

2008 REPORT

CITY OF SAGINAW PROPERTY TAX BOARD OF REVIEW



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EXECUTIVE SUMMARY

This report is provided as a response to a request from Councilman Paul Virciglio who attended a session of the 2008 Board of Review (BOR). Since this is the first known Board of Review report requested by a Councilperson, it contains a substantial amount of background information. Besides basics of 2008 appeals, the reader will have access to answers to questions such as when the Board meets, why it meets, who appears before it and what may be appealed and factors identified as affecting, or potentially affecting the property tax base of the city.

The BOR conducts annual hearings at which citizens and entities subject to an annual property tax levy may file appeals. Decisions of the city of Saginaw's property tax BOR are appealed to the Michigan Tax Tribunal and from there to the Court of Appeals. All appeals are appeals of the State Equalized Value (SEV). Most involve a market forces; a few are based upon financial hardship and a few petitions based upon contamination are filed annually. Special assessments may not be appealed to the BOR. The Board may act only on the SEV of a property. It has no authority to directly change a Taxable Value (TV).

Based upon SEV, the *market value* of all taxable real and personal property subject to appeal is approximately \$1.5 Billion Dollars. County-wide there is approximately \$12 Billion of taxable property. Based on SEV, Saginaw City ranks 2nd in the county. Saginaw Twp. is 1st at about \$3 Billion of value and Thomas Twp. is 3rd at about \$1 Billion. Others are less than \$0.6 Billion.

The S.E.V. of city property is \$748,435,274. Taxes are levied against a Taxable Value of \$721,640,702. The value of property taxed at the Homestead Rate is approximately \$410 Million. Based upon last year's Homestead millage rate (\$42.76) the city's value will generate \$17.9 Million in taxes for all government units. Using last year's Non-Homestead rate (\$60.76), the non-homestead base of \$312 Million will generate \$21 Million. Of \$39 Million in total tax revenue, the city will receive about \$10 Million and other tax units \$29 Million. If the six mill police and fire levy was an ad valorem millage rate instead of a special assessment, it would raise about \$635,400 more. It is recognized that the existing tax cap prevented an ad valorem levy for police and fire.

Under very specific and unique circumstances, a citizen may be granted partial or full exemption from property taxes via a "Hardship Exemption." Requests for hardship exemptions have increased but are a very small part of the tax base (only 33 of more than 10,000 eligible properties). Taxable Value exempted is minuscule and does not materially affect tax collections. Requests for these exemptions climbed over the past five years and are expected to continue to rise.

Testimony before the Board indicates Saginaw's tax base is at risk due to foreclosures, tax reversions, blight petty crime and nuisance behavior and the conversion of owner occupied homes to rental units. Owner occupied housing is being converted to rental units. Market value of owner occupied homes is much greater than the same property as a converted to rental unit.

Both residential and commercial neighborhoods are discussed in terms of market influences. Examples include a commercial area where streetscaping and facade improvement increased annual gross business income by 25 to 50 percent. Maps illustrate the distribution of properties reverted as a result of non-payment of taxes; reverted to lending institutions for non-payment of loans; and the distribution of property sales judged by the Assessor to be "arms length" transactions. Speculation is made that if nuisance and criminal behavior are removed as housing deterrents, long term cost of living trends (gasoline prices, home heating costs et cetera) may make city housing more attractive due to its more affordable homes, available transit service central location.

BOARD OF REVIEW

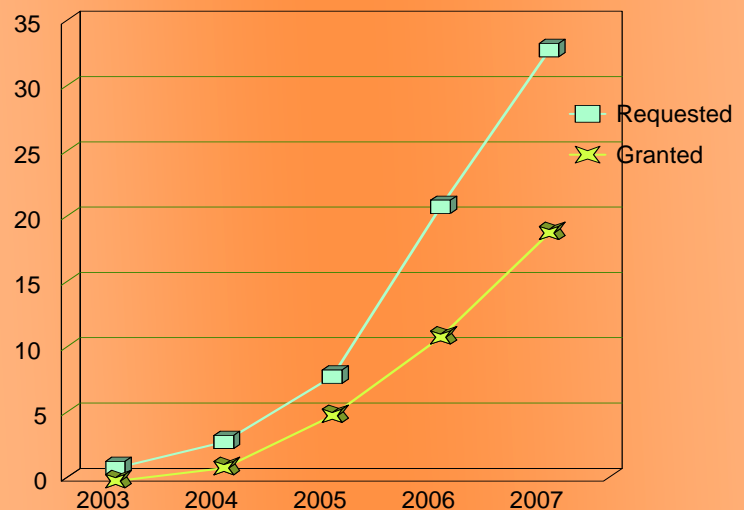
Description

The Property Tax Board of Review is an appellate body required by state law MCL 211.28 et seq. and the Charter of the City of Saginaw (Chap. 5, Sect. 37). It consists of five members of the public appointed by Council for indefinite terms of service. The five current members are: Diana Bearss, Clara Kinch, Karla Matuzak, Robert Szcypka and Joseph Turner. Ms. Bearss is an active real estate agent and member of the Saginaw Board of Realtors. Clara Kinch is a retiree and self employed supplier of data entry and office management services. Karla Matuzak is a homemaker and retired certified assessment administrator. Robert Szcypka is a retired General Motors skilled tradesman. Joseph Turner is the CEO of a property tax and economic development firm.

Meeting Dates

The Board of Review cycle of meetings begins with its first meetings of the year in March. These meetings are required beginning on the 2nd Monday in March (MCL 211.30 and Charter, Chap. 8, Sect. 56). The March Board of Review meets as needed over a two week period. (Charter Chapter 8, Sect. 57). The 2008 property tax Board of Review held public meetings during the time period March 10 thru March 21, 2008 and then reconvened for a special meeting to decide unresolved appeals on March 26, 2008. It is expected to hold public meetings in July and December 2008 to hear petitions. Matters which may be appealed in July and December are strictly limited.

Requests for Hardship Exemption By Year



HARDSHIP EXEMPTION

Background

A “Hardship Exemption” may be granted through the action of a local Board of Review after the creation of guidelines mandated by state law and adopted by the local taxing authority (City, Township or Village). The exemption is granted on

“the principle residence of persons who, in the judgement of the supervisor and Board of Review, by reason of poverty, are unable to contribute toward the public charges is eligible for exemption in whole or in part from taxation under this act.” MCL 211.7(u)

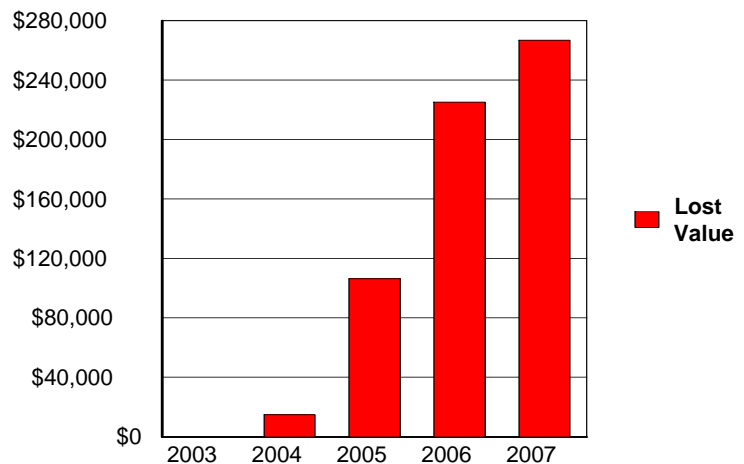
Hardship exemptions are one of several forms of property tax relief available to citizens subject to the property tax. For many decades it was known as the “Poverty Exemption”. It was established to assure that those citizens meeting very specific criteria, and who for some unfortunate reason are unable to pay the public burden, are provided with partial or full relief from the annual property tax burden. According to Council guidelines a one year “Hardship Exemption” may be requested up to three times during the period of their ownership of a homestead. The exemption is limited to homesteads (primary residence) and may be granted in part or for the full amount of any taxes due in one year.

Local guidelines vary from jurisdiction to jurisdiction. In March 2008, City Council adopted a new set of guidelines for an application to of the Board of Review. The guidelines were an affirmation of previously adopted guidelines with some changes. State Tax Commission issued guidelines also exist for granting the exemption. Local Boards of Review have the power to grant exemptions which do not comply with the guidelines under limited circumstances. This power has been interpreted by the Saginaw Board to be warranted only in very exceptional circumstances and after consultation with the Assessor. In the past five years, there have been a handful of such circumstances. They have generally been related to catastrophic medical conditions and associated medical bills which have overwhelmed the taxpayer. Applicants may apply for the exemption at any of the three annual Board of Review proceedings. These sessions are held in March, July and December of each year pursuant to state law.

To put citizen use of the Hardship Exemption and subsequent grants of it in perspective; there are more than 10,000 qualifying homesteads or principle residences within the jurisdiction of the city of Saginaw. Of these, only Thirty-six exemptions have been granted in the past five years. It should be noted, that a there has been a 30 fold rise in the number of applicants annually if one compares calendar year 2003 applications (1) with calendar year 2007 applications (32). The increased number of applicants has resulted, in great part, as a result of referrals from other agencies. The most frequent applicant referral by far, arises when persons who have not paid their property taxes, contact county officials to arrange partial payments.

Where the applicant is at risk of losing his or her home due to tax reversions, Saginaw County officials have begun making earnest attempts to assist the delinquent taxpayer. As part of the process, the applicant is referred to the Board of Review for the Hardship Exemption. In virtually every referral case, the applicant has serious financial circumstances and most meet the

Taxable Value Lost Due To Hardship Exemptions



criteria established for the exemption by state and city officials. Sworn testimony from appellants illustrate most hardship appeals presented to the 2008 BOR resulted from referrals.

For every \$100,000 in lost Taxable Value, the collection of taxes for all government units is reduced by about \$4,300; \$1,421 for the city. While applications for “Hardship Exemptions” have been rising, the number granted and their effect on the tax base is very, very small. Of 23,461 properties classified as residential, only 32 applied in 2008 for a Hardship Exemption.

Principles Considered in the decision process

There are two general principles of ad valorem property taxation which have been established by the courts of the state of Michigan. The first is: “*In general, tax laws are to be construed against government.*” *Great Lakes Sales, Inc. v Michigan State Tax Commission*, 194 Mich App 271, 276; 486 NW2d 367 (1992). The second is: “*tax exemption statutes are strictly construed in favor of government.*” *Elias Brothers Restaurants v Michigan Treasury Department*, 452 Mich 144, 150; 549 NW2d 857 (1996). Hardship exemptions fall under the second admonition. The Board of Review keeps these admonitions in mind as it considers appeals.

