

2007 ABATEMENTS AND AUTHORITIES CLASS

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SUPPLEMENTAL MATERIALS SECTION

September 2007 Abatements and Authorities Class

INTRODUCTION TO ABATEMENTS - J. Turner

During this part of the class we will cover the following topics:

1. Concept of multiple tax rolls: ad valorem, Improvement, personal property
2. Concept of “districts” I.D.D., P.R.D., NEZ et cetera
3. Within a district
 - a. Millage rate manipulation: (1) contemporary and (2) modified
 - b. Concept of value changes: frozen and contemporary
5. Method of assigning values for “frozen” assessments
 - a. When equal assignments are appropriate
 - b. When unequal assignments are appropriate
6. Class Example
 - a. distribute example and do together
7. Class exercises
 - a. distribute exercises for students to do

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CONCEPT 1

Abatement programs require both:

- an ad valorem tax roll and a
- a specific tax roll

CONCEPT 2

ABATEMENT PROGRAMS REQUIRE A SPECIFIC DISTRICT

- The IFT program requires the creation of either an Industrial Development District or;
- the creation of a Plant Rehabilitation District

CONCEPT 3

Within a “district” both an ad valorem rule applies and rules for the “specific tax” apply:

- land within the district remains on the ad valorem tax roll
- There usually is a “specific” or modified ad valorem millage rate to be applied
- contemporary millage rates apply to the land
- The concept of “value” is legally modified:
 - A value may be frozen for the duration of the abatement
 - values may remain current Taxable Values
 - Rule: when the value is frozen - a contemporary millage rate is normally use
 - Rule: when the value is required to be current, a modified millage rate is used
- A fair, equitable and reasonable method must be developed for allocating frozen values (when necessary) among properties within the “district”
- An example which illustrates an apportionment follows

Abatements and Authorities - Class Apportionment Exercise

The story:

You have been asked to apportion a “frozen” taxable value over several improvements on an abatement roll. The frozen value cannot be equally distributed across each improvement because they do not have equal values.

Here is what happened. A multi-story apartment building has been converted to condominiums. Buyers in this market place will pay a significant premium for condominiums which are at the third floor and above. In part, this is a result of safety concerns. It is a generally accepted principle in this market that first and second floor units are more likely to suffer from break-ins or other forms of theft. In addition, this building is located in an area near a park. The view is peaceful and the sunrises and sunsets over the trees and grass are very pleasant. The apartment building is in a nice area and even though market forces act on concerns over safety in addition to the visual amenity; the building is regarded as a desirable place to live. The bottom line is there is a strong market for these condominiums and it is affected by the two market rules just stated.

Your job: You have been charged with determining how the “frozen” values for a Rehabilitation roll should be assigned. You know the total amount to be spread is \$750,000 and that it is to be apportioned among 16 improvements. The condominiums (formerly apartments) have been put up for sale. There are four floors with four condominiums per floor. Each floor has already had one condominium sell in an arms length transaction. The four condominiums on the ground floor seem to be selling for \$90,000. Condominiums on the second floor are selling for \$92,500, condominiums on the third floor are selling for \$120,000 and condominiums on the fourth floor are selling for \$130,000.

What is the proper frozen value for each condo?

True Cash Value of a First Floor Condominium _____

True Cash Value of a Second Floor Condominium _____

True Cash Value of a Third Floor Condominium _____

True Cash Value of a Fourth Floor Condominium _____

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IFT Background Page 1

Background Information on Properties

Current Values				
Parcel	Land Taxable Value	Improvements Taxable Value	Personalty Taxable Value	
1	\$50,000	None		Speculative Site
2	\$50,000		\$500,000	Old Bldg w/Cell Tower BLL
3	\$25,000	\$750,000	\$300,000	R & D Lab
4	\$25,000	\$250,000	\$700,000	Large Bakery
5	\$100,000	\$800,000	\$1,000	20,000 sq ft Bakery/Whse
6	\$100,000	\$250,000	\$1,500	6 unit apt
7	\$75,000	\$1,000,000	\$600,000	Medical Clinic
8	\$50,000	None	None	Vacant Comm.
9	\$75,000	None	None	Vacant Comm
10	\$75,000	\$20,000	\$500	Hand Car Wash

