New construction does not include replacement construction. New construction may include real or personal property. The dollar amount of the addition in the Capped Value formula for new construction is calculated as follows:

$$\text{Addition} = \text{True cash value of new construction} \times 50\%$$

Example: In 2016 a new garage with a True Cash Value of \$8,000 was constructed. This property had no other physical changes from 2016 to 2017. The market value of the property increased 4% from last year to this year. The Inflation Rate Multiplier (IRM) is 1.024.

2016 True Cash Value	\$100,000
2016 SEV	\$ 50,000
2016 Taxable Value	\$ 49,000
2017 IRM	1.024
2017 True Cash Value	\$112,000
2017 SEV	\$ 56,000

What are the Capped and Taxable Values?

Answer:

Capped Value = (Prior Year Taxable Value minus Losses) *times* (IRM or 5% whichever is less) *plus* Additions

$$(\$49,000 - 0) \times 1.024 + \$4,000 = \$54,176$$

Since the Capped Value of \$54,176 is less than the current SEV of \$56,000, the 2013 Taxable Value of this property is \$54,176.

MCL 211.27(2) – also known as the Mathieu Gast Act - provides that new construction does not include the True Cash Value of expenditures for normal repairs, replacement, and

maintenance made at any time by the current owner. The exemption for normal repairs, replacement and maintenance ends in the year after the owner who made the repairs sells the property. In the year following the sale, the Taxable Value of the property will be the SEV of the property, assuming that the sale is a “transfer of ownership”. For this Act to be effective the owner must fill out and provide the local assessor with Form 865, Formerly L-4293 - Request for Non-consideration of True Cash Value of Normal Repair, Replacement and Maintenance Expenditures. Items that would be considered include, but not limited to, siding, roof, porches, steps, sidewalks, drives, windows, doors, furnace, wiring, and interior woodwork. Please see Bulletin 7 of 2014 available on the STC website for more information on Mathieu Gast.

Omitted Real Property: Omitted real property is property which should have been included on a previous year’s assessment roll but was incorrectly omitted. Omitted property shall not qualify as an addition in the Capped Value formula unless the assessor has a property record card or other documentation showing that the omitted real property was not previously included in the assessment. The dollar amount of the addition in the Capped Value formula for omitted property is the amount of Taxable Value the omitted property would currently have if it had not been omitted. It will be necessary for the assessor to calculate the State Equalized Value of the omitted property as of the year it was omitted and calculate its Taxable Value up to the current year as if it had not been omitted.

Form 627/L-4154 can be filed with the STC to add omitted or incorrectly reported property to the assessment roll for the current year and two prior years.

Example: In 2014 an assessor conducted a reappraisal and implemented that reappraisal in 2015. The 2011 county multiplier was 0.98 and the economic condition factor was 1.08 for residential property on the west side of the city. In the fall of 2016, the new assessor discovered the record card noted the presence of a ten year old, 489 square foot Class C attached garage and the building sketch included this garage. However, the computer failed to calculate the price of the garage and understated the true cash value of the residence by \$7,855. The new assessor made the decision to add the value of the omitted garage to the 2013 assessment roll, reporting the increase as a Headlee Addition and to increase the Taxable Value of the parcel. The county multiplier for 2017 is 1.15 and the new assessor will use an ECF of 1.25. The base cost of this attached garage is \$7,611. The Inflation Rate Multipliers are: 2015 - 1.017, 2012 - 1.027 and 2017 - 1.024. What is the amount of the Addition for the garage?

Answer: The new assessor must use the 2015 county multiplier, ECF and the compounded Taxable Value multiplier to calculate the Taxable Value of the addition for this omitted garage.

$((\text{Base cost} \times \text{County Multiplier} \times \text{ECF}) \times 50\%) \times \text{Compounded IRM} = \text{TV of addition}$

$1.017 \times 1.027 \times 1.024 = 1.070$ (Compound IRM)

$((\$7,611 \times 0.98 \times 1.08) \times 50\%) \times 1.070 = \$4,309$

$\$4,309 = 2017 \text{ Addition}$

Omitted Personal Property: Omitted personal property is treated the same as omitted real property except that the law does not require that the assessor have a property record card or other documentation showing that the omitted personal property was not previously included in the assessment.

Example: A personal property auditor, while conducting an audit of the 2016 personal property statement submitted by a taxpayer noted that the company failed to include \$10,000 worth of taxable equipment which it had purchased in 2013. The auditor is completing an L-4154 Form to be submitted to the STC, requesting that the 2016 Taxable Value be adjusted to include the value of the omitted property.

What is the Taxable Value of the omitted personal property?

<u>YEAR</u>	<u>STC MULTIPLIER</u>
2015	0.69
2014	0.61
2013	0.53
2012	0.47

Answer: \$10,000 multiplied by 0.53 multiplied by 50% = \$2,650 SEV. Since this is less than the 2014 Taxable Value multiplied by the Capped Value multipliers for 2015 and 2016, the SEV will also be the Taxable Value for this omitted property.

Previously Exempt Property: Previously exempt property is property that was exempt from ad valorem taxation on the immediately preceding tax day but is assessable on the current tax day.

There are three categories of previously exempt property, poverty exemption, IFT new facility, other exemption (e.g., religious parsonage):

Poverty Exemption (MCL 211.7u): The dollar amount of the addition in the Capped Value formula for property previously exempt under MCL 211.7u is calculated as:

Value of the Addition = TV of the parcel in the current year (if not exempt) minus TV in the preceding year x the lesser of 1.05 or the IRM.

A property which receives a poverty exemption in a current year will not, in the following year, lose the advantage of a low ratio of Taxable Value to True Cash Value that it may have gained over several years of the cap having been applied.

Example: A taxpayer owns a home worth \$60,000. The 2016 SEV was \$30,000 and the Taxable Value was \$25,000. After receiving this taxpayer's application for a poverty exemption, the Board of Review granted a partial exemption and reduced the assessment to \$10,000. After deducting for the Taxable Value of the Losses for this exemption, the Taxable Value was calculated to be \$8,334. The market value increased \$1,500 and the IRM is 1.024. Since poverty exemptions are valid for only one year at a time, the assessor must recalculate a New Assessed and Taxable Values for 2017. What are the Assessed, Capped Values and the Additions?

Answer:

Calculation of Assessed Value	
2016 SEV after exemption	\$10,000
Plus Adjustment for market increase	\$ 1,500
Plus New (for expired exemption)	<u>\$20,000</u>
2017 AV	\$31,500

Calculation for Additions	
2016 Taxable Value without exemption	\$25,000
Times Inflation Rate Multiplier	<u>1.024</u>
Equals current Capped Value	\$25,600
Minus 2016 TV with exemption times IRM (\$8,334 x 1.024 = \$8,534)	<u>\$ 8,534</u>
TV of Addition for restored exemption	\$17,066

Calculation of Capped Value	
2016 TV minus TV of Losses	\$ 8,334
Times Inflation Rate Multiplier	<u>1.024</u>
\$ 8,534	
Plus Taxable Value of Additions	<u>\$17,066</u>
2017 Capped Value	\$25,600

Other Exemptions: Includes property previously exempt as a replacement facility is calculated as: Addition = True Cash Value previously exempt property x 50%

Example: In 2013 a church purchased a parsonage for its pastor for \$50,000. The assessor granted an exemption to the church and removed \$20,000 from the roll. In 2016, the church purchased another parsonage and rented it as a residence. The assessor valued the residence at \$64,500 for the 2017 tax year. The IRM is 1.024. What are the Assessed, Capped and Taxable Values?

Answer:

Calculation of Assessed Value: \$64,500 (TCV) times 50% = \$32,250 Assessed Value	
Calculation of Capped Value	
Prior Taxable Value	0
Times Inflation Rate Multiplier	<u>1.024</u>
Equals	0
Plus Taxable Value of Additions	\$32,250
Capped Value	\$32,250

Taxable Value = \$32,250

Replacement Construction: Replacement construction is construction that replaces property damaged or destroyed by accident or by act of God provided that all four of the following conditions are met:

1. The property being replaced must have been damaged or destroyed by accident or act of God.
2. The accident or act of God, which damaged or destroyed the property, occurred within the three calendar years preceding the current assessment year.
3. The replacement construction occurred in the year following last year's tax day.
4. The True Cash Value of the amount allowed as replacement construction does not exceed the True Cash Value of the property damaged or destroyed. If the True Cash Value of the construction exceeds the True Cash Value of the property that was damaged or destroyed, the excess amount must be treated as "new construction".

Example: In 2015 a farm worth \$850,000 had an assessment of \$425,000. During the summer of 2015, a barn with a value of \$100,000 burned down. The next year, the assessor lowered the assessment to \$375,000 and the Taxable Value to \$350,000 to reflect the loss of the barn. During the summer of 2016, the barn was replaced at a value of \$120,000. In addition the market value of the farm increased another 5% or \$37,500. The Inflation Rate Multiplier for 2017 was 1.024. What are the Capped and Taxable Values?

2015 TCV of Farm (Land & Buildings)	\$850,000
<i>Minus</i> TCV of Barn Destroyed By Fire in 2015	\$100,000
2016 TCV of Farm (After Loss of Barn)	\$750,000
2016 Taxable Value	\$350,000
2016 SEV	\$375,000
Market Value increase of 5%	\$ 18,750
Equalization NEW for replacement barn	\$ 60,000

Answer:

Calculation of the Assessed Value	
2016 Assessed Value	\$375,000
<i>Plus</i> Market Value Increase	\$ 18,750
<i>Plus</i> New for Barn	<u>\$ 60,000</u>
2017 Assessed Value	\$453,750

Calculation of the Capped Value	
2016 Taxable Value	\$350,000
<i>Times</i> the IRM	<u>1.024</u>
<i>Equals</i>	\$358,400

Plus addition for replacement barn
 $\$100,000 * (\$350,000 / \$750,000) \times 1.024 =$ \$ 47,786
 *Value of Barn at time of Loss

Plus TV addition for Excess Value (\$20,000 x 50%) \$ 10,000
 Capped Value \$416,186

Taxable Value - \$416,186

Remediation (Correction) of Environmental Contamination: An increase in the value of a parcel attributable to complete or partial correction of environmental contamination which existed on last year's tax day is an addition. The degree of remediation which has occurred shall be determined by the Department of Natural Resources (DNR). The increase in value frequently is not the same as the cost to remediate.

The dollar amount of the addition in the Capped Value formula for an increase in value attributable to remediation of environmental contamination is:

$$\text{Addition} = \text{Increase in TCV due to remediation} \times \frac{\text{TV w/ no contamination}}{\text{TCV w/ no contamination}}$$

The following are not considered Additions:

Platting, Splits, or Combinations - An increase in value attributable to platting, splits, or combination of parcels is not an addition unless they are accompanied by physical change in the property.

Zoning Change

Inflation

Economic Conditions

Value Change upon Transfer

Examples of Loss and Losses

Some may wonder why use the TCV and then go to the SEV when establishing a ratio. MCL 211.34d defines the methods to be used and that statute uses the term TCV. Many software programs and assessors use the ratio of SEV to Taxable Value instead of using the TCV to Taxable Value. Either method works, if a SEV factor has been applied caution is warranted. A factor will alter the TCV of a property and if a factor has been applied, the TCV of a property is twice the SEV, not twice the Assessed Value.

In the first example the TCV to Taxable ratio is 40%, if the SEV to Taxable method were used it would be 80%. The important thing is to use one method or the other and not mix the two. A ratio of TCV or SEV to Taxable Value must be established in order to correctly calculate the Losses on a parcel.

Property Destroyed or Removed: Property that has been destroyed or removed is a Loss for the Capped Value formula. The dollar amount of the Losses in the Capped Value formula is:

$$\text{TV of Losses} = \text{TCV of property destroyed/removed} \times \frac{\text{Prior Year TV}}{\text{Prior Year TCV}}$$

Example: A lake front recreational property with a 2016 True Cash Value of \$180,000 is improved with a main cottage appraised for \$95,000 and a guest cottage worth \$30,000. The guest cottage was moved from the property in the fall of 2016 to make room for a future addition to the main dwelling. The 2016 SEV of the parcel was \$90,000 and the Taxable Value was \$72,000. The 2017 SEV of the property because of a \$7,000 plus Adjustment and the \$15,000 Loss for the removed cottage is \$82,000; the 2017 IRM is 1.024. What is the 2017 Taxable Value of the parcel?

Answer:

The SEV Loss for the removed cottage is $\$30,000 \times 50\% = \$15,000$

$$\frac{2016 \text{ Taxable Value}}{2016 \text{ True Cash Value}} = \frac{\$72,000}{\$180,000} = 40\%$$

The Taxable Value Losses is $\$30,000 \times 40\% = \$12,000$

Calculation of the Assessed Value

2016 SEV	\$90,000
<i>Minus</i> the Loss	\$15,000
<i>Plus</i> Adjustment	<u>\$ 7,000</u>
2017 SEV	\$82,000

Calculation of the Capped Value

2016 Taxable Value	\$72,000
Losses	<u>\$12,000</u>
Net 2016 Taxable Value	\$60,000
<i>Times</i> IRM	<u>1.024</u>
2017 Capped Value	\$61,440

2017 Taxable Value \$61,440

Exempt Property: Exempt property is property that was subject to ad valorem taxation on the previous tax day but is exempt on the current tax day. The dollar amount of the Losses in the Capped Value formula is the Taxable Value of the property exempted.

$$\text{TV of Losses} = \text{TCV Loss} \times \frac{\text{Prior year's Taxable Value}}{\text{Prior year's True Cash Value}}$$

Example: An industrial parcel with a True Cash Value of \$2,000,000 is granted an industrial facilities exemption certificate for the exemption of an old, obsolete building for its restoration, which the assessor has appraised for \$1,600,000. The total 2016 SEV was \$1,000,000 and the prior Taxable Value of the parcel is \$920,000. The IRM is 1.024 and the 2017 SEV of the parcel, minus the building, is \$210,000. Calculate the 2017 Capped Value and the 2017 Taxable Value.

Answer:

Calculation of Assessed Value	
2016 SEV	\$1,000,000
<i>Minus</i> Loss (\$1,600,000 x 50%)	<u>\$ 800,000</u>
Subtotal	\$ 200,000
<i>Plus</i> Adjustment	\$ 10,000
2017 SEV	\$ 210,000

Calculation of Losses

$$\text{TV of Losses} = \text{TCV Loss} \times \frac{\text{Prior year's Taxable Value}}{\text{Prior year's True Cash Value}}$$

Losses = \$1,600,000 x $\frac{\$920,000}{\$2,000,000}$ = \$736,000 = Losses

Calculation of Capped Value	
2016 Taxable Value	\$ 920,000
<i>Minus</i> Taxable Value Losses	<u>\$ 736,000</u>
Equals Subtotal	\$ 184,000
<i>Times</i> IRM	<u>1.024</u>
2017 Capped Value	\$ 188,416
2017 Taxable Value	\$ 188,416

Decrease in Occupancy Rate: A decrease in value attributable to a decrease in the occupancy rate for an income producing property is Losses, provided that the decreased occupancy rate is projected to be permanent into the foreseeable future. When an occupancy rate, which is at the stabilized level for the area decreases temporarily, but is expected to return soon to the stabilized level, no adjustment in the value of the property is warranted. Likewise, a newly constructed office building which is only partially occupied on tax day should not be valued as though the partial occupancy were permanent and the stabilized occupancy rate for the area is much higher.

The dollar amount of the Loss in Capped Value formula for a Loss in value attributable to a decrease in the occupancy rate is:

$$\text{TV of Losses} = \text{TCV due to decrease In occupancy} \times \frac{\text{Prior Year decrease in TV}}{\text{Prior year TCV}}$$

Example: A shopping center was appraised by the local assessor using the income approach for the 2016 assessment year for \$3,675,000. The Taxable Value of the property was \$1,617,000. During 2012, the community suffered a major economic Loss when the only major manufacturer in the area permanently closed. Many small businesses and one major anchor store failed and the vacancy rate for the center went up. As a result, a current appraisal for 2017, using the income approach, estimates the value of the center to be \$3,000,000. What are the Losses?

Answer:

Calculation of Losses	
2016 True Cash Value	\$3,675,000
2017 True Cash Value	<u>\$3,000,000</u>
True Cash Value of Losses	\$675,000

$$\frac{\$1,617,000 \text{ 2016 TV}}{\$3,675,000 \text{ 2016 TCV}} = 0.4400$$

TCV Losses = \$675,000 X 0.4400	\$297,000
Losses	\$297,000

Environmentally Contaminated Property: A decrease in value attributable to environmental contamination, which existed on the property on the current tax day, is a loss for the capped value formula. The degree of the contamination must be determined by the Department of Natural Resources (DNR). The dollar amount of the losses in the capped value formula is:

$$\text{TV of Losses} = \text{Decrease in TCV due to cont.} \times \frac{\text{Prior Year TV w/ no contamination}}{\text{Prior Year TCV w/ no contamination}}$$

Example: In October of 2016, the DNR inspected a service station and determined that one of the underground fuel tanks had been leaking. They estimated the degree of the property contamination was 15%. In 2016, the true cash value was \$350,000, The SEV was \$175,000, and the taxable value was \$161,000. For 2017, the assessor, recognizing the contamination, took a \$26,250 loss in assessed value. The assessor then increased the remainder of the assessed value by 5% to \$156,250 because of a general increase in market value. The 2017 equalization factor is 1.00. The IRM for 2017 is 1.024. What is the 2017 Taxable Value of this service station?

