

**Resolution Urging the State Tax Commission to Modify the Methods of
Assessing Residential Property in the Assessor’s Manual in a Manner that
Prevents Over-Assessment**

By Honorable Council President Pro-Tem Mary Sheffield

WHEREAS, It has been recently determined and reported through the media that during the period between 2010 and 2016 that the city of Detroit residential properties had been improperly assessed; and

WHEREAS, It is imperative to the orderly function of government and the confidence of the citizenry in its government, that the method and manner of taxation be as true and accurate as reasonably possible; and

WHEREAS, The State of Michigan under the State Tax Commission has issued a Guide to Basic Assessing published May 2018, provides under Chapter 3, Valuation Concepts used by local assessors in determining the assessed values of residential properties; and

WHEREAS, Pursuant to the State Tax Commissions Guide, property assessments in Michigan use an “ad valorem” (at value) tax system. This means that taxes are based on property value. This value is determined by organizing and analyzing data to determine property value. Section 27 (1) of the General Property Tax Act defines “true cash value” as “...the usual selling price at the place where the property to which the term is applied is at the time of assessment, being the price that could be obtained for the property at private sale, and not at auction sale except as otherwise provided in this section, or at forced sale.” The assessment is based upon this valuation; and

WHEREAS, Pursuant to the State Tax Commissions Guide, the following definition of “market value” was adopted by the Appraisal Institute in 1993: “The most probable price which a specified interest in real property is likely to bring under all of the following conditions:

1. Consummation of a sale occurs as of a specified date.
2. An open and competitive market exists for the property interest appraised.
3. The buyer and seller are each acting prudently and knowledgeably.
4. The price is not affected by undue stimulus.
5. The buyer and seller are typically motivated.
6. Both parties are acting in what they consider their best interest.

7. Marketing efforts were adequate and a reasonable time was allowed for exposure in the open market.
8. Payment was made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
9. The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”; and

WHEREAS, Center for Municipal Finance at the University of Chicago (Center) has made allegations of continued incorrect assessments of the residential properties in the city of Detroit based upon the method and process of assessments resulting in regressivity. According to the Center, the assessments are regressive when low-value homes are assessed at a higher percentage of their true market value than are high-value homes. Regressive assessments lead to regressive taxation, which means that owners of low-value property pay too much in taxes while owners of high-value properties pay too little; and

WHEREAS, The Center for Municipal Finance at the University of Chicago, utilizing standards developed by the International Association of Assessing Officers (IAAO) who advises that “Local jurisdictions should use ratio studies as a primary mass appraisal testing procedure and their most important performance analysis tool.”; and

WHEREAS, The IAAO defines standards for assessment efficacy, including standards for uniformity and regressivity, and specifies acceptable maximum and minimum levels for these metrics (IAAO 2013). According to the Center, the three most commonly used metrics: the coefficient of dispersion (COD); the price-related differential (PRD); and the coefficient of price-related bias (PRB) are utilized to determine the regressivity in property assessments; and

WHEREAS, The Center identifies the three metrics outlined as follows:

- **Coefficient of Dispersion:** The COD is a measure of uniformity based on the average percentage deviation of the ratios from the median, expressed as a percentage of the median. For example, given a COD of 15%, a property worth \$100,000 has a 50% chance to be assessed between \$85,000 and \$115,000. The IAAO sets an acceptable range for the COD at between 5 and 15. Higher values indicate less uniformity.
- **Price-Related Differential** The PRD is a measure of regressivity (also known as vertical equity) calculated by dividing the mean sales ratio by the price-weighted mean ratio. For example, assume a jurisdiction contains two homes, one worth \$100,000 assessed at 12% of the sale price and a second worth \$1,000,000 assessed at 8% of the sale price. The mean ratio would be 10%

(12% + 8% divided by 2) while the weighted mean ratio would be 8.4% (12% * 100,000 + 8% * 1,000,000 divided by 1,100,000). The resulting PRD (10% divided by 8.4%) would be 1.20. Higher values of PRD indicate greater regressivity. The IAAO sets an acceptable range for the PRD at between .98 and 1.03.

- Coefficient of Price-Related Bias The PRB is a regression-based measure that estimates the relationship between the sales ratio and a given proxy for actual property value determined by giving equal weight to sale price and assessed value. PRB measures the change in the assessment ratio that can be expected to result from a 100% change in this value proxy. For example, a PRB of 0.031 indicates that assessment ratios increase by 3.1% when the home value increases by 100%. Lower (more negative) values of PRB indicate greater regressivity. The IAAO sets an acceptable range for the PRB at -.05 to .05; and

WHEREAS, The State of Michigan’s Tax Commission should include in its Guide to Basic Assessing the IAAO’s standards for uniformity and regressivity, that specifies acceptable maximum and minimum levels for metrics assessment efficacy; **BE IT THEREFORE**

RESOLVED, The Detroit City Council urges the State of Michigan Tax Commission to modify the methods of assessing residential property in the assessor’s manual in a manner that prevents over-assessment resulting in the over taxation of residential property owners; and **BE IT FURTHER**

RESOLVED, The Detroit City Council urges the State of Michigan Tax Commission to consider incorporating the International Association of Assessing Officers’ standards for assessment efficacy, including but not limited to the three most commonly used metrics: the coefficient of dispersion (COD); the price-related differential (PRD); and the coefficient of price-related bias (PRB) are utilized to determine the regressivity in property assessments; and **BE IT FINALLY**

RESOLVED, That a copy of this resolution be submitted to Mayor Duggan and the State of Michigan Tax Commission.