Grey area - future DDA expansion

<p><u>5</u></p> <p>Now retail to be Site for new warehouse</p>	<p><u>4</u></p> <p>Bakery</p>	<p><u>3</u></p> <p>Now Bakery Whse - to be R&D Lab</p>	<p><u>2</u></p> <p>Old Bldg w/Cell Tower</p>	<p><u>1</u></p> <p>Vacant</p>
<p><u>6</u></p> <p>Six Unit Apt Bldg</p>	<p><u>7</u></p> <p>Medical Clinic</p>	<p><u>8</u></p> <p>Vacant</p>	<p><u>9</u></p> <p>Vacant</p>	<p><u>10</u></p> <p>Hand Car Wash</p>

NOTE: The area in grey has been targeted for redevelopment if a DDA is formed. The cell tower currently sits atop an old, abandoned but structurally sound, building formerly with retail down and 3 floors of apartments up. One of the uses of DDA collections will be to replace 75 year old water and sewer lines on the south side of the block. The DDA will actually be an expansion of the DDA boundaries to the north and west which were used to pay for a new 1500 car public parking facility built three years ago. The added parking has spurred the developments planned for this block.

Background Information on Properties

MILLAGE RATE TABLES

Millage Rates Non-Homestead	SUMMER	Millage Rates Non-Homestead	WINTER
5.2598	City	1.6186	County Operating
0.0000	City Debt	0.3927	Community Hospital (voted debt)
2.9532	Trash	0.3295	Senior Citizens (voted County)
2.0000	City Police and Fire	0.4993	Mosquito Control (voted County)
3.2372	County Operating	0.2496	Community Hospital (voted Operating)
18.0000	School Operating	0.3394	County Law Enforcement (voted)
3.9000	School Debt	0.1615	County Parks & Recreation (voted)
1.9417	ISD Special Ed	0.1997	County Museum (voted)
0.1455	ISD Operating	0.0497	County Juvenile Home debt (voted)
2.0427	Community College	0.4493	County Civic Center (voted)
3.0000	Public Transit		
3.9947	Public Library	4.0000	City Police and Fire
6.0000	State Ed Tax		
52.4748	NON-HOMESTEAD RATE	8.2893	NON-HOMESTEAD RATE

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Exercise 1

A “REHAB” IFT Requires the creation of two new tax rolls. It “freezes” existing taxable values and assesses them against an IFT roll.

Useful Information: Of the ten properties being examined, two have existing IFT certificates; properties 3 and 4. Both are Rehab certificates effective Dec.31, 2005 and expiring in December 31, 2017. Prior to the rehabilitation (August 2005), the improvement value for each property was \$200,000 and that is to be frozen. The bakery (lot 4) was modernized to the extent its Taxable Value would be \$75,000 if not for the IFT. The former warehouse (lot 3) has been converted to a research lab and warehouse. A new warehouse is to be built on the corner (lot 5) at a cost of \$1.8 million. An IFT New District was properly created and the facility will be put on the roll this coming December 31st. Personal property did exist prior to the restoration. The values to be frozen were: Parcel 3 \$2,500; Parcel 4 \$10,000. The bakery company is investing enough money in lot 3 to result in a taxable value of \$750,000 for the improvements and \$300,000 in personalty. Investments in lot 4 will produce a taxable value for the improvements of \$250,000 and personal property in the amount of \$700,000 (Taxable Value). Ordinary land values are \$100,000 per lot but an environmental issue exists which the assessor has accounted for in each property affected. These values have not changed since 2004.

Procedure: Refer to IFT REHAB Master Sheet and specifically review the land, improvement, and personal property values. Unfortunately, due to a series of situations (a lightning strike on the assessor’s office and a fire), the original Rehab roll has been destroyed and it must be reconstructed.