Answer:

2016 TCV	\$350,000
Minus 15% Of TCV (\$350,000 x 0.15)	\$ 52,500
TCV Loss = \$52,500 x $\frac{\$161,000 \text{ 2016 TV}}{\$350,000 \text{ 2016 TCV}}$	0.46
Taxable Value of Losses (52,500 X 0.46)	\$ 24,150
2016 Taxable Value	\$161,000
Less Taxable Value of Losses	\$ 24,150
Subtotal	\$136,850
Times IRM	1.024
2017 Capped Value	\$140,134
2017 Assessed Value	\$156,250
2017 Taxable Value	\$140,134

The following are not considered Losses:

Platting, Splits, or Combinations

Zoning Changes

Deflation

Economic Conditions

Chapter 6: Property Tax Exemptions, Abatements and Tax Capture Authorities

In Michigan, two guiding principles have developed to address taxation in general, and exemptions, from the ad valorem tax: (1) “In general, tax laws are construed against the government;” and (2) tax exemption statutes are strictly construed in favor of the government.

What is the definition of an exemption versus abatement?

- Exemptions reduce the property tax burden of a taxpayer for every year in which they are granted
- Abatements either, preserve the tax base or increase the tax base, while providing a reduced future tax burden on new investments

The mechanism of an exemption is simple: it reduces a property’s tax obligation and provides immediate property tax relief. Unlike exemptions, abatements reduce the maximum future tax burden on investments by a taxpayer. Abatements modify either the millage rate or taxable value used to calculate taxes, if an investor improves either real or personal property.

As a general rule, abatement legislation is structured so that if no improvement is made, then there is no benefit to the taxpayer and no financial loss to the taxing jurisdictions. All abatement laws create a “specific tax” roll. Land remains taxed on the ad valorem roll; improvements are taxed as a specific tax on a specific tax roll. Some abatements freeze the taxable value of an improvement, others lower the millage rate applied for taxation.

Additional information on each exemption and abatement is found at www.Michigan.gov/treasury under Taxes, Property Tax.

Exemption Programs

Disabled Veterans Exemption: MCL 211.7b (P.A. 161 of 2013)

The Disabled Veterans Exemption provides a 100% property tax exemption for disabled veterans or their unremarried surviving spouse. In order to be eligible the disabled veteran must own the home, use the home as their homestead and meet one of the following three criteria:

- (a) Has been determined by the United States department of veterans affairs to be permanently and totally disabled as a result of military service and entitled to veterans’ benefits at the 100% rate.
- (b) Has a certificate from the United States veterans’ administration, or its successors, certifying that he or she is receiving or has received pecuniary assistance due to disability for specially adapted housing.
- (c) Has been rated by the United States department of veterans affairs as individually unemployable.

Unremarried surviving spouses eligibility is based upon the eligibility of the disabled veteran prior to their death. The State Tax Commission has issued considerable guidance on this exemption primarily in Bulletin 22 of 2013 and in FAQ's issued in August 2014 both are available on the STC website.

Principal Residence Exemption (PRE): MCL 211.7cc

A principal residence is exempt from the tax levied by a local school district for school operating purposes up to 18 mills if an owner of that principal residence claims an exemption as provided in MCL 211.7cc. A person must own and occupy the property as his or her principal residence on or before June 1st to claim the exemption for the summer tax levy or November 1st for the winter tax levy. The June 1 and November 1 dates also apply to the Conditional Rescission and Foreclosure Entity Conditional Rescissions.

To claim a PRE, the owner must file a Principal Residence Exemption Affidavit, Form 2368, (Affidavit) with the assessor for the City or Township where the property is located. The Affidavit is a sworn statement attesting that they are an owner who occupies the property as his or her principal residence. Normally, when a home is purchased, the Affidavit and other relevant PRE forms are provided by the closing agents. If the assessor believes an Affidavit is not valid, they should deny the claim and provide the taxpayer with their appeal rights. As with any tax exemption, the burden is on the taxpayer to show that they are entitled to a PRE.

When an Affidavit is filed, it is important to verify the person submitting the Affidavit meets the definitions of an "owner." MCL 211.7dd(a) defines an "owner" as:

- A person who owns property or who is purchasing property under a land contract.
- A person who is a partial owner of property.
- A person who owns property as a result of being the beneficiary of a will, trust or intestate succession. (The beneficiary is considered the owner for PRE purposes upon the death of the grantor).
- A person who owns or is purchasing a dwelling on leased land.
- A person holding a life lease in property previously sold or transferred to another. (The life lease holder must have been a previous owner).
- A grantor who has placed property in a revocable trust or a qualified personal residence trust. (A qualified personal residence trust may be irrevocable. All other irrevocable trusts do not qualify).
- The sole present beneficiary of a trust if the trust purchased or acquired the property for a beneficiary who is totally and permanently disabled.
- A cooperative housing corporation.
- A facility registered under the Living Care Disclosure Act.

It is important to note that a "person" as used in the above definitions means an individual and does not include a partnership, corporation, limited liability company, association, or other legal entity. The percentage of ownership a person has in property is generally not relevant as long as that person meets the definition of an owner and occupies that property as a principal residence. In other words, a person that is a 1% owner of a property and occupies that entire property as a principal residence may qualify for a 100% PRE.

The following factors must also be considered when evaluating an owner's eligibility for a PRE:

- A husband and wife who file, or are required to file, a joint Michigan income tax return are entitled to only one PRE.
- If a person claims a substantially similar exemption in another state which has not been rescinded, they do not qualify for a PRE in Michigan.
- If a person files an income tax return as a resident of another state, (active military personnel excluded), they do not qualify for a PRE in Michigan.
- If a person files a non-resident Michigan income tax return, (active military personnel with his or her principal residence in this state excluded), they do not qualify for a PRE in Michigan.
- If a person or their spouse owns property in another state for which either person claims an exemption similar to the PRE, they do not qualify for a PRE in Michigan, unless they file separate income tax returns.

Definition of Principal Residence: MCL 211.7dd(c) defines a principal residence as the "... [one] place where an owner of the property has his or her true, fixed, and permanent home to which, whenever absent, they intend to return and that shall continue as a principal residence until another principal residence is established." Although this is not an all-inclusive list and no one factor is controlling, the following is a list of items to consider:

- Location of a person's most important possessions.
- Where the family is housed.
- Voting location.
- Where church, club and lodge memberships are maintained.
- Where a person buys automobile licenses.
- Mailing address and banking location.
- Operation of a business.

A principal residence also includes the owner's unoccupied property classified as residential or timber-cutover that is adjoining or contiguous to the dwelling owned and occupied by the owner. The property is generally considered unoccupied if it does not contain a habitable dwelling. Properties containing a garage, storage building and other similar structures normally are considered unoccupied unless they contain living quarters. Contiguity is not broken by a road or a right-of-way. An adjoining or contiguous property classified as agricultural, developmental, industrial or commercial does not qualify for a PRE.

Determining PRE Eligibility: Determining whether a person occupies a property as a principal residence can be very challenging. There are a number of ways to verify occupancy. The following occupancy verification list is not an all-inclusive list and no one factor is controlling:

- Both sides of a driver's license with the property address listed.
- Voter registration record.
- Cancelled checks showing the property address.

- Bank/charge accounts showing purchases within the vicinity of the property.
- Medical billings from physicians within the vicinity of the property.
- Income tax returns showing the mailing address.
- Insurance policies.

Because of the definition of a principal residence, temporary absences are allowed in some circumstances which can make verifying occupancy even more difficult. Some examples of temporary absences include: prisoners with a less-than-life sentence, a person in a nursing home or assisted living facility, missionaries, a person on an extended work assignment, a person renting an apartment while renovating a home, or military personnel. With any temporary absence, the owner must have the intent to return to the property to occupy it as a principal residence.

Determining “intent to return” can be very difficult. If a person changes a driver’s license address or registers to vote at a new location, his or her intent to return to the property may be in question. If the property is rented or is listed for sale, a reasonable person may conclude that there is no intent to return to the property. When an owner’s personal possessions are removed from the property, it is hard to argue that they intend to return to that property. The length of absence or the reason for the absence may also raise questions as to the owner’s intent to return to the property. Ultimately, the taxpayer has the burden to show that they are eligible for the PRE.

Partial PRE Exemptions: If a property is used for multiple purposes, only the percentage of the property occupied by the owner as a principal residence qualifies for a PRE. When a person operates a business out of the property, rents a portion of the home to a tenant or owns multi-dwellings such as duplexes, the owner may be eligible to claim a portion of the property occupied as the owner’s principal residence (MCL 211.7cc(16)). If the property contains one building, the PRE is reduced by the proportion of the square footage not used as the owner’s principal residence. If the property contains two or more buildings, the PRE is reduced by the proportion of the taxable value of the building not used as the owner’s principal residence.

For owners who rent a portion of their home to a tenant, the owner is entitled to a 100% PRE if less than 50% of the square footage is rented (MCL 211.7dd(c)). If an owner rents his entire property for more than 14 days in a year, they are not entitled to a PRE on that property (IRS Publication 527, Chapter 5, Page 21). A portion of a bed and breakfast may also qualify as a principal residence, MCL 211.7cc(30).

Military Personnel Considerations: Military personnel are given special consideration for evaluating principal residence. When military personnel are required to leave Michigan while on active duty, they may continue to qualify for a PRE in Michigan. In order to qualify, they must be an owner of the property as defined by MCL 211.7dd. In addition, they must have occupied the property as a principal residence prior to deployment and have the intent to return to the property after the active duty commitment is complete. To continue to receive the PRE in Michigan, military personnel cannot receive an exemption, deduction or credit similar to the Michigan PRE in another state. If someone wishes to rent out his or her property during an absence while on active military duty, they may file an Active Duty Military Affidavit, Form 4660, on or before May 1st with the local assessor where the property is located.

Rescinding PRE Exemptions: When a person no longer owns or occupies the property as a principal residence, they must file a Request to Rescind Homeowner's Principal Residence Exemption (PRE), Form 2602, (Rescission) with the assessor for the city or township in which the property is located to remove the PRE. The PRE will be removed from the local property tax roll by the assessor beginning with the next tax year.

A PRE on a foreclosed property should be removed on December 31st in the year of the foreclosure or Sheriff's sale. If the property is redeemed, the PRE may be reinstated upon filing of the Affidavit and, if needed, brought before the Board of Review so there is no break in the exemption.

Under certain circumstances a person may qualify for a **conditional rescission** which allows an owner to receive a PRE on his or her current Michigan property and on previously exempted property simultaneously for up to three years. To initially qualify for a conditional rescission, the owner must submit a Conditional Rescission of Principal Residence Exemption, Form 4640, to the assessor for the city or township in which the property is located on or before June 1 for the summer tax levy or November 1 for the winter tax levy. A Conditional Rescission must be submitted to the assessor annually on or before December 31 to verify the property still complies with the conditional rescission requirements in order to receive the exemption for the following year.

In order to qualify for a conditional rescission, the owner must have purchased a second property in Michigan which is occupied as his or her principal residence. Additionally, the previous principal residence must not be occupied, must be for sale, must not be leased, and must not be used for any business or commercial purposes in order for the owner to qualify for a conditional rescission.

Foreclosure Entity Conditional PRE Rescission: A land contract vendor, bank, credit union, or other lending institution (foreclosing entity) can retain a PRE on foreclosed property by filing a foreclosure entity conditional rescission with the local tax collecting unit on or before June 1 or November 1 provided the property meets other statutory requirements. If a foreclosure entity conditional rescission is timely filed and accepted for the first year, the foreclosing entity must annually verify to the assessor of the local tax collecting unit on or before December 31 that the property continues to qualify for the foreclosure entity conditional rescission. This new "foreclosure entity conditional rescission" has separate and distinct requirements and should not be confused with the current "owner's conditional rescission".

In order to qualify for a foreclosure entity conditional rescission, the following requirements must be met:

- The foreclosing entity must submit a Foreclosure Entity Conditional Rescission of Principal Residence Exemption by June 1 or November 1 of the first year of the claim.
- The foreclosure entity must be a land contract vendor, bank, credit union, or other lending institution.
- The foreclosure entity must own the property as a result of a foreclosure.

- The property must have been subject to a PRE immediately preceding the foreclosure.
- The property cannot be occupied.
- The property must be for sale.
- The property cannot be leased to any person other than the person who claimed the PRE immediately preceding the foreclosure.
- The property must not be used for any business or commercial purpose.
- The foreclosure entity must pay to the tax-collecting unit an amount equal to the amount of taxes that the foreclosing entity would have paid if the property were not subject to a PRE and must pay an administration fee equal to the property tax administration fee imposed under Section 44 of the General Property Tax Act.
- The foreclosure entity must annually verify the foreclosure entity conditional rescission by December 31.
- The foreclosure entity must rescind the exemption upon a transfer of ownership.

The payment required of the foreclosure entity is to be collected by the local tax collecting unit at the same time and in the same manner as taxes that would have been collected were the property not subject to a PRE. The payment must be distributed to the Department of Treasury for deposit into the state school aid fund. The administration fee is to be retained by the local tax collecting unit. If the foreclosure entity fails to make the required payment, the local tax collecting unit must deny the foreclosure entity conditional rescission, retroactively, effective on December 31 of the immediately preceding year. If the foreclosure entity's conditional rescission is denied, the local tax collecting unit must remove the PRE and any additional taxes, penalties, and interest must be collected from the foreclosing entity.

Denial of a PRE: Subsections 6, 8 and 11 of MCL 211.7cc allow the assessor, Department of Treasury (Department), and in certain circumstances, the County Treasurer or Equalization Director, to deny PRE claims for the current and three prior years.

If an assessor believes that a property is not the principal residence of the owner claiming the exemption or that the owner failed to properly rescind the PRE, the assessor may deny the new or existing claim by notifying the owner using a Notice of Denial of Principal Residence Exemption, Form 2742. The Assessor's Denial provides the owner with his or her appeal rights to the Michigan Tax Tribunal (MTT) within 35 days from the date of the notice. The assessor does not need to seek the approval of the Board of Review when issuing a PRE denial.

MCL 211.7cc(11) gives the County Treasurer or County Equalization Director the authority to issue a denial notice. In order for the County to maintain the authority to deny a PRE claim, the County must elect to audit PRE claims in accordance with MCL 211.7cc(10). This election is made every five years. Notice of Denial of Principal Residence Exemption, Form 4075, is issued by the County and provides the owner with his or her appeal rights to the MTT within 35 days from the date of the notice.

Under MCL 211.7cc(8), the Department is given the authority to deny PRE claims in any County in Michigan. The Department generally issues PRE denial notices by letter to the owner with a copy of the letter or list of denied parcels provided to the Assessor, County

Treasurer and the County Equalization Director. The owner has 35 days from the date the denial notice to appeal the denial to the Hearings Division of the Department. If the owner is not satisfied with the decision of the informal conference, they may then appeal the decision to the MTT.

The following guide outlines the appeal authority related to PRE:

Type of Appeal	Board of Review	Dept. of Treasury	Michigan Tax Tribunal
Denial by Assessor OR Auditing County of PRE for current and 3 prior years	No Review Authority	No Review Authority	Within 35 days after date of notice of denial
PRE which was NOT on the current and 3 prior year's Tax Roll	July or December for current and 3 prior year's	Within 35 Days of Board of Review Action	Within 35 days of decision by the Department of Treasury
Department of Treasury Denial of PRE	No Review Authority	Hearings Division within 35 days after date of notice of denial	Within 35 days of the final decision by the Department of Treasury

The entity that issues the denial notice becomes the "Respondent" in any MTT related hearing. Therefore, it is important to remember that any assessor who receives correspondence from the MTT when the PRE was denied by the Department or a County official shall immediately inform the MTT and the appropriate entity.

Regardless what entity issues the denial notice, the assessor shall remove the PRE exemption for the denied tax years and the tax collecting unit in possession of the tax roll shall issue a corrected tax bill for any additional taxes due with interest at the rate of 1.25% per month or fraction of a month and penalties computed from the date the taxes were last payable without interest or penalty. Interest must be charged for the use of the money but should not be considered punitive. The collected or delinquent interest is distributed to the local unit, County and the Department in accordance with MCL 211.7cc(25).

Interest resulting from a denied PRE cannot be waived by County officials, local unit officials, Board of Review or the MTT. However, MCL 211.7cc(8) gives the Department the exclusive authority to consider waiving the interest under certain circumstances. The Department may waive interest for the current tax year and the immediately preceding 3 tax years if the PRE was on the property because of an assessor's classification error, an assessor's failure to rescind the exemption after the owner requested in writing that the exemption be rescinded and other assessor errors.

