Chapter 5 Contents

SECTION 1
OVERVIEW OF THE PROPERTY TAX PROCESS

If levied, property taxes are generally a library's most important source of revenue. In addition to normally being the largest single source of revenue, it is also controllable by the local government within certain constitutional and statutory guidelines.

Property taxes are often misunderstood because of the complexities and volume of the rules that need to be followed in their application. It is helpful to remember that property taxes are simply the **Taxable value** of each property multiplied by the **Millage rate** approved to be levied.

The **Taxable Value** is simply the number that results from the process devised by 1994's constitutional amendment known as "Proposal A". As described in more detail in the next section, this number used to be equal to fifty percent of the property's fair market value; that is not usually the case any more.

The **Millage Rate** is the amount of taxes to be paid per thousand dollars of taxable value. As discussed in the third section, this is subject to several constitutional and statutory provisions.

The property subject to taxation includes all real property and personal property of businesses. Property owned by public entities (federal, state and local units of government) are exempt, as well as certain religious and not-for-profit organizations. In addition, mobile homes that reside in trailer parks are exempt since they constitute personal property (they pay a "trailer park fee" of three dollars per month in lieu of property taxes). As a result of Proposal A, many residential properties are classified as "homestead properties." This designation does not need to concern the library, since the designation of a property as a homestead only affects the levying of school taxes.

SECTION 2
TAXABLE VALUE

The process of calculating each property's **Taxable Value (TV)** begins with the assessor who places a value on all taxable property within the community as of December 31, of each year. This value, called the Assessed Value (AV), is intended to be fifty percent of the property's true cash value (fair market value).

By March 1 of each year, the assessor must send a notice to each property owner whose assessment has increased from the prior year. This gives each property owner a chance to challenge the assessor's valuation, which they may do at the community's board of review (which takes place during March or April of each year). The board of review may only adjust assessed valuations (it does not have the power to change a tax bill in any way other than changing the assessed valuation).

The Assessed Value then goes through the equalization process, where both the County and the State compare a sample of Assessed Values to actual property sales, in order to determine whether there is a need to apply an equalization factor. The resulting quotient, the State Equalized Value (SEV), is the current estimate of the property's new Taxable Value if it were to be sold or otherwise transferred. After the implementation of the Truth in Assessing legislation in the mid-1980's, most equalization factors are 1.0000, meaning that the SEV is equal to AV for all properties.

Prior to 1994, this SEV was the tax base against which the millage rate was applied. However, the "Proposal A" constitutional amendment limited the growth in any individual property's tax base by the lesser of five percent or inflation. This new, limited value is known as the **Taxable Value (TV)**.

For the majority of properties, Taxable Value (TV) will be the prior year's TV increased by inflation. However:

- If inflation is above five percent, it will be the prior year's TV increased by five percent.
- If the property's fair market value is less than twice this amount, TV will be equal to SEV, or one-half the property's true cash value.
- If a property is sold (or otherwise transferred) during the year, the TV will be re-set to one-half the property's true cash value. By the way, there is no requirement that this bear a relationship to the prior year's SEV.

SECTION 3
MILLAGE RATES

As discussed above, the millage rate is the amount of tax to be levied per thousand dollars of taxable value.

Authorized Operating Millage

Cities, villages, townships and counties have maximum authorized operating millage rates within which the legislative body may levy without voter approval. For home rule cities and villages, this maximum rate is set by its charter; for all others, this rate is set by state law. In addition to the operating millage, a government unit community may have additional extra voted millage for Library operations, or for Library debt. A tax may not be levied unless approved through a ballot proposal process (i.e., voter approval). See MCL 397.201 or 397.210.

For district libraries, a district-wide operating tax may not exceed 4 mills. Any portion of the total district-wide tax that exceeds 2 mills cannot be authorized for a period exceeding 20 years. Additional restrictions apply. See MCL 397.183 Sec. 13.

Fifty voters of a city may petition for a tax to be levied of up to 2 mills to establish a free public library in that city. A tax may not be levied without voter approval. See MCL 397.210a.

Headlee Rollback

The Headlee rollback factor is a result of the Headlee amendment of 1978, which included a provision that a community's total tax base should not increase faster than the inflation rate (after adjusting for new property additions or losses)[1]. The Headlee implementing legislation rolls back the maximum authorized millage rate for each taxing jurisdiction, to the extent that the total tax base increases more than the rate of inflation. Headlee does not apply to a debt millage. The Headlee millage reduction can reduce a maximum authorized millage when tax base increases faster than inflation, but it may not increase a millage when tax base increases slower than inflation. The maximum authorized millage can only be restored by a vote of the residents.

Putting it all together

Following is a sample property tax calculation, that should clarify key concepts:

Total TV (taxable value)	$ 100,000,000
Millage rate:	
Maximum authorized (originally was 2, has been rolled back by Headlee to 1.75)	
Millage approved by board to be levied	1.75
Property tax revenue	$ 175,000

[1] With the passage of Proposal A, it was initially uncommon for the Headlee rollback factor to apply. However, more recently, communities experiencing significant property sales (i.e., turnover) are finding that Headlee applies. This is because upon sale of a property, the TV is reset at 50% of the true cash value (i.e., sales price) and the gap between AV and TV may be significant.

SECTION 4
THE HEADLEE AMENDMENT

The Headlee Amendment amended 11 sections of the Michigan Constitution.

It imposes tax limitations on the state, county, municipal, school district and related local governmental units as noted below:

1. The amendment limits growth in state revenue to the growth in personal income for the State of Michigan.

2. The amendment prohibits the state from mandating activities of local governments without reimbursing these local governments for the increased costs.

3. The amendment requires a rollback in local authorized millage rates if the local tax base (TV) increases more than inflation.

4. The amendment requires voter approval for bonds pledging the full faith and credit of the local government.

5. The amendment prohibits the imposition of any local tax not previously authorized without voter approval.

The Headlee rollback referred to in the third item above is calculated using these factors:

1. Inflation Rate - Based on general price level for the State's fiscal year (October 1, to September 30)

2. Taxable Value (TV) – Information comes from the County

3 Millage Reduction Fraction (MRF) - The result of the calculation that is used to determine if rollback is necessary.

4. Additions – New construction and other additions to tax rolls (including value of property exempt prior year but on the tax rolls current year). Calculated by multiplying true cash value by the ratio of Taxable Value to True Cash Value in the previous year.

5. Losses – Removal or destruction of property and other losses to tax rolls (including value of property taxed prior year but exempt current year). Calculated by multiplying true cash value by the ratio of Taxable Value to True Cash Value in the previous year.

The purpose of rolling back the millage rate is so that the municipality collects the same amount of tax as in the prior year plus an additional amount for inflation. The municipality cannot benefit from the increase in TV over and above an inflationary increase (other than TV increases caused by new construction, etc.).