Alternatives to Hardship Exemption

There are alternatives to the Hardship Exemption which protect taxpayers from overwhelming property tax burdens. In 1973, Public Act 20 was passed. PA 20 is well known today as the “circuit breaker law” or homestead exemption. It is obtained through the Michigan 1040cr income tax credit form.

This law, essentially limits the obligation of a taxpayer to a property tax burden of no more than 3.5 percent of household income. The idea is that no one should be taxed out of their home if their financial circumstances should change; while at the same time, everyone should bear a responsibility for the cost of government.

Common examples of situations which trigger tax relief under the “circuit breaker” law would be a person retiring and experiencing a reduced income or when a one person in a household dies and the remaining party wants to be able to continue living in the homestead.

In their simplest form, calculations are set up so that once a property tax burden exceeds 3.5% of household income, the state of Michigan issues a check for the amount of taxes exceeding the 3.5 percent trigger point. The state pays because it permits property taxation at the local level.

Qualifying senior citizens and other special categories of citizens will receive a check in the amount of the difference between their 3.5 percent obligation and the actual amount of taxes levied. The check is capped at \$1,200.00 for each qualifying year. Citizens who do not qualify for any special considerations, are eligible for a check equivalent to 60 percent of the actual tax burden which exceeds the 3.5 percent trigger point. They too are capped at \$1,200.00 per year. The rule is illustrated in the following table. The \$1,200 refund was increased to \$1,300 effective in 2008.

Table of tax obligations based upon household income

Household Income	Tax Obligation	Income	Example Tax
Less than \$3000	Zero	\$2,500	0
Between \$3,001 and \$4,000	1 percent	\$3,500	\$35
Between \$4,001 and \$5,000	2 percent	\$4,500	\$90
Between \$5,001 and \$6,000	3 percent	\$5,500	\$155
\$6001 or more (\$82,650cap)	3.5 percent	\$10,000	\$350

PA 20 of 1972 applies to every citizen, working or not. Therefore, it helps the working poor; the ordinary citizen and it is of great use to college students or renters occupying property which is taxed. Renters are able to consider 20 percent of their rent as equivalent to property taxes. All have their tax burden capped at 3.5 percent and receive up to \$1,300 in cash if the local property tax exceeds the state mandated obligation.

Hardship Exemption rules enacted by Council

The formula created by City Council for use as a guideline, includes the 3.5 percent criteria described above. In an appeal to the city of Saginaw BOR, a typical applicant is first qualified for a Hardship Exemption by meeting several criteria.

- First they must meet federal and state poverty guidelines
- Then guidelines with respect to age and/or physical or other impairments
- Applicants provide testimony under oath

Following the pre-requisite requirements, an applicant may qualify for an exemption upon successfully passing the following tests:

1. Must complete a one year application for the hardship exemption
2. Is required to submit federal and state income tax returns and document assets
3. Must produce a driver's license of other acceptable identification to BOR
4. Is limited to three applications during one ownership of property
5. Cannot have more than \$10,000 in assets and no more cash than "one month's gross household income
6. May be asked to appear in person as a condition to appeal
7. The BOR will evaluate each exemption based upon the city's guidelines and it may deviate from them if substantial and compelling reasons to do so exist
8. Will have the application denied if the applicant's total household income exceeds federal guidelines.

9. Approved applicants shall pay taxes equal to 3.5 percent of total household gross income; except those applicants over age 65, paraplegic, quadriplegic, hemiplegic or totally and permanently disabled as defined under Social Security guidelines (42 USC 416)
10. Assets are limited to no more cash than one month's gross household income and physical assets valued at no more than \$10,000. One car and the home are excluded from this test. Once an applicant passes these tests, the applicant must provide certain "documentation."

Applicants who have passed the appropriate tests and who have provided proper documentation are then considered for a "hardship exemption". This means the applicant's income is compared to existing state guidelines that consist of a sliding scale of minimum tax obligations. With certain exceptions, Council guidelines require "hardship" applicants to pay 3.5 percent of their household income as part of the exemption approval.

Exceptions to general rules of the Hardship Exemption

Exceptions to the 3.5 percent rule include "applicants over age 65, paraplegic, quadriplegic, hemiplegic or totally and permanently disabled persons as defined under Social Security Guidelines." Here are the minimum required payments for those applicants qualifying for the exceptions:

Where there is a total household income (H.H.I.) of:

1. Less than \$6,000 per year, an applicant may be completely exempted
2. Between \$6,000 and \$7,000 the applicant must pay an amount of 1% of H.H.I.
3. Between \$7,001 and \$8,000 the applicant must pay an amount of 2% of H.H.I.
4. Between \$8,001 and \$9,310 the applicant must pay an amount of 3% of H.H.I.
5. An applicant with an H.H.I. of greater than \$9,310 will pay 3.5% of H.H.I.

You may note that these categories of citizens are permitted to have higher HHI than the ordinary qualification found in the Circuit Breaker. For example, these specially qualified taxpayers may have incomes of up to \$6,000 and still qualify for a complete exemption, whereas the taxpayer not qualifying for the income exceptions cannot receive a 100 percent exemption unless their income is \$3000 or less. For purposes of clarity, a "Table" follows which illustrates these rules.

Table illustrating tax obligation of exception applicants for Hardship Exemption

Applicant Status	Tax Obligation
Routine Exemption Applicant	3.5%
Applicant with Exception	
Gross Household income	
Less than \$6,000	Zero
Between \$6,001 and \$7,000	1 percent
Between \$7,001 and \$8,000	2 percent
Between \$8,001 and \$9,310	3 percent
Between \$9,311 and (\$82,650cap)	3.5 percent

Mechanics of the Hardship Exemption process

To achieve an exemption which follows Council guidelines, the BOR lowers an SEV enough to force a property’s Taxable Value to be reduced to the point where Council’s guidelines are met. Property taxes are generated by multiplying a millage rate times a value. So, the millage rate does not change, but as the value is reduced the tax burden goes down. This means most applicants will not be truly exempted. They’ll continue to pay 3.5 percent of their income in local property taxes. Calculating the correct reduction in the SEV is accomplished with the assistance of the Assessor.

There are two mathematical variables associated with the guidelines of Council which impact the final hardship exemption. First, the formula presumes that the millage rate for the year in which the abatement is granted (Calendar Year 2008 for this report) will remain the same as the preceding rate. If the rate should change in any way, then the tax burden will change: the July and December taxes being either higher or lower than what was projected in March. Second, it is possible under extenuating circumstances that the BOR could establish a value which varies from the guidelines.

“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.” MCL 211.7u(5)

Example of a hardship exemption without any rule exceptions

To illustrate a “standard” Hardship Exemption, let us assume a married, middle-aged taxpayer with a Household Income (H.H.I.) of \$12,000 last year. The low income was due to missed work which resulted from a recent automobile accident. There is a need for extensive medical care

without a chance of returning to work for more than ten months. This taxpayer has applied for a hardship exemption. Assume the taxable value of the home is \$22,000 and a target tax of 3.5% of H.H.I. or \$252. Further assume the appropriate millage rate in total is 43 mills.

The taxpayer will pass all guidelines and is obligated to pay 3.5 percent of household income. HHI is projected at \$7,200 in 2008 based upon certain disability payments recently made available to the taxpayer. The spouse is not employed and will remain home as a care giver.

Taxpayer's Obligation	Taxable Value	Millage Rate	SEV Reduced To
3.5%	\$22,000	.043	
\$7,200 * .035 = \$252			\$252/.043 = \$5860

Note: A tax based upon \$22,000 would have yielded property taxes of approximately \$22,000 * .043 or \$946. The net tax reduction is \$946-\$252 or about \$694. Of the amount "exempted" about \$93 would have gone to the general fund of the city. About \$97 would have gone to the special police millage.

DISTINGUISHING BETWEEN WORK OF ASSESSORS AND EQUALIZATION OFFICIALS

The distinguishing feature between what an Assessor does and what occurs in the equalization process is that an Assessor examines every single property, sets a value and places each property on a listing called a tax roll. The valuation role of the assessor is to set individual values.

In the first step of the equalization process, the Equalization Director examines large groups or sets of properties which have sold, determines *the ratio between the selling price and the Assessor's determination of value* (for each property) and verifies whether the ratio between the assessor's aggregate determination of value and the aggregate selling price of the group of sold properties is 50 percent. The groups or sets of properties are separated by their legal status: some are residential properties, some are commercial properties, some are industrial properties et cetera. Thus, the Assessor sets individual values and the equalization process verifies "ratios."

An Equalization Director cannot order a change to an individual property's value. The Equalization Director looks at all the properties that have sold and determines whether or not the average of all sold properties is at 50 percent of market value. If the average is too low the Equalization Director may order the assessor to adjust all properties within a certain class (say residential) by a certain multiplier (say 1.05). The same process works if it turns out the Assessor has put too high a value on properties. In cases where the properties are overassessed, the factor or multiplier will be less than 1.00 (say .95). A factor of 1.00 means the unit is assessing properly.

It is this process, the examination of sales and the establishment of a county equalization factor, which is the first step in the overall state equalization process. County Equalization factors

which vary from 1.00 are not at all uncommon. However, the city of Saginaw has had only one year in the past 35 years in which it took a factor other than 1.00.

The final equalization step is completed by state officials. State Tax Commission (STC) representatives check the work of each county Equalization Director in Michigan. It is rare, but possible, for a factor to be ordered by State Tax Commission officials. If that were the case, then a situation very similar to that in the county equalization process transpires. A factor or multiplier is issued under authority of state officials which will modify each individual property value in a specific class of properties.

In addition, the STC may make a determination that a local assessor or county officials are acting in ways so improper that the state actually seizes the tax roll and performs duties at the local level. To the best of the Board's knowledge, neither the city Assessor nor Saginaw County officials have ever been challenged nor threatened with these types of sanctions. Seizures of tax rolls do happen from time-to-time around the state though.

In summary, the city Assessor establishes values for each individual property. It is that value which is appealed to the Board of Review and modified by the Board's decision. The modified value is subject to certain factors or multipliers established by either county or state officials.

VALUE

The idea of determining "value" and how that value is appealed is a little trickier than one might think. It can involve a rather complex process.

Who determines value

Value determinations for individual properties are made by one person, the local assessor. For tax purposes, the only other time an Assessed Value can be determined by someone other than a local assessor is when the tax roll has been taken over by the State Tax Commission. Other entities do have the power to issue orders which force multipliers to be used against a value established by the local assessor. The value established by the Assessor for an individual property is known as the Assessed Value.

Multipliers and value

Multipliers are the instrument used to accomplish equalization. Multipliers in the equalization process relate to three of the fundamental values associated with ad valorem property taxation: the Assessed Value, the State Equalized Value and True Cash Value. The equalization multiplier can cause the value to either rise or fall because the multiplier can be either more than 1.00 or less than 1.00 (.95 for example). Equalization multipliers are created by examining the sale of groups of properties. There are no "caps" associated with individual properties in equalization.