Student Task: Using the referenced information, identify which values are to be placed insert values for an ad valorem tax roll and IFT Rehab Roll

Calendar Year 2007 - Values				
Parcel	Land Taxable Value	Improvements Taxable Value	Personalty Taxable Value	
1	\$50,000	None		Speculative Site
2	\$50,000		\$500,000	Cell Tower
3	\$25,000	\$750,000	\$300,000	R & D Lab
4	\$25,000	\$250,000	\$700,000	Large Bakery
5	\$100,000	\$300,000	\$1,000	4 story - 20,000 sq ft Retail
6	\$100,000	\$250,000	\$1,500	6 unit apt
7	\$75,000	\$1,000,000	\$600,000	Medical Clinic
8	\$50,000	None	None	Vacant Comm.
9	\$75,000	None	None	Vacant Comm
10	\$75,000	\$20,000	\$500	Hand Car Wash

Ad Valorem: IFT REHAB Land	
Parcel	Taxable Value
1	
2	
3	Frozen Value
4	Frozen Value
5	
6	
7	
8	
9	
10	

IFT REHAB ROLL: PERSONAL PROPERTY	
Parcel	Taxable Value
1	
2	
3	Frozen Value
4	Frozen Value
5	
6	
7	
8	
9	
10	

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Exercise 2

A "NEW" IFT Requires the creation of tax rolls and adjusts the applied millage rates.

Useful Information: Of the ten properties being examined, one has a new IFT certificate pending: Lot 5. Ordinary land values are \$100,000 per lot but an environmental issue exists which the assessor has accounted for in each property affected. The bakery located on lot 4 has decided to expand by acquiring lot 5, demolishing the existing structure and building a new building with warehousing. The IFT district was created properly formed and if all goes well a certificate will be effective December 31, 2007. Even though the background lot diagram states Lot 5 is to become a warehouse, construction is complete and the IFT Background sheets contain values based upon new construction.

Procedure: Refer to IFT Background Information and specifically review the land, improvement and personal property values.

Student Task: Using the referenced information, **insert the values** for an ad valorem tax roll and NEZ Rolls

Ad Valorem Roll - Calendar Year 2007

Parcel	Land Taxable Value	Improvements Taxable Value	Improvement TCV prior to Rehab	Class by Assessor	
1	\$50,000			C	Speculative Site
2	\$50,000		\$500,000	C	Cell Tower
3	\$25,000	\$750,000	\$300,000	C	R&D Lab
4	\$25,000	\$250,000	\$700,000	I	Large Bakery
5	\$100,000	\$300,000	\$1,000	I	Baking/Whse New
6	\$100,000	\$250,000	\$1,500	I	6 unit apt
7	\$75,000	\$1,000,000	\$600,000	R	Medical Clinic
8	\$50,000			R	Vacant Comm
9	\$75,000			R	Vacant Comm
10	\$75,000	\$20,000	\$500	R	Hand Car Wash

IFT: Ad Valorem Roll (Land)		IFT NEW ROLL		IFT NEW PERSONAL PROPERTY ROLL	
Parcel	Taxable Value	Parcel	Taxable Value	Parcel	Taxable Value
1		1		1	
2		2		2	
3		3		3	
4		4		4	
5		5		5	
6		6		6	
7		7		7	
8		8		8	
9		9		9	
10		10		10	

Exercise 3 Calculating taxes for an IFT Rehabilitation Project - Frozen Values

Useful Information: Among the forms of special assessments, the ad valorem or “millage” based special assessment is levied against a taxable value. You must also consider how to tax handle debt millages and the special assessment. Select the correct values and millage rates and calculate the taxes to be levied on this Rehab roll. As noted, parcels 3 and 4 have been granted rehab certificates.

Procedure: Refer to IFT REHAB Master Sheet and specifically review the land, improvement and personal property values. See 207.561(6) for special assessment levies.

Student Task: Using the referenced information, create an ad valorem tax roll, and an IFT Plant Rehabilitation District Roll

- | | |
|------------------------------------|---|
| 5.2598 City Operating | 1.6186 County Operating |
| 0.0000 City Debt | 0.3927 Community Hospital (Voted Debt) |
| 2.9532 Trash | 0.3295 Senior Citizens (voted County) |
| 2.0000 City Police and Fire | 0.4993 Mosquito Control (voted County) |
| 3.2372 County Operating | 0.2496 Community Hospital (voted Operating) |
| 18.0000 School Operating | 0.3394 County Law Enforcement (voted) |
| 3.9000 School Debt | 0.1615 County Parks & Recreation (voted) |
| 1.9417 ISD Special Ed | 0.1997 County Museum (voted) |
| 0.1455 ISD Operating | 0.0497 County Juvenile Home debt (voted) |
| 2.0427 Community College | 0.4493 County Civic Center (voted) |
| 3.0000 Public Transit | 4.0000 City Police and Fire (Special Assmnt) |
| 3.9947 Public Library | 52.4748 |
| 6.0000 State Ed Tax | 8.2893 Winter non-Homestead |
| 52.4748 Summer non-Homestead | |