PRE Audits: There are many Counties that have extensive PRE audit programs and work closely with assessors when conducting these audits. The Department also has an extensive PRE audit program in Counties that does not elect to audit in accordance with MCL 211.7cc(10). The Department also may elect to audit PRE claims in Counties that do elect to audit PRE claims. Audit tools that are used by the Department, and County

and local officials include: sending an audit letter and questionnaire to any person claiming a questionable PRE; sending a questionnaire to the assessor; entering into a disclosure agreement (Request for Michigan Principal Residence Information Form 4169) with the Department to obtain income tax information.

The following audit sources can help when monitoring and auditing PRE claims:

- Compare mailing address against property address.
- Look for multiple properties owned by the same person.
- Check list or database of rental properties to see whether any are receiving a PRE.
- Check to see if property owners are registered to vote at the property address.
- Review death notices.
- Check for properties owned 100% by companies or businesses.
- If there is a DBA for a property, check to see if they are receiving a PRE at 100%.
- Classification of property – adjacent or contiguous property must be unoccupied and classified as residential or timber-cutover.
- Review returned mail when sent to the property address.
- Compare against addresses listed on dog licenses.
- Check water/sewer (utility) databases for properties that say to bill “tenant”.

Boards of Review may only review PRE claims that are not on the tax roll and have not been previously denied for the current and three immediately preceding years (MCL 211.7(19)). The BOR does not have the authority to deny an existing PRE claim, review an appeal of a denial issued by the assessor, County or Department, grant a conditional rescission, review an appeal involving a late filing of a conditional rescission, or waive interest. An assessor does not need approval from the BOR to accept an Affidavit, deny a PRE claim; accept or deny a Conditional Rescission; or complete and submit an Assessor’s Affidavit.

The one situation when the PRE is not removed from the tax roll by the assessor following a denial is when the property is sold to a bona fide purchaser before the additional taxes are billed to the seller. In this situation, the taxes, interest and penalties shall not be a lien on the property and shall not be billed to the bona fide purchaser in accordance with Subsections 6, 8 and 11 of MCL 211.7cc. A bona fide purchaser is one who purchases in good faith for valuable consideration. If there is a bona fide purchaser before the additional taxes are billed, the tax collecting unit in possession of the tax roll notifies the Department of the bona fide purchaser providing the Department with required information in order to appropriately bill the seller.

Qualified Agricultural Exemption MCL 211.7ee

The Qualified Agricultural Property exemption is an exemption from 18 mills of local school operating millages for parcels that meet the Qualified Agricultural Property definition (MCL 211.7ee). Additionally a transfer of Qualified Agricultural Property is not considered a transfer of ownership if both of the following are true: The property remains Qualified Agricultural Property after the transfer **and** the new owner files Form 3676 with the assessor and the register of deeds.

A parcel that is classified agricultural normally receives the Qualified Agricultural Exemption automatically and the owner does not usually have to file Form 2599, Claim

for Farmland Exemption from Some School Operating Taxes. However, the assessor can request the form to determine, for example, if the parcel contains structures that are not entitled to the exemption.

Owners of property not classified as agriculture must file form 2599 to receive the exemption. All owners must file form 2743, Request to Rescind Qualified Agricultural Property Exemption, to rescind the exemption within 90 days of a change that would cause rescission (e.g. change in use, change in ownership etc.). The requirement applies whether only a part, or all of the property, is affected. The penalty for not filing a rescission form is a maximum fine of \$200.

Exemption status is determined as of May 1st of the year of the exemption. Unlike the Principle Residence Exemption, property owned by a legal entity (such as a partnership, corporation, limited liability company, association, etc.) may receive the exemption. In some situations, land may not be actively farmed on May 1, yet the parcel containing the land may still be eligible for the exemption. For example, the land may be intentionally left fallow; the growing season for a crop in some parts of the state may begin after May 1, etc.

Eligibility: To be eligible for the exemption, a parcel has to be Qualified Agricultural Property. A parcel can become a Qualified Agricultural Property in two ways:

1. Classification of the parcel as agricultural on the current assessment roll or
2. Devotion of more than 50% of the acreage of the parcel to agricultural use as defined by law (MCL 324.36101).

The percentage of a parcel that is devoted to agricultural use is calculated based on the parcel's total acreage. Total acreage includes any area within the parcels ownership including any area(s) covered by an easement or right-of-way for road or drain purposes, even though the area under a public road right-of-way or a public (surface) drain right-of-way is exempt from taxation. Parcels classified agricultural do not have to have more than 50% devoted to agricultural use.

The fact that farmland is rented by the owner is generally not a consideration in determining a parcel's eligibility. Example: renting a house on a parcel to a farmhand is not a consideration in determining the parcel's eligibility for the exemption. Under the law, for a residence to be Qualified Agricultural Property, the residence must be occupied by someone who is either employed in or actively involved in the agricultural use on the property and who has not claimed a homeowner's principal residence exemption on other property. A house that is rented to a farmhand is considered to be a 'related building.'

Sometimes a commercial operation can co-exist on the otherwise qualified property without negating the entire exemption. The parcel would receive a partial exemption. The portion of the parcel's total state equalized valuation (SEV) related to the property that is used for the commercial marketing operation or the barn used for commercial storage is not entitled to the exemption. In these situations the partial exemption percentage is determined based on the SEV of the portion of the parcel entitled to the exemption in relation to the SEV of the entire parcel. The percentage of the exemption is not based on the size (i.e., area) of the portion of the parcel entitled to the exemption; it is based on value.

Assessors must establish the classification of parcels in accordance with MCL 211.34c. When determining the classification of a parcel, assessors must not consider the effect of the classification on the parcel's eligibility for the Qualified Agricultural Property exemption.

Definition of Agricultural Use: The definition of "agricultural use" is contained in MCL 324.36101:

"Agricultural use' means the production of plants and animals useful to humans, including forages and sod crops; grains, feed crops, and field crops; dairy and dairy products; poultry and poultry products; livestock, including breeding and grazing of cattle, swine, captive cervidae, and similar animals; berries; herbs; flowers; seeds; grasses; nursery stock; fruits; vegetables; Christmas trees; and other similar uses and activities. Agricultural use includes use in a federal acreage set-aside program or a federal conservation reserve program. Agricultural use does not include the management and harvesting of a woodlot."

This definition of "agricultural use" differs from the definitions used to determine a parcel's classification and should not be used in determining a parcel's classification. There is no minimum parcel size and no minimum income from agricultural production needed to qualify. Circumstances when the land may qualify even though it is not actively farmed are discussed above.

Denial of a Qualified Agricultural Exemption: An assessor may deny

- A new exemption, if the property or part of the property does not qualify
- An exemption continued from a prior year, at the time of preparation of the annual tax roll, if the property is no longer qualified
- An existing exemption after the close of the local Board of Review and up to the status day if the property is no longer qualified for the exemption, and
- When the property owner has requested a withdrawal of the exemption for the current year, even if the request occurs after May 1st

If the assessor discovers a situation where it is clear that a parcel is incorrectly receiving the Qualified Agricultural Property exemption for the current year, after May 1, the assessor has no power to deny the exemption. The assessor may deny the exemption for the next year. Similarly, the assessor may not deny a Qualified Agricultural Property exemption for a prior year.

Appeal of a Qualified Agricultural Denial: For new Qualified Agricultural Property exemptions, appeals are to the July or December Board of Review and Board of Review denials are appealed to the Michigan Tax Tribunal within 35 days of the Board's action. For a continuation of an exemption from the prior year the appeal is to the March Board of Review and Board of Review denials are appealed to the Tribunal by July 31 of the tax year involved.

Qualified Agricultural Property and the Recapture Tax: Qualified agricultural property that was exempt from uncapping and later ceases to be qualified agricultural property is

subject to a recapture tax. The recapture tax is imposed when all of the following conditions are met:

1. Property was transferred after December 31, 1999
2. The taxable value of the property was not uncapped in the year following the transfer because it qualified for the exemption.
3. The qualified agricultural property is covered by a change in use. A change in use is when the assessor determines the property is no longer qualified agricultural or a purchase is about to occur and the future purchaser files to rescind the qualified agricultural property exemption.

The recapture tax is calculated on the benefit period, up to 7 years of tax savings that had been enjoyed by the person to whom the property was transferred and remained capped. When a change in use occurs, the tax benefit that occurred during that period, up to 7 years, is recaptured (exclusive of the year the property is converted by a change in use).

While it is the responsibility of the County Treasurer to calculate and collect the recapture tax, the local assessor must notify the County Treasurer of the date on which the property is converted by a change in use. The assessor must also assist the County Treasurer with the calculation of the recapture tax by providing the true cash taxable value as described in the recapture tax formula. The recapture tax is discussed in detail in Bulletin 7 of 2006.

Other Exemption Programs:

Qualified Forest Exemption: Public Acts 378, 379 and 380 of 2006: The Qualified Forest Program created an opportunity for owners of smaller forestland parcels in Michigan, which are not classified as agricultural land or do not receive a PRE, to pay reduced property taxes on land in productive, managed forests. The Qualified Forest Program is administered by the Michigan Department of Agriculture and Rural Development. More information regarding the program can be found on their website.

Air Pollution Control: Public Act 451 of 1994, Part 59 and Water Pollution Control: Public Act 451 of 1994, Part 37: The Air Pollution Control exemption provides a 100% property and sales tax exemption to facilities that are designed and operated primarily for the purpose of controlling or disposing of air pollution that, if released, would render the air harmful or inimical to the public health or property within this state.

The Water Pollution Control exemption affords a 100% property and sales tax exemption to facilities that are designed and operated primarily for the control, capture and removal of industrial waste from water. The exemption applies to property not previously certified as pollution control; even if the property is currently assessed on the ad valorem roll.

The State Tax Commission is responsible for final approval and issuance of air pollution control certificates. Exemptions are not effective until approved by the STC.

Abatements

The common legislative element in abatements is a “specific tax” which replaces the ad valorem tax. Characteristics of abatements that distinguish them from ad valorem taxation include: creation of the “specific tax” roll for improvements; leaving land to be assessed on the ad valorem tax roll and alteration of either a millage rate or a taxable value.

Industrial Facilities Exemption: Public Act 198 of 1974

The Plant Rehabilitation and Industrial Development Districts Act, (IFT) provides a tax incentive to manufacturers for: renovation and expansion of aging facilities, to assist in the building of new facilities, and to promote the establishment of high tech facilities. An Industrial Development District (IDD) or a Plant Rehabilitation District (PRD) must be created prior to initiating a project. An IFT Certificate entitles the facility to exemption from ad valorem real and/or personal property taxes for a term of 1-12 years as determined by the local unit of government. Applications are filed, reviewed and approved by the local unit of government, but are also subject to review at the State level by the Property Services Division and the Michigan Economic Development Corporation. The State Tax Commission is ultimately responsible for final approval and issuance of certificates. Exemptions are not effective until approved by the STC.

IFT Applications and Qualifications: Applications and all required attachments are to be filed with the clerk of the local unit where the facility is located. The applicant must meet the following:

- a. The facility must be located within an established IDD or PRD;
- b. The applicant must be a qualifying business as outlined in MCL 207.552; and
- c. The application for the exemption can be pre-filed, but must be filed within six months of the commencement of the improvements.

IDDs cover only new facility projects and PRDs are designed primarily for rehabilitation projects and require a finding that 50% or more of the industrial property within the district is obsolete (MCL 207.554(5)). The 50% obsolescence is measured by dividing the State Equalized Value (SEV) of the obsolete property by the SEV of all of the properties in the district.

In order to qualify for an IFT, a property must meet the definition of industrial property as described in MCL 207.552(7): “Industrial property” means land improvements, buildings, structures, and other real property and machinery, equipment, furniture, and fixtures or any part or accessory whether completed or under construction comprising an integrated whole.

Industrial property does not include any of the following: land, property of a public utility other than an electric generating plant that is not owned by a local unit of government for which an application was approved by the legislative body of a local governmental unit between June 30, 1999 and December 31, 2007 or inventory.

Industrial property may be owned or leased. In the case of leased property, the lessee must be liable for payment of ad valorem property taxes and must provide proof of the liability.

Plant Rehabilitation Districts and Obsolescence: The assessor must make a recommendation to the local governing unit that 50% or more of the property to be contained in a PRD is obsolete. “Obsolete industrial property” is defined in MCL 207.552(8). “Economically efficient functional condition” is further defined in MCL 207.552(9).

Definition of “New” Industrial Property: The State Tax Commission has interpreted the term “new industrial property” to mean new to the tax base in Michigan. The following would be considered new industrial property:

- a. New equipment purchased from an equipment manufacturer.
- b. Used equipment never before located in Michigan.
- c. Used equipment purchased from a broker of used equipment. Because the prior owner is a broker, the equipment has lost its status as existing equipment in Michigan and has become inventory.

The following would not qualify as new industrial property:

- a. Existing equipment already in the possession of the applicant.
- b. Existing equipment in the possession of another Michigan company.

Definition of Speculative Buildings: MCL 207.553(8) defines a “speculative building” as a new building that meets criteria defined in this section and the machinery, equipment, furniture, and fixtures located in the new building.

Subsection 8(a) requires that a speculative building be constructed before a specific user is identified. This law does not require that a building be approved by the local governmental unit before identification of the specific user.

The following are additional requirements specific to speculative buildings:

- a. The speculative building must have been constructed less than 9 years before the filing of the exemption certificate.
- b. The speculative building must not have been occupied for at least 4 years immediately preceding the date the certificate is issued.

IFT Transfers: MCL 207.571 states that an IFT certificate may be transferred and assigned by the holder of the certificate to a new owner or lessee of the facility but only with the approval of the local governmental unit and the Commission and after application by the new owner or lessee and notice and hearing in the same manner as provided for the application for a certificate.

Once the application for transfer has been presented to the local unit, they must review the application and issue a decision based on the qualifications contained in MCL 207.559. If the local unit denies the application, the applicant may appeal to the State Tax Commission within 10 days of the denial. The State Tax Commission will review the

facility to determine if it meets the qualifications in MCL 207.559. If the State Tax Commission denies the approval, the applicant may appeal pursuant to the Administrative Procedures Act (APA). If the local unit approves the application, the State Tax Commission must make a final determination.

IFT Revocations: MCL 207.565(1) addresses requests for revocations initiated by the holder of the certificate. MCL 207.565(2) addresses requests for revocation initiated by the local governmental unit and includes specific reasons why a certificate may be revoked. In either case, only the State Tax Commission has the authority to revoke a certificate.

Appeal of a revocation by the State Tax Commission is made under the APA and provides that a request for a rehearing of a State Tax Commission decision should be filed, in writing, within 60 days from the date the State Tax Commission mailed the notice of revocation.

MCL 207.563(2) provides for and outlines the procedures for automatic termination of an IFT when the Industrial Facility Tax on real property has not been paid.

IFT Tax: A parcel of property holding an IFT will have two assessments: the land will be assessed on the ad valorem assessment roll; the building, land improvements and personal property (pertaining to the same certificate) will have an assessment on the Industrial Facility Tax (IFT) tax roll. The taxes on properties holding a certificate will be levied against Taxable Value.

Other Abatement Programs:

Commercial Rehabilitation Act: Public Act 210 of 2005: The Commercial Rehabilitation Act provides a tax incentive for the rehabilitation of commercial property for the primary purpose and use of a commercial business or multi-family residential facility. The property must be located within an established Commercial Rehabilitation District. Exemptions are approved for a term between 1-10 years, as determined by the local unit of government. The property taxes are based upon the previous year's (prior to rehabilitation) taxable value. The taxable value is frozen for the duration of the certificate. Applications are filed, reviewed and approved by the local unit of government, but are also subject to review at the State level by the Property Services Division. The State Tax Commission is responsible for final approval and issuance of certificates. Exemptions are not effective until approved by the STC.

Commercial Facilities Exemption: Public Act 255 of 1978: The Commercial Redevelopment Act, (known as the Commercial Facilities Exemption), provides a tax incentive for the redevelopment of commercial property for the primary purpose and use of a commercial business enterprise. The property must be located within an established Commercial Redevelopment District. Exemptions are approved for a term between 1-12 years as determined by the local unit of government. The taxable value is frozen for the duration of the certificate. For restored facilities, the property taxes are based upon the previous year's (prior to restoration) taxable value and 100% of the mills levied. For new or replacement facilities, the property taxes are based upon the current year's taxable value and 50% of the mills levied. Applications are filed, reviewed, approved, and

certificates are issued, by the local unit of government. Certificates are also filed with the State Tax Commission.

Obsolete Property Rehabilitation Exemption: Public Act 146 of 2000: The Obsolete Property Rehabilitation Act (OPRA) provides property tax exemptions for commercial and commercial housing properties that are rehabilitated and meet the requirements of the Act. Properties must meet eligibility requirements including a statement of obsolescence by the local assessor.