A multiplier is also used against the Taxable Value, but this multiplier is much different than an equalization multiplier. The Taxable Value multiplier is used to create a "cap" on any potential

increase in Taxable Value. The multiplier is always greater than 1.00. However, it can never be larger than 1.05. This is the range of annual increase from inflation permitted by legislation. The number used is selected by the state of Michigan after examining inflation rates. The Taxable Value multiplier will be either the rate of inflation determined or 1.05; whichever is smaller.

Value - as used for property equalization and as used for tax levies

Value for tax levies

In 1994 a new value for tax purposes was created, *Taxable Value*. This value was a response to inflationary pressures and the idea property taxes were too big a burden. It was set by action of the legislature following a state-wide referendum known as Proposal A. Taxable Value is the value to which a millage rate is applied in calculating the actual tax.

A Taxable Value is simply a State Equalized Value that has aged. During the aging process the original SEV is capped in a particular year, either by the rate of inflation or 5 percent; whichever is less. This “capped” value is the property’s Taxable Value (T.V.).

The SEV and TV are set as identical numbers when a property changes ownership. Then, with each progressing year, if there is inflation, the SEV continues to rise at a rate that maintains it at 50 percent of True Cash Value. However, the Taxable Value gets capped and therefore it does not rise as quickly as SEV. Using this method, the legislature has provided a mechanism whereby long term property owners are protected from the ravages of inflation.

The term which refers to the market value of a property is either *True Cash Value* (the term used in Michigan laws) or the common real estate term, *Fair Market Value*. Michigan’s courts have formally ruled that True Cash Value (TCV) and the term Fair Market Value mean the same thing. The definitions basically mean a value established through property sales in which the participants were not under any special stress to sell or buy and where there were no extenuating circumstances (e.g. a pending mortgage foreclosure, tax reversion et cetera) that might affect negotiations.

Value and Equalization

TCV is the basis for SEV. The local assessor sets a value he or she believes represents one half of market value. There are checks and balances put into place to assure it meets the tests as a value indicative of 50 percent of True Cash Value. The process used today was established about 1968 and it is known as “Equalization”. There are two forms of equalized value: County Equalization and State Equalization.

County Equalization refers to the check county officials perform and the multiplier they order. State Equalization refers to the check properly empowered state of Michigan officials perform on county work and the multiplier the state orders.

The county official charged with the first verification of the assessed value is the County Equalization Director. He or she will review sales of properties within the unit being checked. The examination consists of the use of various statistical techniques and methods to examine every legitimate sale in the unit being checked. A similar process is performed by State Tax Commission officials on the work that county officials and the local assessor do.

Value Scrutiny by Board of Review

Like the Michigan Tax Tribunal, the Board of Review is responsible for deciding an exact value for a specific property under appeal. It is the obligation of the property owner to present evidence which overcomes a legal presumption that the assessor arrived at a proper determination of value. The determination of value is complex in part, because the determination process involves human judgement and in part because differing methodologies are used to determine “value.”

Human judgement as used here refers primarily to market factors which determine value. Value is established by the actions of “typical” buyers and sellers not acting under duress and being fully informed of the uses to which a property may be put. Some buyers are shrewd, some are not. Some sellers are shrewd, some are not. Therefore each individual transaction may vary *from the Fair Market Price because of the parties involved. So, a general principle by law is that “one sale does not make a market.”* The value of a property must be examined in context of other sales.

Methods for determining evidence of value

How does the context of “all sales” affect a determination of a property value? Especially when the Board of Review is presented with differing methods used by competent professionals to determine the affect.

To answer those questions, the Board first looks to the two fundamental methods in use: (1) the classic or *traditional appraisal method* of valuing of a single property or certain rights in real estate (e.g. leasehold interest, easements et cetera) and; (2) statistical analyses which require groups of property as opposed to a single property. The *statistical method* is referred to by scholars as “hedonic” analysis, though most assessors simply know the method as *multiple regression analysis*.

These processes (traditional appraisal and statistical methods) have been examined in a doctoral thesis which was published in part, as a magazine article. The scholar said:

“Typically, property assessments are determined by estimating property values through generally accepted principles of mass appraisal. These methods differ from traditional fee appraisal methods in that mass appraisal methods for residential properties use techniques designed around large information sets. Traditional appraisal information sets usually consist of a few like properties that have sold recently in the relevant market.” (*Real Estate Market Segmentation: A Review*, Hamilton, Thomas W., Assessment Journal, March/April 1996, page 47)

The traditional appraisal method most often presented to the Board of Review involves treating the property under appeal as a “subject” property and determining its market value by using three or more comparable properties as comparisons, adjusting for differences and selecting the property which is most indicative of the subject’s property after the adjustments are completed.

Consistent with mass appraisal methodology, the Board of Review is commonly provided with a statistical analysis of large groups of property by the Assessor. From them several properties are selected as being indicators of the market value along with an average value of the properties deemed to be indicators of the market value of the property under appeal.

So, methods of valuing real estate presented to the Board of Review include both traditional property appraisals and statistical analyses common to mass appraisal. The information is usually provided by credible experts. Members of the city's BOR carefully consider both sets of information when such evidence is presented concurrently.

Influences from outside the property being assessed

Foreclosures and Tax Reversions as a value influence

There is no question that the American real estate market is undergoing a significant change. Inventories of properties are up and prices are down. In addition, fundamental changes are occurring in costs-to-live relative to income levels. Personal debt is up, bankruptcies are up and home ownership is down. In a larger sense, more and more of the world's population is moving from poverty to employment. According to one BBC report, poverty world-wide has been reduced by 3 percent as manufacturing has shifted to new parts of the world.

Every community including the city of Saginaw has been affected. The current impact of all these changes locally, means turmoil with more and more homes being lost due to foreclosure of loans and large numbers of properties reverting to government for non-payment of taxes.

The lament of taxpayers feeling these economic pressures and the impact of previously healthy neighborhoods now containing vacant and abandoned homes was brought to the attention of the 2008 Board of Review more forcefully than in any of the almost 40 years this author has been associated with a Board of Review.

A fundamental question before this appellate body, or any of the others in the state, is how do foreclosures, tax reversions and vacancies affect property values? Another is, what evidence exists of changes in property value arising from proximity to foreclosed and tax reverted properties? Another is, what rules have been promulgated by government officials with regard to foreclosures and tax reversions?

One rule is, tax reverted properties are never included in a sales ratio study. These types of transactions do not involve a buyer and seller, neither being under duress.

Foreclosures, on the other hand may be included in a sales ratio study ... if the property itself is inspected and an elaborate verification process is used to qualify the sale. Guidelines for using sales may be found in Michigan's State Tax Commission Bulletin No. 6, of August 15, 2007. An excerpt of that bulletin follows.

“GUIDELINES FOR FORECLOSURE SALES”

- *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 the 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.”*

These instructions are followed by a list of ten additional verification questions and four other criteria.

It should be noted that few assessors include foreclosures within a sales ratio study. There may be good reasons. For example, in preparing for this year's Board of Review, one Board member called assessors in other parts of state. One who was interviewed told us foreclosures in his community represented one third of all properties listed for sale and of those foreclosures, law enforcement and government officials estimated twenty-five percent were scams. Besides the potential for scams, STC rules require great effort to verify sales by already overworked assessors.

The city of Saginaw's Assessor argues consistently that foreclosure sales do not represent market prices. County officials presenting annual training to those citizens serving on various local Boards of Review said mortgage foreclosures are not to be included in sales ratio studies.

Taxpayers, however, have adopted another perspective entirely. They vehemently argue that anyone can go out and buy one of the houses owned by banks through foreclosures and the properties are marketed just like other transactions regarded as being “arms-length transactions.”

So, what is the correct way for the Board and Council and others to view the impact of tax reverted, foreclosed and other properties which are appealed to the Board of Review? Board members listen to information presented as evidence and are mindful of it within the context of overall market conditions. This leads us to one of the most prevalent complaints before the city of Saginaw's property tax Board of Review.

Blight, crime and nuisances

Members of the Board of Review have heard many appeals over the past few years in which the evidence for a reduction in property value consisted in part of an argument that minor criminal activity (theft from vacant buildings, rowdy behavior et cetera) had changed the neighborhood for the worst and reduced values. While individual appeals are decided on specific conditions related to the property under appeal, criminal and nuisance activity within a neighborhood have been substantiated over many years as contributing factors to property values. Other portions of this report illustrate specific ratings of components of the neighborhood. What follows here is data that may be useful in determining which of Saginaw's neighborhoods may be at risk of decline.

A Crack in the Broken-Windows Theory

By *Richard Morin*

Sunday, January 30, 2005; Page B05, the *Washington Post*

“What causes some neighborhoods to thrive, while others decay? It’s a question that has fascinated social scientists for decades and led directly to the Broken Windows theory, which holds that ignoring the little problems -- graffiti, litter, shattered glass -- creates a sense of irreversible decline that leads people to abandon the community or to stay away.”

Mr. Morin’s article goes on to describe community policing efforts and social perceptions of those “little problems” from the perspective of various racial groups and police tactics..

A more complete description of the “broken window theory” may be found at: http://www.manhattan-institute.org/pdf/_atlantic_monthly-broken_windows.pdf. (April 22, 2008).

“Philip Zimbardo, a Stanford psychologist, reported in 1969 on some experiments testing the broken-window theory. He arranged to have an automobile without license plates parked with its hood up on a street in the Bronx and a comparable automobile on a street in Palo Alto, California. The car in the Bronx was attacked by "vandals" within ten minutes of its "abandonment." The first to arrive were a family -- father, mother, and young son -- who removed the radiator and battery. Within twenty-four hours, virtually everything of value had been removed. Then random destruction began -- windows were smashed, parts torn off, upholstery ripped. Children began to use the car as a playground. Most of the adult "vandals" were well dressed, apparently clean-cut whites. The car in Palo Alto sat untouched for more than a week. Then Zimbardo smashed part of it with a sledgehammer. Soon, passersby were joining in. Within a few hours, the car had been turned upside down and utterly destroyed. Again, the "vandals" appeared to be primarily respectable whites.”

“Untended property becomes fair game for people out for fun or plunder, and even for people who ordinarily would not dream of doing such things and who probably consider themselves law-abiding. Because of the nature of community life in the Bronx -- its anonymity, the frequency with which cars are abandoned and things are stolen or broken, the past experience of "no one caring" -- vandalism begins much more quickly than it does in staid Palo Alto, where people have come to believe that private possessions are cared for, and that mischievous behavior is costly. But vandalism can occur anywhere once communal barriers -- the sense of mutual regard and the obligations of civility -- are lowered by actions that seem to signal that "no one cares.”