IFT Rehabilitation Land: AD VALOREM ROLL					
Parcel	Value	Millage Rate	Summer Tax	Millage Rate	Winter Tax
1					
2					
3	\$25,000	52.4748	\$1,311.87	8.2893	\$207.23
4	\$25,000	52.4748	\$1,311.87	8.2893	\$207.23
5					
6					
7					
8					
9					
10					

IFT Rehabilitation: Real PROPERTY ROLL			
Millage Rate	Summer	Winter	
	52.4748	8.2893	
Parcel	Taxable Value	Summer Tax	Winter Tax
1			
2			
3	\$200,000	\$10,494.96	\$1,657.86
4	\$200,000	\$10,494.96	\$1,657.86
5			
6			
7			
8			
9			
10			

IFT: PERSONAL PROPERTY			
Millage Rate	Summer	Winter	
	52.4748	8.2893	
Parcel	Taxable Value	Summer Tax	Winter Tax
1			
2			
3	\$2,500	\$131.19	\$20.72
4	\$10,000	\$524.75	\$82.89
5			
6			
7			
8			
9			
10			

Exercise 4 Calculating taxes for an IFT New Project

Useful Information: Among the forms of special assessments, the ad valorem or “millage” based special assessment is levied against a taxable value. Select the correct values and millage rates and calculate the taxes to be levied on this Rehab roll. As noted, parcel 5 has been granted an IFT New certificate.

Procedure: Refer to IFT Master Sheet and specifically review the land, improvement and personal property values. See M.C.L. 207.561(6) for special assessment levies.

Student Task: Using the referenced information, create an ad valorem tax roll, and two IFT Rolls

- 5.2598 City Operating
- 0.0000 City Debt
- 2.9532 Trash
- 2.0000 City Police and Fire**
- 3.2372 County Operating
- 18.0000 School Operating
- 3.9000 School Debt
- 1.9417 ISD Special Ed
- 0.1455 ISD Operating
- 2.0427 Community College
- 3.0000 Public Transit
- 3.9947 Public Library
- 6.0000 State Ed Tax
- 52.4748 Summer non-Homestead
- 1.6186 County Operating
- 0.3927 Community Hospital (Voted Debt)
- 0.3295 Senior Citizens (voted County)
- 0.4993 Mosquito Control (voted County)
- 0.2496 Community Hospital (voted Operating)
- 0.3394 County Law Enforcement (voted)
- 0.1615 County Parks & Recreation (voted)
- 0.1997 County Museum (voted)
- 0.0497 County Juvenile Home debt (voted)
- 0.4493 County Civic Center (voted)
- 4.0000 City Police and Fire (Special Assmnt)**
- 52.4748
- 8.2893 Winter non-Homestead

IFT NEW : AD VALOREM ROLL (Land)					
Parcel	Value	Millage Rate	Summer Tax	Millage Rate	Winter Tax
1					
2					
3					
4					
5	\$100,000	46.4748	\$4,647.48	8.2893	\$828.93
6					
7					
8					
9					
10					

IFT NEW: Real Property ROLL (Improvements)			
Millage Rate	Summer	Winter	
	46.4748	8.2893	
Parcel	Taxable Value	Summer Tax	Winter Tax
1			
2			
3			
4			
5	\$800,000	\$37,180	\$6,631.44
6			
7			
8			
9			
10			

IFT: PERSONAL PROPERTY			
Millage Rate	Summer	Winter	
	46.4748	8.2893	
Parcel	Taxable Value	Summer Tax	Winter Tax
1			
2			
3			
4			
5	\$1,000	\$46.47	\$8.29
6			
7			
8			
9			
10			