The property must be located in an established Obsolete Property Rehabilitation District. Exemptions are approved for a term between 1 and 12 years as determined by the local unit of government. Property tax for the rehabilitated property is based on the previous year's (prior to rehabilitation) taxable value. Taxable value is frozen for the exemption's duration.

The State Treasurer may also approve reductions of half of the school operating and state education taxes for a period not to exceed 6 years for 25 applications annually. Applications are filed, reviewed and approved by the local unit of government, but are also subject to review at the State level. The State Tax Commission is responsible for final approval and issuance of OPRA certificates. Exemptions are not effective until approved by the STC.

Neighborhood Enterprise Zone Act: Public Act 147 of 1992: The Neighborhood Enterprise Zone Act provides for the development and rehabilitation of residential housing located within eligible distressed communities. NEZs are established by a local unit meeting the qualifications of an "Eligible Distressed Community" and desiring to provide for the development and rehabilitation of residential housing. The local unit determines the areas to be established as an NEZ. Each NEZ must contain not less than 10 platted parcels of land which are compact and contiguous, or if located in a downtown revitalization district may contain less than 10 platted parcels if the platted parcels together contain 10 or more facilities. NEZs containing new facilities, rehabilitated facilities, or a combination of both shall not exceed 15% of the total acreage contained within the boundaries of the local unit. An NEZ containing only homestead facilities shall not exceed 10% of the total acreage contained within the boundaries of the local unit. If approved by the County Board of Commissioners or a County Executive, if the County has an elected or appointed County Executive, the homestead facility NEZ can contain up to 15% of the total acreage of the local unit.

Applications are filed, reviewed and approved by the local unit, but are also subject to review at the State level by the Property Services Division. The State Tax Commission is responsible for final approval and issuance of new and rehabilitated facility certificates. NEZ Homestead applications are filed, reviewed and approved by the local unit of government.

Tax Capture Authorities

"Tax Increment Financing Authorities" or "Authorities" include: Downtown Development Authority (DDA) PA 197 of 1975; Tax Increment Financing Authority Act (TIFA) PA 450 of 1980; Local Development Financing Act (LDFA) PA 281 of 1986; Brownfield

Redevelopment Financing Act (BRFA) PA 381 of 1996; Historical Neighborhood Tax Increment Finance Act (HNTIFA) PA 530 of 2004; Corridor Improvement Authority Act (CIA) PA 280 of 2005; Neighborhood Improvement Authority Act (NIA) PA 61 of 2007; and Water Resource Improvement Tax Increment Finance Authority Act (WITIFA) PA 94 of 2008. Their common element of these programs is the capturing of tax revenue.

Tax capturing authorities are designed to capture new property tax revenue generated from both inflation and from rising property values within specific geographic areas. A tax capturing authority attempts to (1) preserve an existing tax base and (2) foster growth to finance public projects. All tax capturing authorities have a requirement for a financing and development plan. Some plans have unlimited duration, others are limited by the enabling statute.

Tax capturing authorities do not reduce ad valorem millage rates generated by taxing jurisdictions or reduce a tax burden. In fact, a Downtown Development Authority may even add a new millage rate to the existing ad valorem rates. Tax capturing authorities are geographic areas in which special law permits certain taxes to be retained as revenue for exclusive use by the tax capturing authority. Tax capturing authorities have one function, to capture certain taxes from an ad valorem (and in some cases a “specific tax”) levy.

Creating an Authority:

A tax capturing authority is created by a local unit of government as authorized by law. The authority must create a tax increment financing plan and a project plan. There is no specific template for the plans. Once an authority has been created, a tax increment plan and a project plan have been formulated and time for public hearings and comments has expired; continuing oversight is limited to audits by the State of Michigan to assure compliance with school tax distributions and oversight by the creating entity.

Public Purpose:

It is critical for the authority to document the “public purposes” which justifies the tax increment financing plan and its subsequent “capture” of taxes. Each statute has slightly different requirements; but all are often to foster a betterment of the community at-large, economic development and specifically publicly owned property.

Examples of the requirement for a public purpose include:

L DFA: “the governing body shall determine whether the development plan or tax increment financing plan, or both, constitutes a public purpose.”

D DA: “When the governing body of a municipality determines that it is necessary for the best interests of the public to halt property value deterioration and increase property tax valuation where possible in its business district, to eliminate the causes of that deterioration, and to promote economic growth, the governing body may, by resolution, declare its intention to create and provide for the operation of an authority.”

Calculations and What Capturing Taxes Means:

With the exception of the added millage available to a DDA, the process by which taxes are created and computed is not changed in any way by a tax capturing authority. Taxpayers receive tax bills identical to what they would have received if the tax capturing authority had not been created and the treasurer collects tax payments in the normal fashion. The unique operation of a tax capturing authority is how the collection is distributed.

At the time of creation of an authority, a measure of total property value within the geographic area (district) is made. This is the “base value,” also known as the initial taxable value. Taxes generated from the base value may never be captured. Only taxes generated from property values which exceed the base value may be captured. The base value continues within the tax capturing district for as long as the authority exists or until a permitted modification of the district enables a re-determination of a base value.

With the exception of Brownfields, tax capturing authorities examine value in the entire geographic area instead of individual properties (Brownfields are determined individually for each parcel of property MCL 125.2657 and MCL 125.2663). The amount of non-captured taxes always depends upon the “base” value or initial value. It is established as an “aggregate” for the entire geographic area in which taxes may be captured. This base is by law, the “initial taxable value” existing as of final equalization for the year when the tax capturing authority was created and the base value remains a fixed value.

Captured taxes are computed by multiplying the total captured value by an appropriate millage rate. The capturing process depends on the “total” value of all properties within the district and by total values for individual tax rolls. The authority does use the captured taxable value of each parcel to arrive at a total “value.”

The process requires identifying each property currently existing within the district and comparing that list with properties existing at the inception of the district. A comparison is made based upon each property’s identification and based upon each property’s “initial taxable value.” In some cases, structures may have been demolished, personal property may have been removed, and an appeal may have changed a property value. It is critical to maintain accurate records of each property for the initial year and the current year. The total amount of “initial taxable value” must be exceeded by current taxable value or there is no capture.

A spreadsheet with columns identifying: each property, each current property’s initial value, the initial value of any property removed from, or exempted from taxation within the district and the class of each original property is a good way to keep track of the information. Once the total value of the existing district exceeds the total initial value of the district, a computation of the tax capture can proceed.

Next, individual values of existing property within the district are assigned to their appropriate tax roll. Examples are: ad valorem, real or personal; IFE or NEZ. Finally, the initial value of the district should be subtracted from the current year district total.

The aggregated captured value exceeding the base (initial value) is apportioned to the tax roll or rolls from which the total value was derived. The total of the captured value for

each roll is multiplied by the millage rate appropriate for that tax roll. The amount of captured tax is the sum of the captured taxes from a roll-by-roll series of calculations. This amount is distributed to the TIF authority.

Reporting Requirements:

In order to properly capture taxes certain procedures must be followed: an accounting of the tax capture must be made, the assessor's worksheet must be maintained and an annual report or reports must be filed with the State of Michigan (forms 2604/2967). The tax capturing authority is technically required to file these forms but the "assessor, treasurer and other officials may be called upon to assist."

Opting Out:

In 1993, the legislature amended Michigan's various tax capturing laws to permit an objecting jurisdiction to formally "opt out" of the proposed tax capturing area. A jurisdiction not wishing to lose future tax revenue could pass a resolution within a sixty-day window of opportunity created by the 1993 modifications, and its tax revenue could not be captured by the tax capturing authority. The "opt out" provision was predicated on certain public hearings and timetables.

Ad valorem millage rates may be limited by agreement between jurisdictions levying property taxes within a tax capturing authority. For example, the authority may make an agreement to capture only a limited amount of a specific taxing authority's levy. It may be based upon a specific millage rate say two mills out of five being levied or a percentage split of the computed tax, 40% to the authority and 60% is not captured. However, the plan may not capture a greater proportion of school operating taxes than the proportion of municipal operating or County operating taxes captured.

Authorities which enter into an agreement to limit collections must have uniform arrangements with all jurisdictions that have not opted out. Therefore, if the authority only captures 40% of the available tax for one taxing entity, it must only capture 40% with each of the other taxing units.

Chapter 7: Boards of Review

This Chapter is designed to provide basic information regarding Boards of Review including how they are created, what their role and authorities are and Michigan law that governs them. This document is supplemented by the State Tax Commission annual Bulletin on Boards of Review.

All questions and answers in this Chapter will refer to Townships in as much as this offers a uniform set of standards. In some cases, city charters may affect certain organizational and procedural matters differently.

A Board of Review is not the assessor and the assessor is not the Board of Review. Every citizen who appears before the Board of Review is in fact challenging a decision of the assessor and it is the Board of Review's responsibility to make an independent judgment based on facts and law.

Background Composition

Who can be a member of a Board of Review?

Three, six, or nine electors of the Township shall be appointed by the Township to serve as the Board of Review. If six or nine are appointed, they are divided into three individual Boards of Review for the purpose of conducting hearings and making decisions.

The size, composition, and manner of appointment of the Board of Review of a City may be prescribed by City Charter

Can a member of the Township Board serve on the Board of Review?

No, a Township Board member may not serve as a Board of Review member.

What about having a relative of the assessor serving on the Board of Review?

According to Michigan Law, a spouse, mother, father, sister, brother, son or daughter including an adopted child, of the assessor is not eligible to serve on the Board of Review or to fill any vacancy on the Board of Review.

Do Board of Review members have to be property owners?

At least 2/3 of the members shall be property taxpayers of the Township.

What terms do Board of Review members serve?

A Township Board shall appoint members to the Board of Review for terms of two years, with all terms expiring on odd numbered years. All members shall qualify by taking an oath of office within ten days of being appointed.

How many Board members make up a quorum?

Two of the three members of a Board of Review must be present for there to be any transaction of business.

If we have more than one Review Board, can the members move around between the Boards?

No, the three member committees originally formed must remain intact. There cannot be a transfer of a member or members to another committee.

Can the Township appoint alternates to the Board?

A Township Board may appoint not more than two alternate members for the same terms as regular members of the Board of Review. Each alternate member shall be a property taxpayer of the Township. Alternate members shall qualify by taking the oath of office within ten (10) days after appointment.

What does an alternate member do?

An alternate member may be called to perform the duties of a regular member of the Board of Review in the absence of a regular member. An alternate member may also be called to perform the duties of a regular member of the Board of Review for the purpose of reaching a decision in which a regular member has abstained for reasons of conflict of interest.

Can anyone be an alternate member?

A member of the Township Board is not eligible to serve as an alternate member or to fill any vacancy. A spouse, mother, father, sister, brother, son, or daughter, including an adopted child, of the assessor is not eligible to serve as an alternate member or to fill any vacancy.

Board of Review Meetings

When are Boards of Review required to meet?

The Board of Review is required to meet in March of each year. If there is business to conduct, the Board of Review shall also meet in July or December or both July and December.

When does the March Board of Review meet?

There are two required meetings of the March Board of Review. They shall meet on the Tuesday immediately following the first Monday in March for the purpose of an organizational meeting. At this meeting, the Board of Review receives the assessment roll for the current year, elects a chairperson and proceeds to examine the roll. During that day, and the day following, if necessary, the board, of its own motion, or on sufficient

cause being shown by a person, shall add to the roll the names of persons, the value of personal property, and the description and value of real property liable to assessment in the township, omitted from the assessment roll. The board shall correct errors in the names of persons, in the descriptions of property upon the roll, and in the assessment and valuation of property. The board shall do whatever else is necessary to make the roll comply with the General Property Tax Act. The Board of Review is not required to receive and hear taxpayers at this meeting; however, it may receive and consider written protests for assessment change.

If the Board of Review makes a change in the assessment roll that affects a taxpayer, it shall notify the taxpayer and afford that taxpayer an opportunity to be heard in the matter. The notification must be provided by the best means available.

The Board of Review shall also meet on the second Monday in March for the purpose of hearing taxpayer appeals. The governing body of a Township may authorize an alternative starting date for this meeting, either the Tuesday or the Wednesday following the second Monday in March. Other dates for public hearings may be scheduled in accordance with Act 267. P.A. 1976, Open Meetings Act.

When does the July and December of Review Meet?

The July Board of Review meets on the Tuesday following the third Monday in July if there is business to conduct. An alternative start date may be approved by resolution of the assessment jurisdiction's governing body but the alternate date must be during the same week.

The December Board of Review meets on the Tuesday following the second Monday in December if there is business to conduct. An alternative start date may be approved by resolution of the assessment jurisdiction's governing body but it has to be the alternative date must be during this the same week.

Are there requirements governing the hours, starting times, etc. for Board of Review meetings?

Yes, beginning with the second March Board of Review meeting in which the public is offered the opportunity to present a protest, accommodation must be made to allow for both daytime and evening hours.

The first session must start no earlier than 9 a.m. and no later than 3 p.m. and continue in session during the day for not less than 6 hours. The Board of Review shall hold at least three hours of its required sessions after 6 p.m.

The hours for meetings held in July or December may be established by the Board of Review.

Is the Board of Review subject to the Open Meetings Act?

Yes, the business which the Board may perform must be conducted at an open public meeting as provided in Act 267, P.A. 1976, Open Meetings Act.

Can't the Board of Review meet in private to discuss poverty appeals?

No, the Open Meetings Act contains specific reasons for which a public body may meet in closed session:

A public body may meet in a closed session only for the following purposes:

- a. To consider the dismissal, suspension, or disciplining of, or to hear complaints or charges brought against, or to consider a periodic personnel evaluation of, a public officer, employee, staff member, or individual agent, if the named person requests a closed hearing. A person requesting a closed hearing may rescind the request at any time, in which case the matter at issue shall be considered after the rescission only in open sessions.
- b. To consider the dismissal, suspension, or disciplining of a student if the public body is part of the school district, intermediate school district, or institution of higher education that the student is attending, and if the student or the student's parent or guardian requests a closed hearing.
- c. For strategy and negotiation sessions connected with the negotiation of a collective bargaining agreement if either negotiating party requests a closed hearing.
- d. To consider the purchase or lease of real property up to the time an option to purchase or lease that real property is obtained.
- e. To consult with its attorney regarding trial or settlement strategy in connection with specific pending litigation, but only if an open meeting would have a detrimental financial effect on the litigating or settlement position of the public body.
- f. To review and consider the contents of an application for employment or appointment to a public office if the candidate requests that the application remain confidential. However, except as otherwise provided in this subdivision, all interviews by a public body for employment or appointment to a public office shall be held in an open meeting pursuant to this act. This subdivision does not apply to a public office described in subdivision (j).
- g. Partisan caucuses of members of the state legislature.
- h. To consider material exempt from discussion or disclosure by state or federal statute.
- i. For a compliance conference conducted by the department of commerce under section 16231 of the public health code, Act No. 368 of the Public Acts of 1978, being section 333.16231 of the Michigan Compiled Laws, before a complaint is issued.
- j. In the process of searching for and selecting a president of an institution of higher education established under section 4, 5, or 6 of article VIII of the state constitution of 1963,

Work of a local Board of Review **does not** meet any of the requirements to go into closed session including the exemption under item h. Information contained in documents provided to Boards of Review that is exempt, should be redacted before being provided to the Board.

Is there a date by which the March Board has to finish work on the roll?

The review of assessments by the Boards of Review shall be completed on or before the first Monday in April. MCL 211.30a.

Does everyone wishing to file an appeal have to appear in person at the Board of Review meeting?

A non-resident taxpayer may file a protest in writing and is not required to make a personal appearance.

The governing body of a Township or City may, by ordinance or resolution, also permit resident taxpayers to file a protest to the Board of Review in writing without personal appearance. If an ordinance or resolution is adopted to allow residents to file protests in writing, it must be noted in the assessment change notice required by MCL 211.24c and on each notice or publication of the meeting of the Board of Review.

Is there a requirement for providing notice of the meeting?

Notice of the meeting of the March Board of Review shall be given at least one week prior to the meeting in a generally circulated newspaper serving the area in three successive issues. If a newspaper is not available, the notice shall be posted in five conspicuous places in the Township MCL 211.29(6).

There are no specific notice requirements for the July and December Boards but public bodies must always post meeting notices in accordance with the Open Meetings Act.

Is the Assessor the Secretary of the Board of Review?

No, the Township Supervisor shall be the Secretary of the Board of Review and keep a record of proceedings and changes made to the roll and file the record with the Township or City Clerk. If there are multiple Boards conducting hearings or if the Supervisor is absent, the Board must elect a Secretary. MCL 211.33.

How does the Board of Review notify taxpayers of their decisions?

Every person who makes a request, protest, or application to the March Board of Review must be notified in writing of the Board of Review's action and information regarding the right of further appeal, not later than the first Monday in June.