“We suggest that "untended" behavior also leads to the breakdown of community controls. A stable neighborhood of families who care for their homes, mind each other's children, and confidently frown on unwanted intruders can change, in a few years or even a few months, to an inhospitable and frightening jungle. A piece of property is abandoned, weeds grow up, a window is smashed. Adults stop scolding rowdy children; the children, emboldened, become more rowdy. Families move out, unattached adults move in. Teenagers gather in front of the corner store. The merchant asks them to move; they refuse. Fights occur. Litter accumulates. People start drinking in front of the grocery; in time, an inebriate slumps to the sidewalk and is allowed to sleep it off. Pedestrians are approached by panhandlers.”

“At this point it is not inevitable that serious crime will flourish or violent attacks on strangers will occur. But many residents will think that crime, especially violent crime, is on the rise, and they will modify their behavior accordingly. They will use the streets less often, and when on the streets will stay apart from their fellows, moving with averted eyes, silent lips, and hurried steps. "Don't get involved." For some residents, this growing atomization will matter little, because the neighborhood is not their "home" but "the place where they live." Their interests are elsewhere; they are cosmopolitans. But it will matter greatly to other people, whose lives derive meaning and satisfaction from local attachments rather than worldly involvement; for them, the neighborhood will cease to exist except for a few reliable friends whom they arrange to meet.”

Value of Personal Property

The value of personal property is usually measured by the cost of purchasing the personal property plus related shipping and installation costs minus appropriate loss of value from aging or other sources known as depreciation. Personal property appeals to the Board of Review generally are initiated because a property owner filed a late reporting statement, or certain property was improperly reported or moved out of the city. It is rare for a true value dispute to exist.

APPEALS FROM A BOARD OF REVIEW DECISION

Appeals of local Board of Review decisions

Having heard evidence of value, the Board makes its decision. Decisions appealed to the Board of Review may be challenged. Since the Board of Review is actually the first step in a series of formal appeals, either aggrieved party, the local assessor or the taxpayer, may appeal. Appeal from the local property tax Board of Review goes to the Michigan Tax Tribunal. This appeal is an “of right” appeal. That is, every party has the right to initiate an appeal and be heard at the next level. Each party has the right to appeal an MTT decision to the Michigan Court of Appeals. However, these appeals are strictly limited to errors of law, adoption of wrong principles or fraud. *Blazer v East Bay Twp.*, 242 Mich App 249, 252; 617 NW2d 742 (200). Appeals may be made to the Supreme Court, but they are very limited and the Supreme Court accepts only those appeals it feels are appropriate.

What value is appealed

The value being appealed by law is always termed the State Equalized Value. The SEV is technically the initial “assessed value” of the property modified by equalization “multipliers.” The issue was addressed in 1983 in this way through Michigan Attorney General’s Opinion 6127:

“As held in the Michigan Supreme Court in the case of *School District No. 9, Pittsfield Township, Washtenaw County v Washtenaw County Board of Supervisors*, 341 Mich 388; 67 NW2d 165 (1954), the term ‘assessed valuation’ means the consummated action, as determined by the local assessor, as approved, changed or corrected through the process of equalization. The final equalized value of property relates back and becomes the taxable value of that property as of the preceding December 31st.” ... “It is my opinion, therefore, that the ‘initial assessed value’ of property located within the area of a tax increment financing plan established pursuant to either 1975 PA 197, Sec. 14(1)(b) or 1980 PA 450, Sec. 13(1)(b) means the assessed value made as of the tax day, December 31, immediately preceding the date of the approval of the plan, as adjusted, if necessary, by the final equalization process related back to such tax day.”

Because appeals take time, the common name of the value being appealed changes during the process. At the earliest step, in March of each year an appeal of the “Assessed Value” may be made to the local Board of Review. Consistent with the high court’s ruling this is called an SEV. County equalization must be completed in April and reported to state officials by the first Monday of May each year. Final state equalization occurs by the fourth Monday in May each year. Appeals to the MTT must be made in writing by the last day of June of each year. Appeals to the MTT and to Michigan’s Courts are made on the value as equalized by county and state officials at the constitutionally mandated 50 percent of market value ... the State Equalized Value.

Why don’t taxes go down if the SEV is lowered?

It is a unique characteristic of Michigan’s property tax system that while it is SEV that must be appealed to the Board of Review, a change in an SEV will not affect the actual tax burden placed on a property unless the SEV is lowered enough to dip below the existing Taxable Value. So, a property owner may appeal an assessment to the Board of Review or the Michigan Tax Tribunal, get a reduction in the SEV but see no change in property taxes. This situation would happen any time an SEV was reduced, but not reduced below the existing Taxable Value of the property being appealed.

TAX BASE

The size of the tax base by property type and class

Real Property Tax Base

The chart which follows illustrates changes in the city of Saginaw's real property tax base over time. It shows State Equalized Values (SEV) and Taxable Values as they've existed since 2004 and provides the reader with an indication of the difference between the SEV and TV. This is termed "Spread". Spread is important because it illustrates how much an SEV could drop before there would be any reduction in tax collections. This is because, SEV reflects market value. Taxable Value is the value multiplied by the local millage rate to actually bill a tax. Only four of the six classes of property categorized by state law are shown. Saginaw has no property classes as either "Developmental" or as "Timber Cut Over."

Table illustrating changes in the "spread" between TV and SEV for Real Property

YEAR	2004	2005	2006	2007	2008
Class					
Ag					
SEV	\$130,700	\$137,236	\$137,236	\$115,838	\$115,838
TV	\$99,786	\$102,078	\$105,157	\$77,958	\$95,631
Spread	23.65%	25.62%	23.38%	32.70%	17.44%
Res					
SEV	\$479,430,261	\$506,179,147	\$522,962,879	\$531,766,682	\$497,497,056
TV	\$428,229,633	\$422,314,586	\$461,076,412	\$477,680,156	\$471,601,430
Spread	10.68%	16.57%	11.83%	10.17%	5.21%
Comm					
SEV	\$95,550,145	\$98,166,357	\$97,117,865	\$97,355,737	\$97,173,151
TV	\$93,217,849	\$95,061,305	\$95,064,902	\$96,361,425	\$96,304,235
Spread	2.44%	3.16%	2.11%	1.02%	0.89%
Ind					
SEV	\$45,118,825	\$49,014,351	\$48,984,579	\$48,941,961	\$47,740,229
TV	\$45,112,282	\$49,008,656	\$48,980,153	\$48,939,004	\$47,738,218
Spread	0.01%	0.01%	0.01%	0.01%	0.00%
Total Real					
SEV	\$620,229,931	\$653,497,091	\$669,202,559	\$678,180,218	\$642,526,274
TV	\$566,659,550	\$566,486,625	\$605,226,624	\$623,058,543	\$615,739,514

According to the chart, the *total* real estate SEV would have to be cut by approximately \$27 million (difference: SEV and TV) before the Taxable Value would be reduced. The 2007 and 2008 change in SEV was a reduction of \$47.3 Million. Of the four classes of property, **residential and commercial comprise over 92 percent** of the real estate Taxable Value tax. *They are critical components which must be protected* for the tax base to remain stable.

Personal Property

The tax base has another component, Personalty or personal property. The next table illustrates personal property along with the total value of the city's tax base and the value of the county-wide tax base. The county value is included as a frame of reference for changes, but also because it can be used to demonstrate changes in tax burden based upon voter actions.

A personal property tax base is unique in that special assessment tax levies cannot be levied against it. This situation, has a revenue implication for the city of Saginaw. Choosing to fund public safety by special assessment shorts the city by over \$700,000 annually when compared to a comparable ad valorem millage. Two things happen with a special assessment millage: (1) the millage cannot be levied against personal property, and (2) the millage is modified for levies against special act properties (IFT, NEZ and OPRA). Since a special assessment by law must exclude the personal property tax base, businesses are in effect, given an exemption from the burden of paying for Saginaw's public safety services for the financial burden falls strictly on real property.

Here is how it works. Saginaw's six mill public safety special assessment is spread part on the summer tax bill and part on the winter tax bill against real estate only. The six mill burden increases non-homestead real estate levies by eleven percent and residential homestead rates by sixteen percent. If an ordinary ad valorem millage had been levied instead of a special assessment millage, approximately \$702,000 of new taxes could have been collected on the over \$117 Million of personal property tax base now excluded. Shifting from a special assessment to an ad valorem millage would raise new ad valorem revenue. Substituting an ad valorem millage rate for the special assessment would also permit the \$20.5 Million tax base of special act taxes (IFT, NEZ and OPRA) to be taxed. That new money could be used to either lower rates for everyone or fund more services.

Table Illustrating Personal Property

Total Personal	2004	2005	2006	2007	2008
SEV	\$124,301,700	\$120,158,600	\$122,749,100	\$117,554,160	\$105,909,000
TV	\$124,301,700	\$120,114,398	\$122,699,437	\$117,490,853	\$105,901,188
	0.00%	0.04%	0.04%	0.05%	0.01%

Total Real and Personal Property in city including "spread"

Total All	2004	2005	2006	2007	2008
SEV	\$744,531,631	\$773,655,691	\$791,951,659	\$795,734,378	\$748,435,274
TV	\$690,961,250	\$686,601,023	\$727,926,061	\$740,549,396	\$721,540,702
	7.20%	11.25%	8.08%	6.94%	3.59%

Values for Saginaw County including "spread"

County	2004	2005	2006	2007	2008
SEV	\$5,378,529,278	\$5,574,910,583	\$5,856,418,820	\$5,981,826,799	\$6,012,166,490
TV	\$4,621,922,499	\$4,803,152,053	\$5,040,003,270	\$5,221,395,895	\$5,308,907,678
	14.07%	13.84%	13.94%	12.71%	11.70%

It is clear from the preceding tables that county-wide, SEV and Taxable Values are moving towards each other. If there should be a continuing downturn in property values, there may be a point in time where dropping SEVs will force Taxable Values lower. The consequences for all taxing units are lower revenues for levies based on fixed millages, a required increase in debt millages where a specific tax dollar income has to be maintained, and deliberation by public bodies of whether or not they should raise millage rates to sustain revenues where that option is available.

The net change in the city's tax base (Taxable Value Real and Personal Property) between 2007 and 2008 was a loss of \$18.9 Million (\$740,549,396 - \$721,640,702).

City Tax Base and Environmental Issues

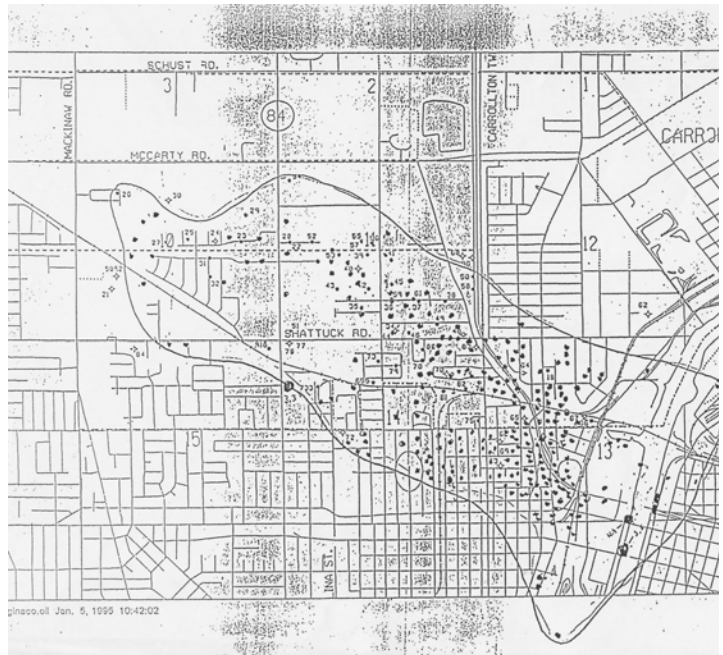
Environmental Issue - oil wells

Over the years, there have been several incidences of values of property being reduced due to pollution or other environmental issues. Environmental issues become most significant when a property becomes designated as a "facility" pursuant to state laws. Such a designation is not necessarily catastrophic, but it does require attention and affects value. In addition to any loss of value directly associated with being polluted, persons or entities responsible for the property must exercise due diligence and due care activities as defined by the law and properties so identified are worth less money. Sometimes a lot less money. Such burdens are adjusted for in the market place.

There is an opposite action too. Perhaps the most well known is when these types of property are put back to productive use through the application of federal and state "Brownfield" initiatives. Polluted sites are "cleaned" and their market value recovers.

A number of properties within the corporate bounds of Saginaw County, including some within the city of Saginaw are designated as "facilities" or polluted property.

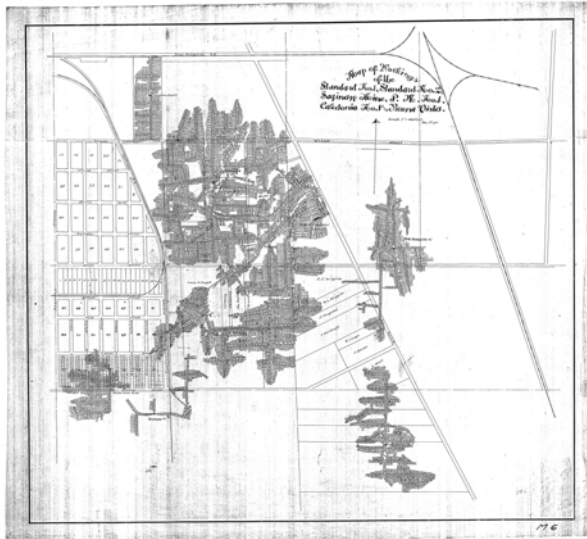
Locally, properties have been affected by the presence of foundry fill (contaminated sand previously used in foundry operations), pollution from oil and petroleum based products, dioxins and other carcinogens, heavy metals and other compounds which exceed normal background levels and/or exceed legal limits for safety.



Map of some known oil wells

As Council knows, there are three wells currently producing oil within the city. The map provided illustrates known oil wells drilled from about 1912 thru the 1940s. They run from the Saginaw River at the Genesee Bridge to Mackinaw and McCarty Roads. Between 300 and 500 wells were estimated to have been drilled. Past Appeal Boards have heard petitions from property owners affected by fumes from wells previously closed but now leaking. Wells both from known locations and previously unknown locations, have been improperly sealed and leak. This sometimes results in fumes, condensates and the emission of fluids that affect property values or pose environmental risks. It is believed the most recent leak cost about \$100,000 to correct. The Board has reduced property assessments because of oil well emissions in the past.

Environmental Issue - coal mines and collapsing air shafts



City engineering map of coal mine

In addition to oil wells, property values within the city of Saginaw have been threatened by collapsing coal mines. Coal mines were located extensively throughout Saginaw County, including within the city of Saginaw. It is the author's understanding, the mines are typically about 130 feet below the surface. About every decade or so during the 1950s through the 1980s, air shafts would collapse and cause a sinkhole in a neighborhood. This event has not happened in many years, but properties lying south of Court St and Ezra Rust Avenue (west side of city to east side) may lie above existing coal mines. The map to the left illustrates one complex. There are many within the city.

This year, the Board of Review processed only one appeal based upon environmental issues. This property lies within the Tittabawassee River flood plain. Several years ago, the owners approached the Assessor and Board of Review with a petition based upon findings of Dioxin in the soil. As a result, two small parcels received a reduction in their State Equalized Valuation. This year, the same property owners provided the Assessor and Board of Review with an updated investigation which provided substantial and material evidence of two major environment issues - dioxin and heavy metal contamination. Based upon the evidence presented, the value of several properties were substantially reduced. Since the dioxin issue in particular is still developing, we are unable to gauge the geographic extent and value of properties which may become eligible for a reduction or appealed at some future date.

Special Acts - Non-Ad valorem Property Tax Base

In addition to the ad valorem tax roll, there are several non-ad valorem rolls from which *specific taxes* are collected. A *specific tax roll* is created through enabling legislation which requires

a resolution and other action by city council. Once created, the general rule is that land remains on the ad valorem roll, but improvements on the land are removed from the ad valorem tax roll. They are taxed using special rules established by the enabling legislation. The establishment of specific taxes is of more importance to Saginaw's City Council and city administrators than any other community in the state. You see, "specific taxes" are not included among taxes capped by the 1979 Tax Cap vote. So, any time council grants an IFT, or NEZ or OPRA certificate, it permits new revenue to flow to city coffers. As a general rule, land governed by a specific tax remains on the ad valorem tax roll.

Here is how specific taxes increase revenue. Under ad valorem rules, if the city's tax base goes up, because of the tax cap, the city's millage rate must be cut so taxes collected in the current levy are no greater than the amount of taxes collected on the July 1978 tax roll. That amounts to approximately \$3.82 Million. So, if General Motors or Dr. Shaheen or Dow Corning or any other developer invests say, \$50 Million into property in the city of Saginaw, the city has to cut its millage rate because the tax base has grown. The millage rate is cut enough so that the total collection for the current year is equal to or less than the \$3.82 Million collected in 1978. That is not true if the developed property is part of a specific tax roll. For example, if the \$50 Million development were placed on the IFT roll, then the city would collect about fifty percent of the normal tax.

For the sake of argument lets assume that the Taxable Value of the new development was \$25 Million and that the city's millage rate was seven mills. Then the city would collect about \$87,500 in new revenue. If the property had not been granted the tax incentive, the city would have had to cut its ad valorem millage rate and collected no new revenue. However, other taxing authorities the city bills for would get the benefit of a bigger tax base and higher tax collections. It is only the city of Saginaw that is capped and may not benefit. The city's total tax base for specific taxes in 2008 is \$20.5 Million.

MILLAGE RATES

In calculating a proposed SEV for Hardship exemptions, the Board of Review and the City Assessor rely upon the previous year's *homestead tax rate*. There are actually several tax rates applicable to ad valorem taxes within the city and several other tax rates applicable under taxes levies pursuant to "special acts."

The first and most common distinction between millage rates relative to ad valorem taxation are: *homestead and non-homestead tax rates*. A "homestead" is the principle residence of a citizen as that term is defined by law. A non-homestead tax rate is the millage rate applied to any property not meeting the definition of a homestead, not excluded by as a specific tax and not being modified by some other specific legislation (e.g. personal property rules effective cy 2008).

In 2007, the homestead tax millage rate was \$35.99 per thousand dollars of Taxable Value on the summer bill and \$6.68 per thousand dollars of Taxable Value on the winter bill. The total millage rate for qualified Homestead properties was \$42.67 in cy 2007. The non-Homestead millage rate was \$53.99 on the summer bill and \$6.68 mills on the winter bill. The aggregate non-Homestead millage rate totaled \$60.67.

City residents have been most generous in approving additional millage rates over the years. The degree of effort Saginaw's citizens have made can be shown in by looking at both the level of

poverty which exists among its citizens and the burdens they've voluntarily carried to secure services. City of Saginaw residents have an overall poverty rate of 28.5 percent and a median household income of \$26,485 annually. For comparison, county and state poverty rates are: 15.7% and 12.5% respectively. Household income for the county and state are \$38,200 and \$44,409 respectively. Yet with such limited resources their *relative tax burden is very high*. City of Saginaw residents have agreed to carry a 25% extra property tax burden as shown below.

MILLAGE	WHO or WHOM BENEFITS
• 6 mill police and fire millage	(City residents primarily + mutual aid where applicable)
• 4 mill Public Library millage	(Free service to all citizens - widely used resource)
• 3 mill Saginaw Transit millage	(Serves businesses and households throughout county)
• 3.9 school debt for bond repayment	(Limited to students of city school district)

If those millage rates were not renewed, the tax burden would drop for homesteads to \$26 per thousand from a current rate of about \$43 per thousand. Business taxes would drop to \$44 mills from the current \$61 mills.

Based upon a Taxable Value of \$721.5 Million the 4 mill public library millage would generate approximately \$2.9 Million. *If the library millage were spread across the entire county the millage rate could drop to 0.55 mills to collect the same amount of money.* Another way to say this is that because only city property owners support the public library system, city property owners pay eight times more than they would have to pay to raise the same tax dollars, if the burden were spread county-wide. Similarly, the Saginaw Transit millage would drop from 3 mills to about 0.4 mills or less than one half mill to collect a similar amount of money.

It is important to note that as the property tax base falls, then debt millage rates will have to be increased to meet bond payments. The same is true of all millage rates which must meet a specific tax dollar collection. Entities with fixed rates will simply see their revenue stream fall at a rate of \$10,000 for every \$10 Million loss.

THREATS TO THE TAX BASE

“Lori:

Please submit to the Board of Review the attached properties. I have indicated next to each property what I feel the true cash value is. As I have explained to you in our previous conversations we are having a very difficult time finding and keeping quality tenants. All of our homes and apartments have been broken into when they go vacant. Plumbing, gutters, downspouts, doors and more have been stolen out of them. My property at 701 Cathay was shot up over this weekend. (11 bullet Holes(sic) in siding) The majority of our recent rental applications have been from drug users and felons. Three out of three of the last applications I had were turned down.”