For the July and December meetings, "the board of review shall file an affidavit within 30 days relative to the qualified error with the proper officials and all affected official records shall be corrected. If the qualified error results in an overpayment or underpayment, the rebate, including any interest paid, shall be made to the taxpayer or the taxpayer shall be notified and payment made within 30 days of the notice. A rebate shall be without interest." If the other statutorily-authorized changes are made by the July and December meetings of the Board of Review, the taxpayer shall be notified of the change in writing, in the manner prescribed by the particular statute which authorizes the change.

Responsibilities and Authorities of the Board of Review

What are the authorities of the March Board of Review?

The March Board of Review has authority to change the current year's assessments. The March Board of Review may consider the following matters relating to the current assessment year:

- Valuation determinations made by the assessor, as set forth the current year's assessment roll.
- The exempt or taxable status of eligible personal property. If a taxpayer filed a timely and fully completed form 5076 and appeals the assessor's current year denial of a Eligible Personal Property Exemption (the Small Business Taxpayer Exemption provided for MCL 211.9o), and the Board grants the Exemption for the current year, the Board also has the authority to correct the taxable status to grant the exemption for any, or all, of the three prior years in which the taxpayer filed a timely and fully completed Form 5076.
- The exempt or taxable status of eligible manufacturing personal property (EMPP). If a taxpayer timely filed a Form 5278, appeals the assessor's denial of the current year's Eligible Manufacturing Personal Property Exemption (provided for in MCL 211.9m and MCL 211.9n) and presents a fully completed Form 5278 to the March Board of the Review, then the Board may grant the EMPP exemption for the current year only. The March Board of Review also has the authority to review and accept an amended filing by the taxpayer as long as the taxpayer properly claimed the exemption by timely and completely filing Form 5278.
- Real and Personal Property Classification determinations made by the assessor.
- Requests for correction of the current year's taxable value of a property where the previous year's taxable value did not conform with the requirements of the General Property Tax Act, due to the failure to recognize the occurrence of a taxable value uncapping event or the failure to apply a capped value addition or capped value loss in calculating any prior year's taxable value. Such corrections are applied only to the current year's taxable value but require the recalculation of prior year's taxable values, in order to properly determine the taxable value for the current year. It should be noted that an error or dispute relating to the determination of the true cash value of a property in a prior year cannot form the basis for entering a correction of the current year's taxable value. Instead, the error in the taxable value must arise from the failure to recognize a taxable value uncapping event or the failure to recognize a capped value addition or loss in a prior year.
- Taxable value uncapping determinations made by the assessor for the current year's assessment roll. Taxable value uncapping determinations made by the assessor in prior assessment years must be appealed in the year of the uncapping event. If the assessor determines that he or she mistakenly uncapped taxable value in a prior year, the July or December Board of Review, but not the March Board of Review, has the jurisdiction to correct the taxable value for the current year and/or for any or all of the three immediately preceding years. (See the summary of the July and December jurisdiction.)

Except for the one instance described above, involving the Small Business Taxpayer Exemption, the March Board of Review DOES NOT have the authority to make any change to any assessments for any prior year. The March Board also cannot:

1. Make decisions on principal residence exemptions or applications for **new**
2. qualified agricultural exemptions.
3. Review the denial of a Principal Residence Exemption by an auditing county or by the Michigan Department of Treasury.
4. Review the denial of a Qualified Forest Exemption by the Michigan Department of Agriculture and Rural Development.
5. Consider an appeal relating to the Eligible Personal Property Exemption (the Small Business Taxpayer Exemption provided for in MCL 211.9o) or the Eligible Manufacturing Personal Property Exemption (provided for in MCL 211.9m and MCL 211.9n) unless a timely and fully completed form 5076 or form 5278, respectively, was filed.

Do the July and December Boards have different authorities than the March Board of Review?

Yes, the July and December Boards of Review meet to correct qualified errors and to consider appeals related to Principal Residence Exemptions, Qualified Agricultural Exemptions, the Eligible Personal Property Exemption (the Small Business Taxpayer Exemption), Taxable Value uncapping, the Qualified Start-up Business Exemption, the Disabled Veteran's Exemption and Poverty Exemptions.

What is a qualified error?

Qualified errors are defined in the act as:

- A clerical error relative to the correct assessment figures, the rate of taxation, or the mathematical computation relating to the assessing of taxes.
- A mutual mistake of fact.
- An adjustment under section 27a(4) – taxable value or an exemption under section 7hh(3)(b)– qualified start-up business exemption.
- An error of measurement or calculation of the physical dimensions or components of the real property being assessed.
- An error of omission or inclusion of a part of the real property being assessed.
- An error regarding the correct taxable status of the real property being assessed.
- An error made by the taxpayer in preparing the statement of assessable personal property under section 19.
- An error made in the denial of a claim of exemption for personal property under section 9o.

What is the definition of a clerical error?

On March 29, 1996 the Michigan Court of Appeals clarified the meaning of the term "clerical error". The Court of Appeals states that the July and December Boards of Review are allowed to correct clerical errors of a typographical or transpositional nature. The July and December Boards of Review are NOT allowed to revalue or reappraise

property when the reason for the action is that the assessor did not originally consider all relevant information.

What is the definition of a mutual mistake of fact?

On March 31, 2010, the Michigan Supreme Court clarified the meaning of the term “mutual mistake of fact”. The Court previously defined “mutual mistake of fact” in *Ford Motor Co v City of Woodhaven*, 475 Mich 425; 716 NW2d 247 (2006) as follows: “a ‘mutual mistake of fact’ is “an erroneous belief, which is shared and relied on by both parties, about a material fact that affects the substance of the transaction.” To qualify under the statute, the “mutual mistake of fact” must be one that occurs only between the assessor and the taxpayer. The mutual mistake cannot be imputed to the assessor on an agency theory unless the assessor makes a mistake in performing his/her duties in spreading and assessing the tax.

Do the July and December Boards of Review have any authority to grant an Eligible Manufacturing Personal Property (EMPP) Exemption?

No, failure to properly claim the EMPP exemption pursuant to the statutory requirements is not a qualified error under MCL 211.53b. A taxpayer who filed a personal property tax statement, Form 632, cannot appeal to the July or December Boards of Review.

Do the July and December Boards of Review have the authority to fix an assessment when an assessor misplaced or failed to process a timely filed Form 5278?

No, the July and December Boards of Review have no authority over EMPP exemptions in MCL 211.9m or MCL 211.9n. If an assessor misplaces or missed a timely filed Form 5278, that **is not** considered a clerical error or a mutual mistake and cannot be considered by the July or December Boards of Review

What are the Board of Review member’s responsibilities once they finish their work?

After the March Board of Review completes its review of the assessment roll, a majority of the entire board membership must endorse a statement that the roll is the assessment roll of the Township for the year in which it was prepared and approved by the Board of Review MCL 211.30(5).

What are the authorities of the Board related to property classification?

A person or entity may petition the **March** Board of Review regarding the classification of property. July or December Boards cannot change classification.

When considering the petition, it is necessary to remember that the zoning of a particular property does not dictate the classification of a property for assessment purposes. It may, however, be an influencing factor. A Question and Answer document that explains property classification is available on the State Tax Commission website at: www.michigan.gov/statetaxcommission.

Boards of Review must, with their notice of denial of a classification appeal, provide STC Form 2167 to the petitioner. Form 2167 is the form used to appeal a classification decision by the Board of Review to the State Tax Commission.

What are the Board of Review's Authorities related to Assessed Values?

Property must be assessed at 50% of True Cash Value and the Assessed Value must be uniform with the assessments of other similar properties.

According to the Michigan Supreme Court, a Board of Review may NOT make wholesale or across the board adjustments to assessments. A Board of Review must consider each parcel and act upon it individually. A Board of Review DOES NOT have the authority to make changes to alter, evade or defeat an equalization factor assigned by the county or the state.

If the Board of Review changes an Assessed Value, it must also consider whether this change has caused the Tentative Taxable Value to change. This could happen because Tentative Taxable Value is the lower of the Assessed Value and the Capped Value. Also, changing the assessed value of items added to or removed from the property will likely cause a change in Taxable Value.

Does the Board have any authority over Taxable Value?

The law requires that the assessment roll must show the Tentative Taxable Value for each parcel of property. Once the Capped Value and the Assessed Value are properly calculated, the Tentative Taxable Value is the lower of the two (assuming there has not been a "transfer of ownership" on the property).

A Board of Review cannot raise or lower the Tentative Taxable Value, unless they also raise or lower the Assessed Value and/or the Capped Value. An exception could occur if there was a "transfer of ownership" on a property in the prior year and the assessor had not uncapped the Taxable Value, if the opposite occurred, or if the taxable value was not calculated in the manner required by the General Property Tax Act in a previous year.

Can the Board of Review reject outright the roll prepared by the Assessor and prepare our own roll?

The Board of Review may not reject or prepare an assessment roll but must consider only the assessment roll prepared by the assessor. If a Board of Review believes there are significant problems with the roll presented by the assessor they should contact the State Tax Commission.

What is the Board of Review's authority over Property Tax Exemptions?

Property tax exemptions are to be granted only according to authorizing provisions of the law. Generally, it holds true that the Courts require a NARROW interpretation of exemptions. In order to qualify for an exemption, a property must have the qualifications required by the specific authorizing statute.

Does the Board have any authority over Principal Residence Exemptions?

The March Board of Review has no authority to consider or act upon protests or appeals of Homeowner's Principal Residence Exemptions. If the assessor denies a homeowner's principal residence exemption, the owner may appeal to the Michigan Tax Tribunal within 35 days after the notice of denial, NOT to the March Board of Review.

The July and December Boards of Review do have authority to grant a principal residence exemption for the current year and up to three prior years. Appeals from these decisions are also made within 35 days to the Michigan Tax Tribunal.

What are the Board's authorities over Poverty Exemptions?

Poverty exemptions may be heard at either the March, July or December Boards of Review. However, once a poverty exemption is considered by a Board of Review, it may not be reconsidered by a later BOR in the same year. For instance, if a poverty exemption is denied at the July Board of Review, it may not be reconsidered at the December Board of Review, even if new information is presented. MCL 211.7u (5) states:

(5) The Board of Review shall follow the policy and guidelines of the local assessing unit in granting or denying an exemption under this section unless the Board of Review determines there are substantial and compelling reasons why there should be a deviation from the policy and guidelines and the substantial and compelling reasons are communicated in writing to the claimant.

Please see Bulletin 5 of 2012 for detailed poverty guidelines and the State Tax Commission annual Bulletin, which details changes for the next assessment year and provides federal guidelines on poverty levels.

Note: PA 390 of 1994 states that the poverty exemption guidelines established by the governing body of the local assessing unit shall also include an asset level test. An asset test means the amount of cash, fixed assets or other property that could be used, or converted to cash for use in the payment of property taxes. The asset test should calculate a maximum amount permitted and all other assets (excluding the value of the principal residence) above that amount should be considered as available.

Does the Board have any authority related to Qualified Agricultural Property Exemptions?

The March Board of Review has authority only to consider and act on protests for the current year regarding the assessor's discontinuance of the immediately preceding year's Qualified Agricultural Exemption.

If an assessor believes that a property for which a qualified agricultural property exemption has been granted in the prior year will not be qualified agricultural property in the current tax year, the assessor may deny or modify the exemption. The assessor must notify the owner in writing and mail the notice to the owner not less than fourteen (14) days before the second meeting of the March Board of Review. A taxpayer may then appeal the assessor's determination to the March Board of Review.

Properties that meet the requirements of the qualified agricultural property exemption as of May 1 of the current tax year shall be exempted by the assessor from the 18 mills starting with the current year tax bills. If the assessor denies a current year exemption because the property does not qualify as of May 1, the owner may appeal that denial to the July or December Board of Review.

A question and answer document that explains the Qualified Agriculture Program is available at: www.michigan.gov/statetaxcommission under publications.

What are the authorities of the Board related to Industrial Facilities Tax Roll (IFT) Certificates?

The March Board of Review may adjust the property's land assessment on the ad valorem roll; land is not exempted by an IFT. The March Board of Review may adjust the IFT Roll assessment of a "New" Industrial Facilities Tax Certificate.

The IFT Roll assessment of a property with a "Rehabilitation" certificate or "Replacement" certificate CANNOT have its assessment altered by a March Board of Review during the life of the certificate.

Additional information regarding IFT exemptions is available at: www.michigan.gov/propertytaxexemptions.

What about other issues like Downtown Development Authorities, Tax Increment Finance Authorities, and Local Development Finance Authorities?

There are no separate assessment rolls for these authorities. The March Board of Review does have the authority to consider and/or alter the Assessed and Taxable Values for the CURRENT year only for properties within these districts.

How should the Board of Review note changes in the Assessment Roll?

State Tax Commission Bulletin 14 of 1994 states that the assessment roll shall have a Board of Review column large enough to accommodate changes to the Assessed Value, the Capped Value, and the Tentative Taxable Value. The changes to each of these must be recorded separately on the roll and must be made in ink. This may be accomplished by placing an "A" behind a revised Assessed Value, a "C" behind a revised Capped Value, and a "T" behind a revised Tentative Taxable Value.

Do we need to keep documentation of why we made changes to the roll?

The State Tax Commission requires that all Boards of Review maintain appropriate documentation of their decisions including: minutes, a copy of the form 4035 and a copy of the form 4035a whenever the Board of Review makes a change that causes the Taxable Value to change. The 4035 must include a detailed reason why the Board made their determination.

The following are changes, which could cause Taxable Value to change and therefore require a 4035a:

1. A change in the amount of a LOSS (used in the Capped Value formula).
2. A change in the amount of an ADDITION (used in the Capped Value formula).
3. A change in the amount of the current year Assessed Value.
4. The correction of a Taxable Value where the previous year's taxable value failed to comply with the requirements of the General Property Tax Act, arising from the failure to uncap a Taxable Value or to recognize a capped value ADDITION or a capped value LOSS in a prior assessment year.

Minutes must include:

- a. Date, time and place of meetings.
- b. Members present and members absent and notation of any correspondence received.
- c. A log should be kept that identifies the hearing date, the petition number, the petitioner's name, the parcel number, type of appearance, type of appeal and action of the board of review.
- d. Actual hours in session should be recorded daily, and time of daily adjournments recorded. Date and time of closing of the final March session should be recorded.

Who keeps the minutes and documentation?

Minutes and documentation should be filed with the Clerk of the local unit of government.

When a Board of Review makes a change to value is that change permanent?

MCL 211.30c requires that when the March Board of Review or the Michigan Tax Tribunal REDUCES the Assessed Value or Taxable Value of a property that the reduced amount must be used as the BASIS for calculating the assessment in the immediately succeeding year.

IMPORTANT NOTE: This only applies to CHANGES when the MTT hearing is held in the same calendar year as the year of the assessment being appealed. Therefore, if the MTT hearing for a 2015 assessment appeal isn't held until 2016, the resulting assessment does not have to be used as the basis for the 2016 assessment. It does, however, become the basis for assessment in 2017.

Boards of Review are cautioned that the "BASIS" for an assessment does not necessarily become the assessment. The dictionary defines basis as the base, foundation, or chief supporting factor of anything. Assessments have to be at 50% of True Cash Value and uniform. Also, the fact that an assessment reduced by a Board of Review may become the "basis" of the next year's assessment is not, in and of itself, a legitimate reason for a Board of Review to reduce an assessment.

Does the Board have any authority over Capped Values?

If correct figures have been used in the Capped Value formula for the prior year Taxable Value and for the current Inflation Rate Multiplier, the Board of Review cannot make a change that results in a different Capped Value of the property.

The Board of Review may change the amount of the Losses and Additions used in the Capped Value formula, if they determine they are improper. Only factual information should be used to amend the Losses or Additions in the Capped Value formula.

NOTE: The Michigan Supreme Court ruled in *WPW Acquisition Company v City of Troy* (No. 118750) that an increase in value attributable to an increase in a property's occupancy rate is NOT a legal addition in the Capped Value formula.

What are the authorities of the Board over Transfers of Ownership and Uncapping?

The assessor of each Township and City is required by law to review all of the transfers and conveyances that occurred in the prior year and determine which of these transfers and conveyances are "Transfers of Ownership".

The determination by the assessor that a particular transfer or conveyance is a "Transfer of Ownership" and that the property's Taxable Value should be uncapped is subject to review by the March Board of Review either on the Board's own initiative or at the request of a property owner.

Public Act (PA) 23 of 2005 granted the July or December Board of Review the authority to correct the Taxable Value of property which was previously uncapped if the assessor later determines there had NOT been a Transfer of Ownership of that property. This authority applies to the current year and the 3 immediately preceding years. Bulletin 9 of 2005 provides more detailed information.

Can a Board of Review set the SEV or Assessed Value at the sales price of the property?

No, this practice is illegal in Michigan. An individual sale price IS NOT the same as True Cash Value (similar to market value) of the property due to a variety of reasons, such as; an uninformed buyer, an uninformed seller, insufficient marketing time, buyer and seller are relatives, and other reasons. Actual price is seldom equal to value.