Letter signed March 18, 2008 by a representative of one of the top twenty property tax payers in the city of Saginaw

Trends as indicators of change in the tax base

- Changes in overall household income including social security and government payments
- Rate of commercial and other building vacancies and replacement activities
- Mortgage loan foreclosures
- Prevalence of deteriorating structures, trash and vehicles parked on lawns
- Changes in earned incomes as reported to city Income Tax Department.
- Less disposable income (basic household costs for heating, transportation and medical care rising faster than incomes within the local economy)
- Ownership of properties changing from owner to renter occupied or visa versa
- Changes in selling price per square foot within a neighborhood
- Citizens report criminal activity moving into previously “safe” neighborhoods
- Presence or absence of basic home and yard maintenance
- New construction driven by government incentives instead of market demand

ECONOMIC AND SOCIAL TRENDS have implications for the housing stock of the city of Saginaw and the value of commercial properties and other components of the tax based. To aid in visualizing value trends, four maps are presented. They illustrate how property ownership has changed within a recent 12 month period. It is suggested the reader examined the maps from the perspective of where the property tax base has been degraded (properties reverting to the government operated land bank); where there is a transition of ownership due to loan foreclosures; and where healthy market or “arms length” real property sales are occurring.

Based upon testimony to the Board of Review, property values are being significantly impacted by blight and its companion, homes transformed into rental units. Far more structures are being demolished than new buildings are being built. In cy 2007 one hundred-twelve residential structures were demolished and ten new structures were built. Three new industrial structures were built, two were demolished. Six new commercial structures were built, twelve were demolished.

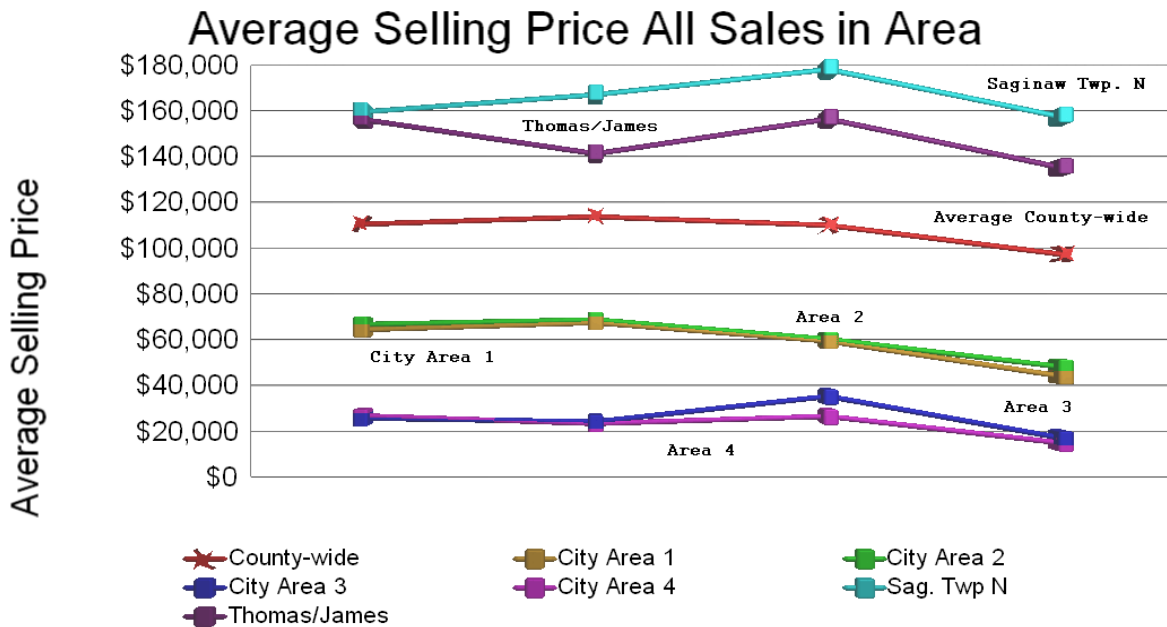
Market Pricing

Location

The chart below compares the average selling price of a residential property within the city of Saginaw to the average selling price of a homes county-wide and of homes in three of the county’s more affluent townships: Saginaw Township, Thomas Township and James Township. The information is taken from records provided by the Assessor to the 2008 Board of Review. The years involved run from 2004 thru 2007 inclusive.

It is easy to see that the relative positions of property prices in differing political jurisdictions has remained stable for the past half decade. Areas 1 and 2 represent properties within the city that lie west of the Saginaw River. Area 1 property sales lie north of Court Street. Area 2 property sales

lie south of Court Street. Area 3 and 4 properties lie east of the Saginaw River. Area three lies northly of Genesee Avenue and Area 4 properties lie southerly of Genesee Avenue.



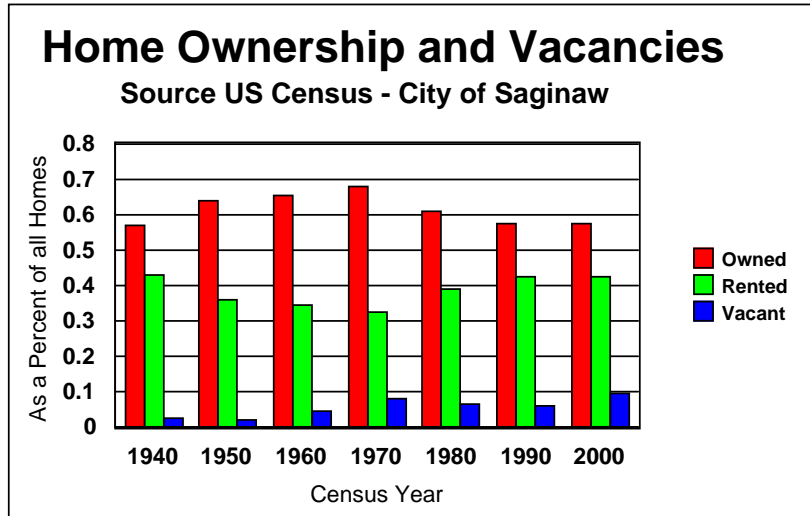
The average selling price county-wide in cy 2007 was \$97,115. Area 1 properties sold on average for \$44,495; Area 2 properties sold for \$48,554; Area 3 properties sold for \$17,862; Area 4 properties sold for \$15,669; Thomas/James Twp. properties sold for \$134,500 and properties lying in northern Saginaw Twp. sold for \$154,466 on average.

Thus, property in Areas 1 and 2 sell for about fifty percent of the average sale price county-wide; or on average, properties outside the city but within Saginaw County sell for about twice as much as the average residential sale within the highest priced areas of the city. Properties county-wide sell for six times the average selling price of properties on Saginaw’s east side. Properties in James and Thomas Townships sell for about eight times the average selling price of properties on Saginaw’s east side. Properties in Saginaw Township sell on average for about nine times those selling on the east side. Properties on Saginaw’s west side sell for about two and three quarter times the average selling price of properties on the east side.

These market price ratios have been brought up to the Board many times over the years. They are often used to justify petitions for reductions. However, the numbers are viewed cautiously in Board decisions. Board members realize Saginaw’s housing stock in many cases, represents completely different market influences. “Location, location, location” is a mantra often taken to mean areas of high value growth. It is a viable market without high growth for 1 of every 4 homes sold in Saginaw County is located within the city.

In spite of the negative influences that have been mentioned, market trends could also bode well for the city. The vast majority of Saginaw’s homes were built before 1960 and reflect a desire for a smaller housing footprint; a footprint more consistent with smaller lots found in the city. With

fundamental changes in the economy, there may come a time when smaller homes and access to mass transit and shorter commute distances make city locations more popular than outlying areas. Across America, neighborhoods are reborn all the time. Under the right conditions and with existing threats properly addressed, it's possible to project growth in the tax base instead of a loss of value.



Home Ownership

Home ownership trends can be a good indicator of the robustness of a community's tax base. In the adjacent chart, three trends which have been tracked by U.S. Census records are illustrated. The information presented illustrates each category of ownership as it relates to the entire housing base within the city.

One may note that the city's population peaked about 1970. At that time home ownership also peaked, rental units had declined and there was some vacant housing. This was also the time period when the value of city property subject to taxation represented about 50 percent of all value taxed in Saginaw County.

Just prior to World War II and right after the great depression, the general trend for American families was to acquire wealth through home ownership. The trend continued until the 1970 census, when a perceptible decline in home ownership began to emerge. This trend is consistent with the local movement of families from the city to suburban areas, the completion of the Interstate highway system locally and the major development of contemporary suburban shopping and retail service centers. If trends articulated to the Board of Review continue, it is expected that 2010 census figures will show significantly lowered levels of home ownership and the current trend towards more rental units continuing.

The implication for the tax base is important; because as discussed elsewhere in this report, owner occupied housing sells for a lot less than comparable renter occupied structures. Interviews with local business owners indicate differences in retail sales depending on the level of owner occupied homes. For example, a fast food restaurant owner stated that his business is up because renters tend to eat out more than home owners do. However, a purveyor of household products stated sales were dropping because renters didn't spend an amount of money comparable to that which home owners did for home maintenance. It has been suggested that if police calls, arsons and nuisance activities were plotted on a map of the city, the incidence of those activities is expected to be higher in areas where rental properties exist when compared to owner occupied areas.

If these speculations are borne out, the conversion of single family homes to rental units will greatly reduce the value of the tax base while at the same time increase public safety costs.

Housing market notes

Homes located within the city of Saginaw also are generally much older than those in suburban areas. Subdivisions in general did not begin to really proliferate in Saginaw County until the mid-1950s. If one compares homes built in the 1950s and 1960s within the city that are comparable in size and construction to those in suburban areas or county-wide, the difference in market value narrows. Market extractions have not been made for this report, but it is believed that such a comparison would yield value differences smaller than those indicated in the chart which compares average selling prices of all homes.

Since about one out of every four homes sold through the Board of Realtors is a home located within the city, the commissions and related sale costs represent a very large income stream for brokers, lawyers, financial institutions and title companies. If residential property values should increase, there would be a significant impact in terms of property tax collections, income tax collections from business transactions and other spin off benefits.

A note of interest was extracted from a report which appeared in THE APPRAISER (Page 5, Vol. 37, No. 9, November 1981, American Institute of Real Estate Appraisers, Chicago, IL).

“A homeowner seeking maximum appreciation for his or her investment would be better off purchasing two \$50,000 homes rather than one \$100,000 home, according to a survey reported in Real Estate Review (Summer 1981). The study revealed that low-priced homes appreciate faster than high-priced homes, regardless of the economic climate. Among 30,000 properties studied in Los Angeles and Orange Counties in California between 1968-1978, the lower-priced homes appreciated in value faster than higher-priced homes even during the credit crunches of 1969-1970 and 1973-1974.

The study also found each home has its own price cycle; that is, a property classified as “low-priced” will appreciate rapidly until it is pushed into a “higher-priced” category. Then the rate of appreciation will slow down, until the property is again low-priced and the cycle begins anew.”