Section 27(5) of the General Property Tax Act states the following: "Beginning December 31, 1994, the purchase price paid in a transfer of property is not the presumptive True Cash Value of the property transferred. In determining the True Cash Value of transferred property, an assessing officer shall assess that property using the same valuation method used to value all other property of the same classification in the assessing jurisdiction."

Therefore, a Board of Review does NOT have the authority to change an assessment solely on the sales price.

Is this what the State Tax Commission means when it says a Board of Review or Assessor cannot “follow sales”?

Yes. “Following sales” is defined in the State Tax Commission’s Assessor’s Manual as the practice of ignoring the assessment of properties, which have not recently been sold while making significant changes to the assessments of properties, which have been sold. The practice of “following sales” is a serious violation of the law. The practice of following sales results in assessments that are not uniform.

We get a lot of complaints that taxes are going up when markets are going down and/or people can’t sell their homes for the value on the assessment roll. How should we address these issues?

County Equalization Studies are prepared by Equalization Departments and submitted annually by the Equalization Department to the State Tax Commission on or before December 31. These studies help adjust the level of Assessed Values for changes in local markets. One year or 12-month studies may be used where there is evidence of a declining real estate market. The simple fact that a person cannot sell their home for the value on the roll does not make the value on the roll incorrect.

Because of the Taxable Value cap, there may be a gap between Assessed Value and Taxable Value. Therefore, the Assessed Value of a home may decrease while Taxable Value and the taxes increase.

Example:

Last year a home had a True Cash Value of \$200,000, SEV of \$100,000 and a Taxable Value of \$80,000. The sales study shows the True Cash Value of the property has decreased to \$180,000. The Inflation Rate Multiplier is 1.024.

Current Assessed Value is: \$100,000

Current SEV is: \$100,000

Capped Value ($\$80,000 \times 1.024$) \$ 81,920

Taxable Value = \$81,920 (lesser of \$100,000 SEV or \$81,920 Capped Value)

Chapter 8: Public Utilities and Special Properties Locally Assessed

This Chapter is concerned with those public utilities that are locally assessed such as electric and gas companies and rural electric cooperatives. Certain other public utilities are assessed by the State Tax Commission under P.A. 282 of 1905, as amended. These companies are as follows:

- Railroads
- Telephone and telegraph companies
- Car loaning companies
- Sleeping car companies
- Express companies

The assessor (appraiser) may on occasion find it necessary to be acquainted with various terms and definitions encountered in the appraisal of electric utilities. The most common are as follows:

The revenue derived from the assessment and taxation of the above companies by the State Tax Commission is paid into the State General Fund.

Also to be discussed in this Chapter is the valuation of special properties, such as pipeline transportation facilities and oil and gas production equipment.

ELECTRIC POWER UTILITIES

The operation of an electric utility requires the use of a wide variety of equipment from the generating plant to the final delivery of power to the consumer. The following list illustrates the variety but, of course, does not indicate the volume of various component parts:

- Power generating facilities (steam, hydro, pumped storage, nuclear, diesel, oil and gas turbines)
- Poles, towers and fixtures
- Wire, cable and insulators
- Transformers, regulators and switching equipment
- Services and meters
- Street lighting equipment

DEFINITIONS AND ABBREVIATIONS

1. Single phase circuit - two conductors (wires). One phase wires and neutral or two phase wire and neutral.
2. Three phase circuit - three conductors. Three phase wires or three phase wires and neutral.
3. Volt - the unit of pressure which tends to make an electric current flow.
4. Ampere -the unit rate at which electricity flows through conductors or wires
5. Watt - the unit rate at which work is being done; a unit of power.

6. Kilo - a thousand units (e.g., kilowatt, kilovolt).
7. Power factor -the ratio between true watts and apparent watts. Power factor equals watts divided by volts times amperes.
8. Horsepower – A unit of power equaling 746 watts.
9. Capacity factor -the ratio between the total output of a generating plant if run at its "rated capacity" for 365 days of 24 hours and the actual output of plant in the same period.
10. Efficiency factor - the actual capability of a generating plant in relation to its name plate rating.

Abbreviations found on equipment name plates are:

KV thousand volts
KW thousand watts
MW thousand kilowatts
KVA thousand volts amps
PF power factor
HP horsepower
CY cycle

TRUE CASH VALUE

The assessor is not only required to appraise this type of property but must arrive at the true cash value of a portion of a total corporate entity. The real and personal property of a utility by its nature is spread over many assessing and taxing districts, yet the value must be allocated to the individual assessor's own assessing unit as well as to each school district within his/her jurisdiction.

The transmission and distribution equipment should be assessed as personal property according to Section 211.8(g) of the General Property Tax Laws. The most fair and equitable method of arriving at the true cash value of utility personal property is to apply a multiplier to the original cost by year of acquisition or construction. The original cost is reported on a personal property statement approved by the State Tax Commission, and the appropriate personal property multiplier for transmission and distribution equipment is used to compute the true cash value.

The equipment of rural electric distribution and generation cooperatives is valued by application of State Tax Commission personal property multipliers to the original cost of the equipment. The depreciated reproduction cost determined after application of the personal property multipliers is adjusted by the individual distribution cooperative's System Economic Factor. The resultant amount is the True Cash Value of that cooperative's personal property. The System Economic Factor is an attempt to adjust each cooperative's personal property value for differences in service area such as number of customers per mile, number of seasonal customers, etc., that could affect the market value of that cooperative's personal property in relation to the value of other Michigan cooperatives.

The System Economic Factor is approved by the State Tax Commission annually and distributed to the electric cooperatives. The use of a System Economic Factor in the valuation of a distribution cooperative's personal property was upheld in the 1968 Court

of Appeals case Alger-Delta Co-operative Electric Association v Bay DeNoc Township, 13 Mich App. 41. The true cash value determined after application of the System Economic Factor is then allocated to the assessing units where the property is located. The bases used for the allocation are the number of customers served and mile of distribution line within each unit.

Section 211.8(g) of the General Property Tax Laws states "and the rights-of-way and the easements or other interests in land by virtue of which the mains, pipes, supports and wires are erected and maintained, shall be assessed as personal property in the township, village or city where laid, placed or located." The reported cost of the rights-of-way or easements should only be the amount paid to the owner in fee excluding any payment for damages or indirect costs incurred to acquire the right-of-way or easement. The cost of rights-of-way is not to be reduced by application of personal property multipliers but is to be assessed at 50% of the reported cost.

When appraising the realty at a site where equipment is located, the assessor must be careful not to assess any property twice. The assessor must be sure the property is not included in both the real property assessment and personal property assessment. At a substation site, for instance, the land and land improvements and buildings are real property, and all other items are reported as personal property.

Examples of items assessed as personal property are transformer pads and small buildings considered equipment shelters included in the utility's equipment accounts.

If an appraisal is being made on a large complex equipment site, it is best to communicate with the utility company owning the property to determine the separation of real and personal property.

ELECTRICAL GENERATING POWER PLANTS

Generating stations are the most difficult of electric properties to appraise because of their specialized nature. Since sales of base load generating plants are practically nonexistent and income information for individual plants is not readily attainable, it is recommended that the cost approach be used with adjustments for any physical depreciation, functional obsolescence or economic obsolescence that is present. The cost per KW of capacity from comparable generating stations is generally used to estimate the replacement cost. The replacement cost determined from this method will not be accurate if the operating characteristics of the plants are not similar.

The reproduction cost may be arrived at through the use of several methods such as the unit-in-place approach or original cost trending. The unit-in-place method is time-consuming and subject to faulty inventory of materials and equipment. It is recommended, therefore, that the trended cost method be used with the understanding that there are certain limitations. The Handy-Whitman Index of Public Utility Construction Costs published by Whitman Requardt and Associates is a specific index approved by the State Tax Commission for use in developing the reproduction cost of electric generating plants from the original cost.

Trending or indexing of costs provides for a reasonable reproduction cost including inflationary trends, but does not measure the loss of value due to improved construction methods, advances in technology and design, or the economic impact of the cost of various fuels and operating expenses. To determine the market value the appraiser must take into consideration piecemeal construction, physical depreciation, and functional and economic obsolescence. To do this the appraiser must analyze:

1. History of construction
2. Average life expectancy of similar facilities
3. Capacity factor
4. Efficiency factor
5. Heat rate (number of BTUs required to produce one kilowatt hour of electricity)
6. Fuel costs.

FOSSIL FUELED POWER PLANTS

The bulk of electrical power in Michigan presently is produced by plants burning fossil fuel. They are fired by coal, oil or gas depending upon economic and other factors.

The siting of such plants is dependent upon water supply, market areas, transmission facilities and availability of fuel. Environmental factors have also become increasingly important. The newer, more efficient generating stations are usually operated as "base load" plants in order to keep production costs lower. The older units are kept for reserve or standby duty balanced by inter-ties with other companies.

The accounting procedures of public utilities are based upon federal and state requirements and each property type is assigned a specific account number. This is known as the "uniform system of accounts."

An electric generating plant burning fossil fuel has the following accounts and account numbers:

- 310 - Land and Land Rights
- 311 - Structures and Improvements
- 312 - Boiler Plant Equipment
- 315 - Accessory Electrical Equipment
- 316 - Miscellaneous Power Plant Equipment

There may be real property on the plant site that is not included in the power plant accounts listed above. Two accounts that include items of real estate are account 341(Other Production Plant Structures and Improvements) and account 352 (Transmission Substation Structures and Improvements).

In order to ensure uniformity among taxing units and to meet the requirements of Section 211.2 of the General Property Tax Laws, the above-named accounts and similar accounts relating to other types of electrical generating plants are to be classified and assessed as real estate.

The costs of items in account 316 (Miscellaneous Power Plant Equipment) are valued by application of long-lived personal property multipliers to the original cost by year of acquisition. This is done since this account includes equipment such as shop and laboratory equipment that can typically be found in any industrial facility. The resulting value may be included in the power plant's real property value or included in the owner's personal property statement filed with the local assessing unit.

The cost of items in account 314 turbogenerator units is considered and should be reported as personal property.

NUCLEAR FUELED POWER PLANTS

There are now four operating nuclear plants in Michigan. The first nuclear plant in Michigan (using a boiling water reactor as a heat source) was constructed for experimental purposes and is of low capacity. All four plants are designed for base load generation.

The principles applicable to generating plants in general also apply to nuclear plants. The following plant accounts are to be appraised as real estate. The account number and titles are as follows:

- 320 - Land and Land Rights
- 321 - Structures and Improvements
- 322 - Reactor Plant Equipment
- 324 - Accessory Electrical Equipment
- 225 - Miscellaneous Power Plant Equipment

The nuclear fuel in the reactor actually being used to produce steam for the turbine is to be reported and assessed as industrial personal property. The net cost of the fuel after a deduction for the fuel consumed is to be used as the basis for the assessment.

Modern nuclear and fossil fuel power plants characteristics as well as other functional are constructed under the supervision of many federal regulatory agencies. Utilities are required to employ "state and economic factors. The account numbers construction to keep pace with advancing technology or changes mandated by a regulatory agency. A typical fossil fuel plant requires from 8 to 10 years to complete, and recent nuclear stations have been averaging 10 to 13 years. It is recommended that a 50% work-in-progress allowance be applied to the taxable costs of an electrical generating station during construction to determine the plant's true cash value.

HYDROELECTRIC POWER PLANTS

Hydroelectric plants depend upon water for generation and, of course, must be located on suitable river sites. The importance of hydro plants has declined drastically in regard to overall production statistics. However, they still have a place in the total system and can be put on line quickly when needed. One of the characteristics of hydro plants is the large amount of land needed for a plant site and flowage requirements. All hydroelectric developments must obtain a license from the Federal Energy Regulatory Commission (FERC). This license restricts the disposal of lands within the licensed area. The appraiser

must consider the license restrictions in his or her appraisal of the land. The Michigan Court of Appeals discussed this issue in a 1976 case, Consumers Power Company v Big Prairie Township and Newaygo County, 81 Mich App 120 (1978).

Hydro plants are to be appraised as real estate with special attention given to river characteristics as well as other functional and economic factors. The account numbers and titles for these plants are as follows:

- 330 - Land and Land Rights
- 331 - Structures and Improvements
- 332 - Reservoirs, Dams and Waterways
- 333 - Waterwheels, Turbines and Generators
- 334 - Accessory Electrical Equipment
- 335 - Miscellaneous Power Plant Equipment
- 336 - Roads, Railroads and Bridges

PUMPED STORAGE POWER PLANTS

Pumped storage electrical generating plant operation is similar to a hydroelectric plant except that its water supply is from an artificial lake or pond. Water is pumped into the pond from Lake Michigan during off-peak hours by use of reversible turbines operating in a pumping mode. In effect, the energy is stored for later use. When the demand for electrical energy is high the water is allowed to flow from the pond and through the turbines to produce electricity.

A pumped storage plant uses the same account numbers used by the typical hydroelectric generating facility.

COGENERATION PLANTS

When valuing and assessing cogeneration facilities the same procedures should be followed as for similar electrical generating plants owned and operated by utility companies. All of the facilities at the plant site are valued and assessed as real property except for transmission lines, turbogenerators, office, laboratory, shop, power operated equipment, substation and computer equipment which are assessed as personal property.

OTHER POWER PLANT TYPES

Special attention should be given to the physical condition as well as the usual functional and economic factors. Diesel plants are classified as real estate. These plants were originally installed for base load (continuous) operation. Due to the high cost of fuel oil and natural gas, diesel plants are now seldom used except for an emergency situation. For this reason the plants have incurred a high degree of economic obsolescence.

One other type of generating facility that should be mentioned is the oil or gas turbine driven generating units. Their use is mainly for standby or during periods of peak demand. As with diesel plants, the high cost of fuel oil and natural gas has greatly reduced their use. Most of the plants are mobile and should be considered as personal property. The

appropriate personal property multiplier should be used in the appraisal and because of their specialized use the economic factor is of little concern.

GAS UTILITIES

Natural gas is distributed through a system of transportation and distribution mains and related equipment. This property should be assessed as personal property in accordance with Section 211.8(g) of the General Property Tax Laws. The assessor again has the problem of allocating a portion of true cash value of a corporate entity to his/her particular assessing district and school district within it. Apply the appropriate multipliers to the original cost, by year of construction or acquisition as reported on the personal property statement in order to arrive at true cash value.

Most of the natural gas used in Michigan is delivered from out-of-state sources, although natural gas is produced from fields in Michigan. Storage fields are used by the gas utilities in order to ensure a ready supply of gas during peak demands. The gas is pumped into the storage field formations during the warmer months for eventual winter use. Under Section 211.8(g) of the General Property Tax Laws "Interests in underground rock strata used for gas storage purposes, whether by lease or ownership separate from the surface of real property, shall be separately valued and assessed as personal property". The value of the interest in underground rock strata is to be determined by the assessor by appraisal.

Equipment used in the distribution of gas includes transportation and distribution to mains, services, regulators, odorizer stations and meters. A storage field is composed of field lines, gas injection and observation wells and compressor equipment.

OIL AND GAS PRODUCTION EQUIPMENT

Oil and gas well equipment including the casing and tubing in the ground is assessable as personal property. Following is a partial list of oil and gas field equipment:

- Derricks (old wells only - now obsolete)
- Casing and tubing
- Well head and valves
- Pumping units
- Power for pumping units (gas engines or electric motors)
- Heaters and separators
- Tank batteries and gathering lines
- Waterflood lines and pumps
- Automatic metering and testing equipment for unitized fields
- Drilling equipment
- Buildings on leased land

A severance tax is paid by the operator on all oil or gas produced in the State. The Severance Tax Act (Act 48 of 1929, as amended) has an "in lieu of" provision: MCL 205.315:

The severance tax herein provided for shall be in lieu of all other taxes, state or local, upon the oil or gas, the property rights attached thereto or inherent therein, or the values created thereby; upon all leases or the rights to develop and operate any lands of this state for oil or gas, the values created thereby and the property rights attached to or inherent therein: Provided, however, nothing herein contained shall in anywise exempt the machinery, appliances, pipelines, tanks and other equipment used in the development or operation of said leases, or used to transmit or transport the said oil or gas: And provided further, that nothing herein contained shall in anywise relieve any corporation or association from the payment of any franchise or privilege taxes required by the provisions of the state corporation laws.

As noted above, the installed cost of the equipment is assessable including a reasonable installation expense for casing and tubing. The Internal Revenue Service does not require the owners of oil and gas wells to capitalize the installation costs of well equipment. These costs (which include labor, piping and the fittings used to connect tank battery equipment) are considered intangibles and as such are expensed by the owner.

If the installation cost is not included in the reported equipment cost, the costs should be adjusted to include an estimated installation cost. The estimate can be based on an audit of the well's intangible expenses or from information obtained from prior audits, or contractors familiar with the installation of oil field equipment.

The appropriate State Tax Commission personal property multipliers should be applied to the original installed cost by year of acquisition to determine the true cash value of the equipment.

It is not unusual to find that the wells in low-producing fields have been sold by the original owner. The original cost of the equipment in this case cannot usually be obtained because the new owner will simply allocate his or her purchase price to the equipment. The allocated cost will not generally be accepted for property tax purposes, since the purchase price of oil and gas wells is mainly determined by the remaining reserves of oil and gas in the formation. Valid original costs, therefore, will not always be obtainable and the assessor must then use either the comparable cost method or construct their own itemized cost schedule.

Comparable costs can be obtained using verified costs from other wells in a particular producing field as the characteristics of that field demand similar products. An itemized cost schedule may be developed after new and used equipment costs are obtained from oil field equipment dealers and installation costs added. Before applying the personal equipment property multipliers, the assessor must adjust the costs to the actual age of the equipment being appraised.

Some older fields are operated as a unit (unitized field) so that a secondary oil recovery program can be implemented. This is commonly done by pumping water down injection wells to the producing formation. The water forces the oil and gas to selected producing wells. The water flood lines are buried to prevent freezing and are usually constructed of new pipe because of the high pressure needed to force the water into formation. Because production information by individual lease is not needed a centralized collection system is installed. Automatic metering and testing equipment (LACT Unit - Lease Automatic Custody Transfer) is often part of this system.

Water flood equipment is to be assessed in addition to the production and injection wells. The operator of the field should furnish costs as the equipment is designed for the specific field and formation.

Many fields also produce a type of oil that is very damaging to equipment. The corrosive effects of such oil should be recognized by the assessor when making an appraisal of the equipment in this field if the operator can show excessive wear to his or her equipment.

PIPELINES

Property of pipeline companies is quite similar even though transporting various commodities such as oil, gas or petroleum products. The major components of a pipeline system are:

- Gathering and transmission lines
- Pumping or compressor station equipment
- Tankage or storage facilities
- Metering and regulating stations

The pipelines are assessable as personal property according to Section 211.8(g) of the General Property Tax Act in the assessing unit where located. True cash value is determined by applying the appropriate multiplier from the personal property multiplier table to the original installed cost of the pipeline.

In order to apply pressure to the commodity shipped through pipelines, either pumping stations (liquid) or compressor stations (gas) are needed to supply the energy. The equipment at these stations should be assessed as personal property, while the land, building and land improvements are to be assessed as realty.

Some of the gas transmission companies own or operate gas storage fields in order to better serve their customers. These wells in these fields should be assessed as personal property. Personal property multipliers should be applied to the total cost of the injection and observation wells by year of installation.

A pipeline will traverse many assessing units in most cases and to segregate the actual cost for each assessing unit would be impractical and at best an educated guess. The simplest method of allocating costs to each assessing jurisdiction is to divide the total cost of the pipeline (excluding identifiable cost locations such as pumping station) by the total footage of the line. The resulting cost per foot is then multiplied by the number of feet located in the political subdivision for its share of the total cost. There are other ways of refining this method but all must depend upon averaging either of total or segregated costs. The cost of pipeline rights-of-way should be assessed in the same manner as previously described for electric distribution and transmission line rights-of-way.

UTILITY LAND

Utility land may be classified into six main categories: power plant sites, station and substation sites, right-of-way fee owned, right-of-way easements, lands held for future use and flowage lands.

Power Plant Sites

All power plants must have an abundant supply of water. Hydroelectric development must be located at a point on a river with a suitable head of water to drive the generating turbines. Steam-driven plants must be located where an ample supply of boiler feed water and condenser cooling water can be obtained. Generally steam plants are located near major rivers or lakes; however, recently, several plants have been located inland. These plants are designed to use cooling water which is recycled in a close-looped pond system.

Accessibility to major transportation facilities is an important factor which influences the value of plant sites. Fossil fuel plants must be located on rail lines or have deep water docking facilities necessary acreage for the site.

Nuclear power plant sites and large fossil fuel plants have additional site requirements. It is not uncommon to purchase 1,000 to 4,000 acres for a plant that could be constructed on 100 acres. Nuclear plants require the additional acreage for security buffer zones. Major fossil fuel plants require the additional acreage for fly ash disposal and to provide an environmental and social acceptance buffer zone. Nuclear plant sites must also meet several Nuclear Regulatory Commission requirements. In these cases, the buffer lands should be valued separately from the primary plant use land at a rate uniform with the surrounding property.

Where the above requirements are met, a utility company will pay prices which include costs to assemble the necessary acreage for the site. The prices usually include relocation fees and incentives intended to avert costly and time-consuming condemnation proceedings. These conditions under which utility companies acquire sites do not support the definition of "cash value" set forth in MCL 211.27. It is, therefore, recommended that the purchase price carry little weight in developing a land value for the plant site.

Power plant sites are generally valued on a square foot or acreage basis. Particular attention should be given to the highest and best alternative use for the land. Since these sites often have the same characteristics as industrial land, it is suggested that the same appraisal techniques be used as on the comparable industrial land.

Station and Substation Sites

Numerous electric substations and gas regulator stations are located in cities, villages and rural areas. In urban areas they generally occupy small lots on rear streets averaging in size 66' x 132', and should be valued at the same rate per front foot as the adjoining lots. Rural stations may require up to 10 acres of land due to zoning and should be valued at the same acreage rate as adjoining lands.

Right-of-Way Owned in Fee

The acquisition practice of utility companies for right-of-way generally follows the same pattern as discussed for the plant sites. The special requirements of assembling these lands results in prices that are generally in excess of market value. Utility right-of-way should be valued in the same manner as the adjoining land. If the right-of-way passes through residential property, it should be valued at the same rate as the adjoining residential property. If it passes through farm land, it should be valued at the same rate as the adjoining farm land.

Right-of-Way Easements

Utilities often purchase permanent easements to use lands rather than obtain fee ownership for the right-of-way. Pursuant to MCL 211.8(g), the easements of electric, gas and waterworks companies are to be assessed as personal property. Easements should be reported annually by the taxpayer at original cost on the personal property statement. Right-of-Way or easement costs should include all costs associated with acquiring the easement. This should include any indirect costs incurred by the utility, including but not limited to survey and title change costs. The reported cost is not to be reduced by application of personal property multipliers but is to be assessed at 50% of the reported cost.

Future Use Lands

Utilities often purchase large tracts of land for future development many years before construction is initiated. These lands should be valued at the same rate as adjoining lands. When development of the land begins, a new valuation study should be undertaken.

Licensed and Flowage Lands

Lands with Federal Energy Regulatory Commission (FERC) hydro project licenses involve use restrictions imposed by a governmental authority having jurisdiction to do so. These restrictions must be considered in determining the true cash value of all property within the license boundary. All land within a FERC licensed project boundary should be valued at an essentially nominal sum. See *Consumers Power Company v Big Prairie Township*, 81 Mich App 120 (1978):

"The right of flowage or to dam water back above its natural level, has been described as an interest in land of value, in its nature an easement which an owner of full title may reserve when disposing of the fee, or he may retain the fee and deed the right of flowage to others as a perpetual easement, and it can only be acquired by an instrument in writing under seal, in the nature of a deed of conveyance, or by prescription." (*Glidden v Beaverton Power Co.*, 223 Mich 383)

Flowage rights should be assessed as part of land, although to separate owners, in townships where the land is located. Flowage easements in Michigan are for the greater part valued at a nominal amount per acre.

Chapter 9 Depreciation

Depreciation is a loss of utility and therefore of value from any cause. This loss in value is divided into three categories. They are physical deterioration, functional obsolescence, and economic obsolescence (also referred to as locational or external obsolescence).

Cost New

The starting point of a cost approach to value is the estimate of the cost new as of the date of appraisal. This cost new estimate can be either reproduction cost or replacement cost.

Reproduction Cost: The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout and quality of workmanship and embodying all the deficiencies, superadequacies and obsolescence of the subject building.¹⁰

Replacement Cost: The estimated cost to construct, at current prices as of a specific date, a substitute for a building or other improvements, using modern materials and current standards, design, and layout.¹¹

Frequently it is not possible to exactly reproduce a building in the reproduction cost estimate. When existing building materials are observed which were utilized in prior years but are no longer available and are not listed within a cost service manual (e.g., stone rubble walls, asbestos insulation, transite panels, knob and tube wiring, etc.), a currently available replacement material can be substituted which offers about the same utility, function, structural strength, quality, and perhaps appearance. This is not a replacement cost approach but the "use of replacement materials within the reproduction cost approach." Technically, replacement materials are priced into many components of older buildings. For example, the present day price of a gas space heater would be for a unit which undoubtedly would not be an exact duplicate of the one you would find in a 50-year old building.

It is often debated whether the reproduction cost or the replacement cost should be the starting point in the cost approach to value. The State Tax Commission advises that the reproduction cost is generally the preferred starting point.

The following are some cautions about the use of the replacement cost:

1. The appraiser must redesign the building and will therefore be pricing a building which does not exist. The appraiser must remember that a replacement building must have utility equivalent to the building being appraised. This means that the replacement building must be equivalent to the actual building with respect to

¹⁰ Dictionary of Real Estate Appraisal, 6th Edition, Appraisal Institute, Page 198

¹¹ IBID Page 197

capacity to house feasible manufacturing processes, total useful production capacity, useful quality of construction, utility, flexibility, etc.

2. A building of modern design and materials may cost more and the "perfect" replacement building may not be economical to build.
3. Some forms of functional obsolescence may be missed under the mistaken impression that pricing a replacement building accounts for all forms of functional obsolescence.
4. All points of difference between the actual building and a replacement building must be clearly stated and supported. Thus, as an example, if the existing heating system is changed in the replacement building, that fact must be clearly stated and supported.

A replacement cost analysis is sometimes required when analyzing depreciation caused by functional obsolescence. A replacement cost estimate does not include superadequacies existing in the building being appraised.

Depreciation Tables

Depreciation tables are included in Volume I of the Assessor's Manual for residential, mobile- manufactured and agricultural properties. Volume II contains schedules for commercial and industrial properties. These are also included at the end of this chapter. The State Tax Commission requires the use of these depreciation schedules, which have been used for many years, to maintain uniformity and continuity of assessment administration appraisals in Michigan. This requirement is made regardless of which cost manual is being used to estimate cost new. Deviations from the State Tax Commission depreciation schedules should be documented and represent market conditions.

Depreciation tables are used to rapidly secure systematic, equitable assessments. These tables are based on the premise that all structures depreciate from age and use, that normally depreciation takes place at a more or less uniform rate, and that the rate of physical deterioration is almost inversely proportional to the quality of the structure.

It should be noted that the type of exterior on a building is not the sole determining factor of depreciation. With normal maintenance, the various types of exterior often have an equal effect on total building depreciation. The frame of the building is about the only portion that cannot be reconditioned or maintained without extensive remodeling or reconstruction.

Depreciation as used in this manual is expressed as a percentage remaining or percent good. In other words, it is a direct multiplier rather than a subtractive rate. A 10% depreciation allowance would be expressed as 90% remaining condition. In order to promote uniformity in determining the age of a structure, the following rule should be followed.

Subtract the calendar year in which the building was constructed from the tax year for which the property is being appraised. The difference is the actual age in years. For

example, a house built in 2012 and being appraised for the 2018 assessment (12-31-18) has an actual age of 6 years.

Depreciation tables in the Assessor's Manual include consideration for physical deterioration and normal obsolescence which is different from physical deterioration. Extraordinary functional and economic obsolescence should be separately identified, estimated and noted on the appraisal record card. An economic condition factor should also be applied where there are sufficient good sales to allow its calculation.

Since the State Tax Commission depreciation tables account for regular physical deterioration and normal obsolescence only, it is necessary to determine whether a particular property suffers from extraordinary obsolescence. Extraordinary obsolescence is usually of two types: economic obsolescence and functional obsolescence. Normal functional obsolescence frequently includes those items which, if cured, would be replaced by the same item but of modern design. Examples of normal functional obsolescence would be electric power boxes containing fuses rather than circuit breakers and ceiling and wall treatments which are no longer in style today.

Some examples of extraordinary obsolescence are the following:

1. Upper stories not used.
2. Unnecessary interior walls caused by piecemeal additions over the years.
3. Light and ventilation monitors no longer used.
4. Very small bay sizes.

When measuring extraordinary obsolescence, consideration should be given to the methods outlined earlier in this chapter. However, frequently it is not possible to mathematically measure obsolescence and good judgement must be relied on.

In the final analysis, the estimating of depreciation is a function of observation, experience, and good judgment. Regardless of the mathematical result, the depreciation determined should be weighed in the light of the property as a whole. A method of measuring obsolescence may logically seem credible but produce a result which is unbelievable. The result should not defy common sense. Economic obsolescence should be supported by convincing evidence. General statements such as "Homes in this area are not selling" or "This is not a good place to do business" are not sufficient evidence to justify a deduction for economic obsolescence.

Maximum Depreciation - Minimum Final Condition

Very old buildings depreciate more or less according to the depreciation tables until they reach the limit of the tables. At or about these points, the buildings reach a limit of depreciation beyond which they do not seem to depreciate further as long as they are used. This can be observed from sales data where a number of these old buildings are involved. In special cases the limit of depreciation may be lower than the ending percentage condition listed in the depreciation tables even though the building is still

being used. An unused building that has been boarded up may even depreciate to as low as 10% or 15% of the original value of the building.

Observed Condition

Occasionally an experienced appraiser will feel that for one reason or another; the building being appraised is in better or worse condition than the condition indicated by the depreciation tables using actual age. Sometimes, in an effort to improve on the results obtained by using the table, the appraiser will over-adjust in an effort to correct the table to meet what is felt to be the actual physical condition of the building. Certainly no depreciation table should be used blindly or indiscriminately, but neither should a building be over-assessed because a new coat of paint has been freshly applied in the normal course of maintenance or under-assessed because the house was in need of a coat of paint at the time of appraisal.

A percent condition lower than that found in the depreciation table should not be used unless something has caused the building to deteriorate faster than is indicated by the table.

If the appraiser varies too often from the depreciation tables, equity between buildings is soon destroyed.

Superior maintenance and inferior maintenance are factors that will justify diversion from the depreciation table to a small degree. The more common reason for using a different percent condition is remodeling. Remodeling is present to a degree in most old homes. Frequently, remodeling is extensive enough to eliminate some of the physical depreciation and the normal obsolescence allowed in the depreciation table.

Any extensive rebuilding or remodeling should be followed directly by a complete reappraisal of the subject property by the assessor. (Note: A residential property which has been remodeled may qualify for non-consideration of the true cash value resulting from expenditures for normal repairs, replacements and maintenance). (MCL 211.27(2))

The assessor may feel that it is desirable to compute an effective age when a building has been rebuilt or remodeled. The effective age of the building can be obtained simply by using the ratio of the value of the building after remodeling to the cost new of the building. This ratio expressed as a percent is actually the observed percent good of the building. Opposite the percent condition in the depreciation table nearest to the observed depreciation computed is the effective age of the building. There are any number of formulated methods for computing the effective age of a structure, but each of them is merely a variation of this one simple principle.

As an example of computing effective age, consider a residential building 60 years old that has been remodeled extensively. The building would have been valued at \$60,000 new from the cost schedules and at 45% good or \$27,000 considering the standard depreciation table. However, based on observed actual condition, the appraiser assigned a depreciated condition of 70% good or \$42,000. By backing through the depreciation table, it can be seen that the effective age corresponding to 70% would be 30 years for valuation purposes.

Sometimes when there are minor additions of the same quality construction as the original building and when the additions in no way affect the remaining life of the entire building, the condition of the original building should be used even on the new area of the building, although the addition alone would not warrant such a low percent condition. This is based on the assumption that the addition alone would not be of much value without the remainder of the building.

Occasionally the appraiser will find it advisable to separate the original structure from the remodeled portion and depreciate each separately on the basis of the construction dates of the separate portions. This method of depreciation would usually be restricted to major remodeling or additions.

Commercial and Industrial Depreciation Table

The physical condition of commercial and industrial buildings is affected by type and quality of construction, age, use, and maintenance. The assessor should give careful consideration to the selection of the depreciation rate to be used. Best results will be obtained by applying the depreciation condition from the table along with consideration given to the observed condition estimated at the time of the appraisal. If extraordinary obsolescence is present, make allowances and indicate the percent allowed and document the basis for the allowance.

The column headings of 1½%, 2%, 2 ½%, 3%, and 4% which appear on the commercial and industrial depreciation table generally apply to the following building construction types:

- 1½% Heavy reinforced concrete or heavy steel frame with masonry
- 2% Reinforced concrete, steel or wood frame with masonry or wood walls
- 2½% Light steel or wood frame with masonry or wood walls
- 3% Inexpensive retail structures and low-cost buildings
- 4% Sheds, low-cost hangars and utility buildings

More specifically, the assessor can consider the life expectancy guidelines listed by type of occupancy and class of construction. They are typical life expectancies, in years, of various types of buildings.