Smaller homes may mean opportunity for growth

In Saginaw’s neighborhoods where people feel safe and homes are acquired for their value as owner occupied residences, there is some anecdotal evidence from buyers that the houses represent an advantage for young families. They are smaller and therefore cheaper to heat. Repairs and maintenance costs are less expensive due to the housing size. Saginaw offers a mass transit system which people do take advantage of now. With rising fuel prices and other economic pressures, short commuting distances from and to work, the availability of a mass transit option and lower home ownership costs may create demand for city housing. In *Parade Houses fewer, smaller*, (Pg. 1, Business and Labor Section, May 4, 2008) Saginaw News writer Jean Spenner describes how some builders have downsized the homes they are building. The Board asked a couple of buyers why they bought in the city and the lower price of housing was a motivating factor.

Testimony relating to Broken Window Theory

With no intent to criticize or offend, testimony to the Board indicated an image of Saginaw as being run by thieves, thugs and drug dealers has severely damaged the attractiveness of the 92

percent of Saginaw's tax base which is comprised of residential and commercial properties. Many of the appeals taken this year and in previous years, focused on the negative impact of crime and nuisance behavior on nearby property values. Judge William Crane of Michigan's 10th Circuit Court, affirmed the destruction of neighboring property values from criminal behavior in these sentencing remarks on July 5, 2007:

"I think it is about time you take responsibility for what is in this town a very serious problem of houses being destroyed and therefore winding up abandoned and blighting and destroying the values of the neighborhood. So you damage not only the house, but you damage every house around it." Page 4, Sentencing Transcript, People of the State of Michigan v Raymond Lee Baase, File No. 06-028383-FH-4, July 5, 2007

Another individual appeal was particularly instructive. The appellant and her spouse were both professionals with substantial income who'd made a decision to build a new One Hundred Fifty Thousand Dollar home in a privately developed subdivision in the city. She complained that because of neighborhood crime and incidences such as young men who actually came into her driveway to play basketball at her home, and a lack of police response, she was moving in the near future; as soon as one child finished school.

Another appeal involved a commercial structure that was owner occupied but tenants were needed and the appellant complained businesses simply were not locating in the city.

In another situation, a 65 year old woman told us of how she now sleeps in the basement because she can't afford to move and is afraid of the gunfire and rowdies present at night.

It is important to establish a proper perspective when evaluating such comments. While it is clear that crime may be more frequent where a population density and poverty rates are higher, crime is being felt everywhere according to local media reports. Even in local jurisdictions where it has been rarely reported. Midland, Michigan for example has a slew of bank robberies, thefts are occurring in Saginaw Township and the city of Frankenmuth, and murders have been reported in Bay City.

Public School System

Again, without intending to offend, but to merely report, there were issues related to Saginaw's public schools which were cited in property valuation appeals. Property owners, appearing before the Board have been concerned about a lack of safety within Saginaw's public schools and poor academic testing results in some schools.

While this has not been a focal point of property appeals, there has been testimony that the local school system was not generally regarded as an enticement for locating within the city for families with children. Another idea expressed this year was that a newly built school would have an open campus would result in boisterous middle school students wandering nearby neighborhoods and littering. That scenario was cited as a threat to neighborhood tranquility and property values during appeals. It is the Board's understanding that the new Roosevelt Middle School will have a closed campus. Nevertheless, because the issue was expressed to us, we relay the concern of litter and boisterousness to council.

The counter point to those negative issues is that the Career Complex and Program for the Gifted and Academically Talented student, continue to draw students from outside the district and

have been cited to the Board and assets to the community. (*SASA teams win in national Science Bowl*, Mitchel, Corey, The Saginaw News, Page 7, First Section, April 11, 2008).

Neighborhoods - Documentation of attributes affecting value and ECFs

That concerns about neighborhoods and school systems can easily turn into decisions by potential buyers that might affect market price has been documented by research. A study done by Douglas S. Bible, titled *Measuring Dwelling Unit and Neighborhood Attribute Importance* (The Real Estate Appraiser and Analyst, pages 32-34, Society of Real Estate Appraisers, January-February 1979) listed the following characteristics of importance to residential real estate transactions. The rankings provided by his report are shown in the table which follows.

The top four influences in order are: safety and security, quality and durability of the construction of the home, the quality of local public schools and the size of the home.

Neighborhood and housing characteristics important to market transactions

Characteristic Rated	Rating From Most Important to Less Important
Safety and Security from crime	3.24
Quality and durability of construction	3.08
Public School System	2.31
Amount of Living Space	2.17
Amount of storage and working space	1.93
Property values and neighborhood status	1.70
Spaciousness of lot or yard	1.68
Property tax rate compared to other areas	1.62
Level of traffic noise	1.61
Neighborhood Shopping Areas	1.21
Age of house or apartment	1.15
Neighborhood shopping areas	1.09
Backgrounds and interests of neighbors	1.07
Property tax rate compared to other areas	1.00
Nearness to friends	0.79
Nearness to good shopping areas	0.76
Bus service	0.00

It is without question that the stability of the city of Saginaw's tax base is affected by the characteristics researchers cite above. Testimony before the Board clearly supported the proposition that as single family homes are converted to rental properties, the value of the tax base diminishes.

It is cautioned, work needs to be done to determine if attitudes of appellants to the Board represent the attitude of Saginaw's residents in general. There is a potential difference; illustrated by city residents interviewed for a 1993 academic research study. The study looked at residents of a neighborhood bounded by the Saginaw River, East Genesee Ave., Wadsworth St., 14th Avenue and Perkins St. (Hill Alan, Scanlon, Romer, *Search for Empowerment in an Urban Neighborhood, A report of the Delta College Community Research Institute*, February 1993, University Center, Michigan)

Its principle goals were (1) "To uncover the needs of the neighborhood's most stable residents"; and (2) "Once those needs were identified, efforts would be directed toward involving these residents in programs to 'take control of their neighborhood' and begin to solve its problems." Ibid page 5. The neighborhood was selected because it was "the subject of concern in recent years due to the loss of business and industry, the high poverty rate and the growth of social problems such as crime and drug abuse." Ibid page 3

On page 18, the report stated the following:

"If neighborhood residents had become depressed in the face of the large problems facing them, it might be understandable. But they remain remarkably optimistic and positive." ... "These data clearly challenge psychological theories that assume physical well-being must always precede 'higher level' spiritual concerns. But on a more practical level, the data show the reservoir of inner strength and spirit upon which community organizers can draw."

Changing neighborhoods

Board members have considered these factors as they deliberated individual appeals. However, we have also born in mind that change is a certainty in the life of any neighborhood or community. For example, within the area cited by Delta College's study, a crime ridden housing project was removed and new factories and a beautiful new subdivision consisting of single family, owner occupied homes has arisen. Research on selling prices per square foot of homes in the Cathedral District demonstrate that in ten year period beginning in 1992 average selling prices per square foot doubled and there have been recent sales in the \$60,000 to \$90,000 price range.

When considering commercial property trends, Board members look to an example provided by City Council along Michigan Avenue in the 1990s. A neighborhood business area along Michigan Avenue near Dearborn and Vermont Streets was resurfaced, store fronts were refurbished and attractive signs were placed to identify this neighborhood commercial district. One year after completion, a member of the Assessor's office interviewed every store owner in the refurbished area. The interviews provided information that gross sales for every business had grown since the area was "spruced up." The increases ranged from 25% to 50% annually. Similar, but undocumented activity has occurred in Saginaw's Old Town area (which may now be suffering an economic malaise resulting from general economic conditions), due to robust entertainment and dining facilities. The situation has also been replicated on Washington Avenue as a result of the state's investment in newly paved roadways and streetscaping in combination with the effort of skilled private developers who've created a large medical treatment area.

Obviously, if a new medical college is placed within that area, the neighborhood's transformation will be greatly accelerated. The impact of removing blighted buildings, rebuilding the highway surface, constructing new homes, rehabilitating existing homes and an existing natural market trend for acquisition of historic lumber era homes within the area will have created a confluence of forces which may hasten the end of a cycle of decline and begin a cycle of growth.

Market Factors: demand, change and turbulence

Change is a consistent market force which affects property values. All property has a life cycle. Individual earning capacity changes as humans travel through their life cycle. Businesses have business cycles. So, there will always be "turbulence" or change occurring within any real estate market. Appellants to the Board of Review will frequently cite vacancy rates or changing neighborhoods as a reason why their property values are different than what the Assessor has stated. In cities across the US renewal is occurring in dilapidated areas as other areas become blighted.

Residential factors

In the past, using federal and state funds, the city has pumped as much as \$5 Million in one year for use by taxpayers who wish to repair and rehabilitate structures. If that investment is extended over a five year period, it amounts to \$25 Million in repairs or \$50 Million over ten years. That type of spending certainly helps employment. However, the investment does not change the tax base much. In part, this is because an exemption exists for property owners who perform normal maintenance and repair activities. The repairs may affect future property marketability.

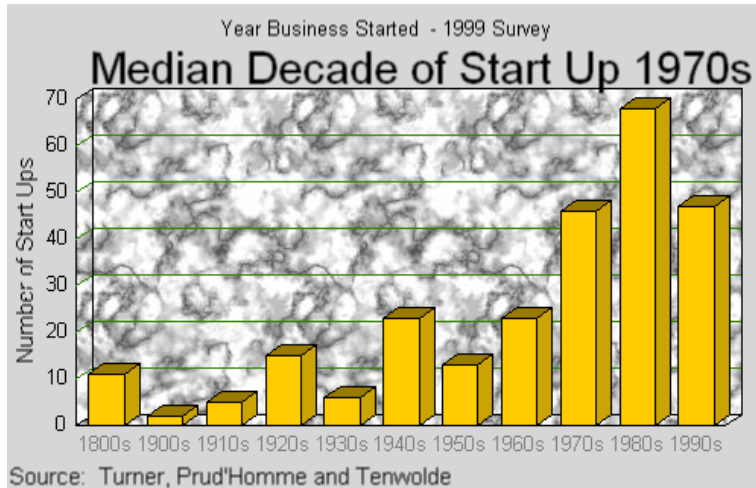
Best results in raising property values seem to occur when there is a focus on a particular neighborhood. The St. Mary's Cathedral District is one example. There, homes have been repaired, new housing has been constructed and past records showed an increase per square foot in selling prices and in maximum selling prices when prices are compared over time.

There are neighborhoods where a petitioner's argument that a vacancy diminishes values simply doesn't hold up. If a home goes vacant in a neighborhood which is highly in demand, it is very unlikely that overall property values will decrease. There is certainly a suspicion that a low selling price for that vacant home was due to other contributing factors such as family wanting to "cash out" an estate or a bank accepting a low price on a foreclosed property to terminate maintenance or other burdensome costs. However, if the situation represents a fundamental change in market conditions, then the petitioner may have a point the Board needs to listen to.