These guidelines were developed by Marshall and Swift and are based on appraisers' opinions and studies of actual mortality, condition of surviving buildings, and ages at which major reconstruction or change of occupancy has taken place. These studies do not include cases of mortality from economic obsolescence or poor business management. These guidelines can be used as a help to selecting the proper depreciation column on the State Tax Commission Commercial/Industrial Depreciation Table. The percent labels on the STC depreciation schedule are roughly equivalent to the following building lives:

Percent	Years
1 ½%	60-65
2%	50
2 ½%	40
3%	30-35
4%	20-25

It is sometimes necessary to select a depreciation multiplier that falls between two columns. Thus, a building with a life expectancy of 45 years should get a multiplier halfway between the multipliers found in the 2 ½ % and 2% columns.

Fixed Attached Equipment

Real property generally includes fixed, attached equipment. This type of property is sometimes overlooked in the assessment process. It consists of equipment which is fixed or attached to the building in a permanent fashion.

Although all of the items of property that may fall into the classification of fixed, attached equipment cannot be listed, the following is characteristic: power equipment and facilities such as boilers, generators, ash and coal-handling equipment, cooling towers, power bus ducts, truck or platform scales, ovens, kilns, press pits, silos, craneways, cupolas, hoppers, insulation and piping and compressors and heat exchangers in refrigerated rooms, tanks, vats, spray booths, underground tanks and piping. A further expansion of this list would only emphasize the built-in character of this type of equipment.

This group of items is frequently entered on the books of an industrial concern as real property or as special property separate from regular personal property.

Because of the difficulty in estimating the cost new of fixed, attached equipment, its original book cost can be used as a starting point for its valuation assuming that the book cost includes sales tax, freight, and installation. The fixed, attached equipment multipliers listed below are applied against the original book cost of fixed, attached equipment to produce an estimate of the full current value of the property. These multipliers can also be used when the original book cost is unavailable but a current reproduction cost is known and is indexed back to the date of installation. The assessor should use a consistent approach to the valuation of fixed, attached equipment. The use of effective age may be necessary when valuing rebuilt or modernized fixed, attached equipment to assure uniformity. Average life expectancy charts can be found in the Marshall Swift Manuals.

Fixed, Attached Equipment Multipliers

Age	Multiplier
1	98
2	96
3	94
4	92
5	90
6	88
7	86
8	84
9	82
10	80
11	78
12	76
13	74
14	72
15	70
And over	

Chapter 10: General Information

All assessors should sign up for the State Tax Commission (STC) Listserv. The STC uses the electronic GovDelivery notification system to distribute bulletins, memoranda, tips and other useful information to assessors and other individuals with an interest in Michigan property tax administration. The information on how to sign up for GovDelivery is on the STCs webpage at www.michigan.gov/statetaxcommission.

All assessors of record for local units must fill out and send to the STC Form 4689; Request for Change in Personal or Employment Information. This form provides the STC with information necessary to keep track of assessors and the local units they are assessing. It is important to be aware of and check the latest certification level (MCAO, MAAO, and MMAO) requirements for assessors. Certification level requirements are updated annually and are available on the STC website.

All assessors are required to review the STC document Supervising Preparation of the Assessment Roll. This document outlines the responsibilities that assessors are required to perform in order to sign (i.e., certify) the assessment roll. Assessors are required to certify that the requirements contained within this document were followed when signing the assessment roll each year.

Assessment Roll

There is only one annual assessment roll for each assessing unit. The assessment roll is the roll in which assessments are determined by the assessing officer, reviewed by the Board of Review (BOR), equalized by the County Board of Commissioners and containing the certificates for all three. To avoid confusion, it is strongly recommended that all other copies, duplications or alterations of the original roll should not contain the word "assessment" in their labels or should be clearly labeled as not to be confused with the original assessment roll.

The assessment roll shall be completed in accordance with the General Property Tax Act (GPTA) and by a duly elected or appointed assessor who is properly certified by the State Tax Commission. The assessment roll shall be a bound volume or in loose-leaf pages bound into a permanent cover containing all the taxable real and personal property in the jurisdiction, or City, Village, Township (CVT) for which the roll is prepared. Prior to presentation to the Board of Review, the assessment roll shall have a certificate attached and signed by the assessor, including his or her certification number. The roll shall be completed and prepared for presentation to the Board of Review not later than the first Monday in March for Townships and as provided by Charter for Cities. (MCL 211.10d)

All entries in the annual assessment roll must be machine-printed or handwritten in ink. In all cases, an erroneous entry should be stricken through (crossed out), initialed and dated in ink. There should not be any erasures in the assessment roll. (STC R209.26)

Each official action to change an assessment by the Board of Review must be entered by the BOR in permanent ink in the column reserved for the Board of Review. If an assessment is upheld following a petition to the Board of Review filed by a property owner, the assessment should also be entered in ink in the Board of Review column. After an

assessment roll has been reviewed by the Board of Review, a certificate (Form 2691 or L-4037) signed by the members of the Board of Review is permanently attached to the roll. The certificate contains the total valuation of each classification of taxable real property and of personal property as determined by the Board of Review. (See sample form at end of Chapter)

After the certificate is attached, an assessing officer is not permitted to make any entries to the roll except by written authority of the Michigan Tax Tribunal (MTT), the STC, or pursuant to court order. This includes a situation where an error has occurred in the development of the assessment roll.

The July and December Boards of Review can correct mutual mistakes of fact, clerical errors and qualified errors for the current and one prior year only. (MCL 211.53b).

Omitted and/or incorrectly reported property liable for taxation can be added or corrected on the assessment roll by the State Tax Commission for the current assessment year and two prior years. (MCL 211.154 and STC Rules R209.71 through R209.75)

Any other error or revision to the assessment roll can only be made by the MTT, STC orders, or court orders. When a change is authorized by the MTT, STC or a court, the original figure on the roll is not erased but is stricken through and the corrected figure is entered, initialed and dated, with a note at the end of the roll indicating that permission to change has been requested and received. A permanent file must be maintained of MTT, STC, or court orders affecting the assessments in the roll.

Because properties in an incorporated Village are assessed by the Township assessor and reviewed by the Township Board of Review, a Village Assessment Roll shall be an exact copy of the Township roll for that property encompassed by the boundaries of the incorporated Village. (MCL211.10a)

The completed assessment roll must be delivered to the County Equalization Director not later than 10 days after adjournment of the Board of Review or the Wednesday following the first Monday in April, whichever occurs first.

When County Equalization is complete, the assessment roll should be returned to the assessing unit. When it is returned, it should have a permanently attached certificate from the County Board of Commissioners attesting to the County equalized value of each class of taxable real property and personal property in the unit. (See sample form at end of Chapter)

Each Assessment Roll must contain the following columns:

Name and address of owner or occupant

Property description or permanent parcel number including the school district code and the property classification

Assessor's valuation

Board of Review valuation

Michigan Tax Tribunal or State Tax Commission valuations.

Name and Address of Owner or Occupant: The name of the owner of record should be listed. If the owner, occupant or possessor is not known, then "Unknown" should be listed. The last known address for the person listed should be used. (Also refer to MCL 211.3, 211.6b and 211.24 for other considerations.)

Property Description or Permanent Parcel Number: All descriptions of real estate must be included in the assessment roll, both taxable property and exempt property. Each parcel of real property should have a parcel code number assigned. The legal descriptions for the real properties should be listed by section and plat. (See MCL 211.24 and 211.25). With the exception of Town, Village or City lots, the number of acres should be listed.

Description of personal property may be made by using the word "Personal." If the same owner has more than one personal property assessment located in more than one school district or partially in the Village, the location of the personal property assessed in each should also be noted. Personal property is usually arranged in alphabetical order according to owner.

If a Township or City has received written STC approval for use of a permanent parcel numbering system, as provided in MCL 211.25a, the number of the parcel may be substituted for the geographical descriptions in the column provided for descriptions. For all assessable real and personal property, the description column should also include an identification of the school district in which the property is located and the classification of the property. The classifications should be made according to the definitions contained in MCL 211.34c.

Assessor's Valuation: This column is reserved for the assessments as determined and entered by the duly elected or appointed and properly certified assessing officer. The exception to this is properties purchased by the Department of Natural Resources on or after January 1, 1933, which will be valued and assessed by the State Tax Commission (MCL 211.492).

All assessing officials must maintain records relevant to the assessments, including appraisal record cards, historical assessment data, tax maps, and land value maps (MCL 211.10e).

The GPTA is clear that all property assessment rolls and property appraisal cards shall be available for inspection and copying during customary business hours (MCL 211.10a). This section of the act does not reference charging a fee for copies of record cards. However, in recognition that a taxpayer may request a significant number of cards that may place a burden on the local unit, the Freedom of Information Act (FOIA) can also be used for guidance regarding the amount to charge for copies. The FOIA act is very clear that a public body may charge a fee for a public record search, the necessary copying of a public record for inspection, or for providing a copy of a public record and the fee shall be limited to actual mailing costs, and to the actual incremental cost of duplication or publication including labor, the cost of search, examination, review, and the deletion and separation of exempt from nonexempt information. Therefore, a local unit cannot charge an exorbitant fee in order to recoup the cost of the assessor's development of record cards or retrieval of those cards.

Board of Review Valuation: This column is reserved for the use of the Board of Review during its annual meeting. In this column the Board of Review enters its determination of the assessed valuation when a change has been made from the assessed valuation determined by the assessor or where a taxpayer has protested his or her assessment to the BOR.

The Board of Review has full authority, upon its own motion, to change assessments and to add to the roll omitted property which is liable for assessment. However, the person who is assessed must be promptly notified and granted an opportunity to protest. Every person who makes a request, protest or application to the Board of Review for the correction of the assessment of the person's property shall be notified in writing of the Board of Review's action, not later than the first Monday in June. (MCL 211.29 and 211.30) No entry by the Board of Review is necessary unless a change is made from that of the assessor or a taxpayer has protested his or her assessment to the BOR.

This column will also be used by the July and December Boards of Review for entering corrections due to clerical errors, qualified errors and mutual mistakes of fact.

Poverty exemptions must also be entered in the Board of Review column. Only the Board of Review, with the concurrence of the supervisor, has the authority to grant a poverty exemption.

Michigan Tax Tribunal or State Tax Commission Valuations: Separate columns can be provided for Michigan Tax Tribunal and State Tax Commission valuations; however, you can use one column for both agencies. Most State Tax Commission entries in this column will be under MCL 211.154, and the chance of a revision of an assessment by both the Michigan Tax Tribunal and the State Tax Commission will be very rare. An assessment in this column must be carefully noted as to which jurisdiction was responsible for the entry. Entries in this column will only affect the tax roll and will not change the roll totals already certified in the assessment roll, particularly for equalization starting figures and millage rollbacks under MCL 211.24e, 211.34, or 211.34d.

Other Important Items: It is essential that all descriptions of exempt real property be included in the assessment roll and listed as "Exempt" in the assessment column. It is also essential that partially exempt real descriptions be noted in the assessment roll along with the reason for the exemption and the amount of the exemption, if applicable. It is also important to note the exempt property must have a record card with general parcel information.

In some cases, such as those relative to non-consideration of normal repairs, replacement and maintenance, under MCL 211.27, the statute requires that the value excluded from the true cash value be indicated or noted on the assessment roll. Form 865 or L-4293 can also be filled out for items of non-consideration.

Partial exemptions on personal property do not have to be noted, since they are based on net valuation after all applicable exemptions have been deducted on the personal property statement form filed by the taxpayer. One exception may be where part of the personal property is assessed on the Industrial Facilities Tax Roll or Commercial Facilities Tax Roll. If normally assessable personal property is completely exempt, it is suggested

that the property owner's name be listed on the assessment roll with the reason for the exemption.

Computerized Assessment Roll

Public Act 25 of 2016 permits local tax collecting units to use a computerized database system as the assessment roll (“computerized assessment roll”) required by the General Property Tax Act beginning with the 2017 assessment roll. This use is **only** permitted when the system and the procedures that are followed adhere to the requirements of the Act. This use is not permitted unless the assessor of the local tax collecting unit and the local tax collecting unit itself provide certain certifications to the State Tax Commission relating to the computerized database system in a format that has been approved for use by the State Tax Commission as being in conformance to the requirements of the Act. The Act provides separate responsibilities for assessors and the local tax collecting unit.

Please see Bulletin 8 of 2016 which outlines the responsibilities to obtain approval to use a computerized assessment roll.

Tax Roll

A Tax Roll is created by the assessor and is separate and distinct from the assessment roll. The assessor should make sure they are working with their local Treasurer to pass on name changes, address changes, Board of Review, STC and MTT changes. It is important to remember that many other taxing authorities have to “balance” their tax collections and any and all corrections must be passed on to those entities.

The Tax Roll shall contain columns for the:

1. Property owner, agent and address.
2. Property description including the parcel code number, classification and school district.
3. Assessed valuation.
4. State Equalized Valuation of the property. (MCL 211.24b) If a factor is required by Equalization to the assessed valuation to arrive at the equalized valuation of property in a Township, City or Village, it is permissible to round up the factor at not less than four points beyond the decimal. All millages are to be spread against the taxable value of the property.

There must also be a column for each tax and special assessment, and a column for the total of all taxes and special assessments spread on the tax roll for each item of property. A County Board of Commissioners may authorize by resolution the spread of taxes in one total sum, in separate Township taxes, combined City taxes, or in combined school taxes. If the taxes are entered as one total sum or as combined unit taxes, there has to be printed on each tax receipt the percentage or tax rate that each tax is of the total or is of each taxing unit total. Alternatively, a printed statement showing the tax rate of each separate tax shall be attached to the tax receipt at the time of payment by the officer collecting the tax. (MCL 211.44)

In addition to the items mentioned above, each tax statement and receipt should include the fiscal years for each of the taxing units for which the taxes are intended (MCL 211.40).

On or before September 30, each taxing jurisdiction must complete and submit to the County Board of Commissioners Form 614, also referred to as the 4029, Tax Rate Request - Millage Request Report to County Board of Commissioners (MCL 211.24e, 211.34, 211.34d, 211.36 and 211.37)

The County Board of Commissioners considers millage requests at their October session and adopts an apportionment report certifying the tax rates to be used in computing taxes to be levied for the year by each assessing unit. The certificate is made a permanent part of the tax roll. (MCL 211.37 and 211.38)

Upon receiving the certified millages from the County Clerk, the Supervisor or Assessor will spread the taxes in the tax roll, applying the millages against the Taxable Value of each description. (MCL 211.39) A County, by resolution of the Board of Commissioners, may prepare tax rolls for Cities and Townships in the County at the expense of the County or the local unit (MCL 211.24a).

After the tax roll has been completed, the Township Supervisor will complete a warrant and deliver the tax roll to the Treasurer for collection (See sample form at end of Chapter and MCL 211.42). The warrant for the collection of City taxes will be signed by the official assigned the responsibility by City Charter or, if the Charter does not address this issue, it must be signed by the City Assessor. Village tax collection warrants are to be signed by the Village President.

City and Village tax levies are also certified by their legislative body, and generally a separate tax roll is prepared for these taxes. The City and Village taxes are then collected in accordance with Charter provisions or City and Village statutes. Properties in an incorporated Village are also included in the Township tax roll for the levy and collection of all taxes except Village taxes.

It is permissible under State law to make a summer collection of school taxes in Townships and Cities. School taxes are then included in the City tax roll or in a special tax roll prepared for such school tax collections. (MCL 380.1611 to 380.1614)

A person who owns an undivided share or other part of real property assessed in one description may apply to pay the part owned, by providing a statement from the assessing officer of the City or Township where the property is located which shows the valuation of that part and of the remaining parts.

Computerized Tax Roll

Act 112 of 1990 permits assessing officers to prepare a computerized tax roll for use as a collection and accounting tool by the Assessor and Treasurer. The system and procedures to be used are outlined in MCL 211.42a. Treasurers and Assessors are not permitted to use a computerized tax roll unless approved for use by the STC.

The Act calls for a pre-collection tax roll printed from a computerized database that is warranted by the assessor. This requires the local assessor to maintain the database as changes in value, legal descriptions and other items on the tax roll occur. The statute also provides for preparation of a final settlement tax roll to be prepared by the assessing officer that includes all changes that have been made since the pre-collection tax roll. The local treasurer's collections must be posted on the final settlement tax roll. In addition, the statute provides for an audit trail and documentation of all changes made by the assessor and for proper accounting procedures and checks by the local Treasurer. Standards that the system must meet for approval by the STC are described in the statute.

A copy of an application for approval of a computerized system and instructions for completing the applications can be found on the STC website. Applications should be filed with the Michigan State Tax Commission, Post Office Box 30471, Lansing, Michigan 48909.

Act 112 of 1990 is permissive. It affects only those units that wish to establish a computerized accounts receivable system and tax roll preparation system. Non computerized tax collection systems are not affected by this but must meet all other statutory tax roll requirements.

Tax Calendar

The State Tax Commission annually publishes a tax calendar, available on the STC website.