As residents and homeowners, most Council members are intimately familiar with the various aspects of Saginaw's residential market. And pertinent issues are discussed elsewhere in this document.

Commercial Properties

However trends and other factors related commercial or industrial property are not as well known. Each case presented to the Board of Review has its own unique circumstances, but here are a couple of market dynamics we've discussed over the years.



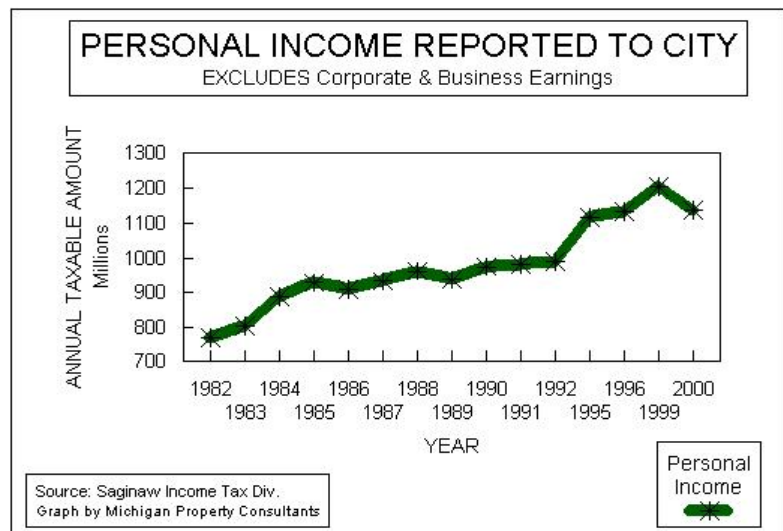
First, is the natural turnover of commercial property. According to the National Federation of Independent Business (Family business succession not easy, Saginaw News, page E-2, July 4, 2004), “Fewer than 30 percent of family-owned businesses are passed on to the second generation” ... “And fewer than 15 percent of these businesses survive to the third generation.”

A study of business ownership within the city of Saginaw was undertaken in the spring of 1999 by

Joseph M. Turner and Holly Prud'Homme of the city of Saginaw's Economic Development office and Kathleen TenWolde of Michigan State University Extension Office (City of Saginaw Business Survey, Prud'Homme, H, TenWolde, K., Turner, J., unpublished, 1999) . A research questionnaire was sent to every business registered on the city of Saginaw's personal property tax roll. The response rate to the questionnaire was remarkably high - 23 percent. The chart illustrates the composition of the city's commercial and industrial tax base as a function of when existing companies were born. The time period spanned by businesses operating in March 1999 was over 100 years. However, the median age (50% older and 50% younger) of all operating businesses was two decades.

This result corresponds very well to research of the National Federation of Independent Business cited above that found the vast majority of businesses lasted for one generation only. As a footnote, it is also interesting that 64 percent of the businesses had between one and nine employees which corresponds well to state and national trends. 32 percent of the respondent's employees had been hired within the past five years.

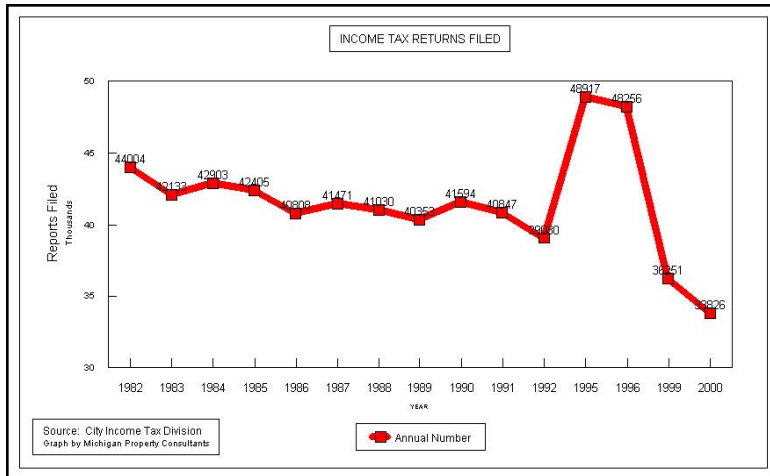
Vacancy rates of business property is another good indicator of market conditions. There is no existing resource which provides that information. When the issue of building vacancy rates is raised, the Board relies upon the data and evidence presented at the hearing.



Disposable and personal Income

Another source of fact that may help Council and the Board of Review to evaluate overall economic conditions when claims of declining neighborhood maintenance, income levels and

property values are made, is to look at cash flows relative to job location and the general economy. These charts do not relate directly to any particular appeal. However, they do provide reference sources for claims made before the Board.



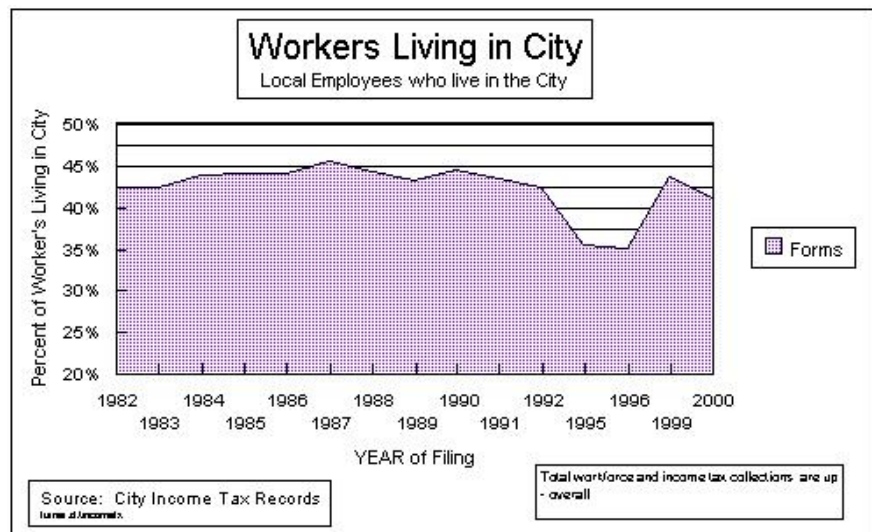
Unfortunately, the figures have not been updated since the retirement of an employee of the city 2001. Nevertheless, the information probably can be updated if Council finds it a useful reference.

These statistics have been taken from unrestricted information extracted from annual income tax filings. When current, they provide a good resource to measure the fiscal health of the community, its citizens

and important case flow trends.

A word of caution with regard to the “Income Tax Returns Filed.” The spike was due to accelerated delinquency collection efforts. What looks like a significant decline in collections, is a reflection of timely filings. That number changes over time.

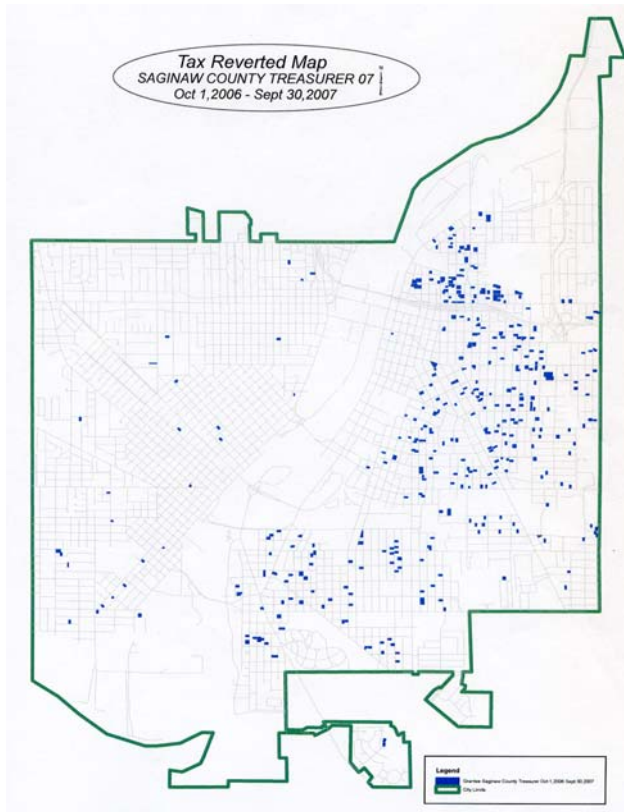
The “Workers Living in the City” chart uses 1.5 and 0.75 rates to determine where filers live. It can be seen from the chart that for a long period of time, the city of Saginaw has been a job importer. That is, most employees of firms located in the city are not residents of the city.



This situation has several implications. It means persons living outside the city do help maintain the annual budget through non- resident income taxes. It also means that indigenous employers are very important to the local economy. It has implications for the importance of maintaining major transit routes through and in the city. Very importantly, it means as projects such as the Washington Avenue improvements are made, a large population of non-residents become aware of the positive changes quickly. This can create a sense of rebirth and lead to potential increases in property value. However, the reverse is also true. These commuters may be exposed daily to unpleasant views.

Tax Reversion, mortgage default and arms-length markets

During the 2008 Board of Review hearings, Board members attempted to discern which parts of the city had normal market activities; which parts were in transition and which parts had minimum value. This was done by requesting several maps through the city Assessor. The maps were drawn by the City's GIS staff. All maps illustrate activity for a one year time period only.



Tax Reverted Properties

An attempt was made to identify the differing residential real estate markets by plotting specific types of real estate transaction (sale) data. A map was made which highlighted properties having so little value that they were reverting to government due to unpaid taxes. That map is to the left.

The map to the left illustrates properties which have reverted to government. Unless purchased by private parties they'll be exempted. It is important to note that the tax reversion shown is old news. These are not properties which will revert from current market pressures. Tax reversions take two years to process. So, while these were recorded in 2006 and 2007, the delinquencies were really from 2004 and 2005. Those properties highlighted in blue represent a significant risk to the property tax base.

It is believed that reversion to government ownership is a primary indicator that the neighborhoods in which the properties are located are so unattractive to private investment that no person or entity will step

forward to retain ownership. Furthermore, when the tax reverted properties are mapped with arms length transactions, it is clear there are very few sales in areas of high tax reversion that the assessor qualifies as being fair market transactions. Without an offset of arms length transactions, this circumstance means the declining tax base is not being replenished with private investment. It also indicates areas where the land bank must invest money to maintain vacant structures or the lack of maintenance will exacerbate existing blight. It is also possible that vacant government owned structures could become the target of thieves searching for metal or other valuables or arson. This risk should be verified with public safety professionals.

Finally, it is important that someone monitor the time required to put properties which have reverted to the government back into private hands. Real estate agents and appraisers routinely monitor the time of exposure for properties being offered for sale. Shortening time periods indicate improving demand. Lengthening time periods indicate softening demand. For planning purposes,

it would be useful to determine how many tax reverted properties are returning to private ownership annually and if the time period required for the change in ownership is changing.

Loan Foreclosures

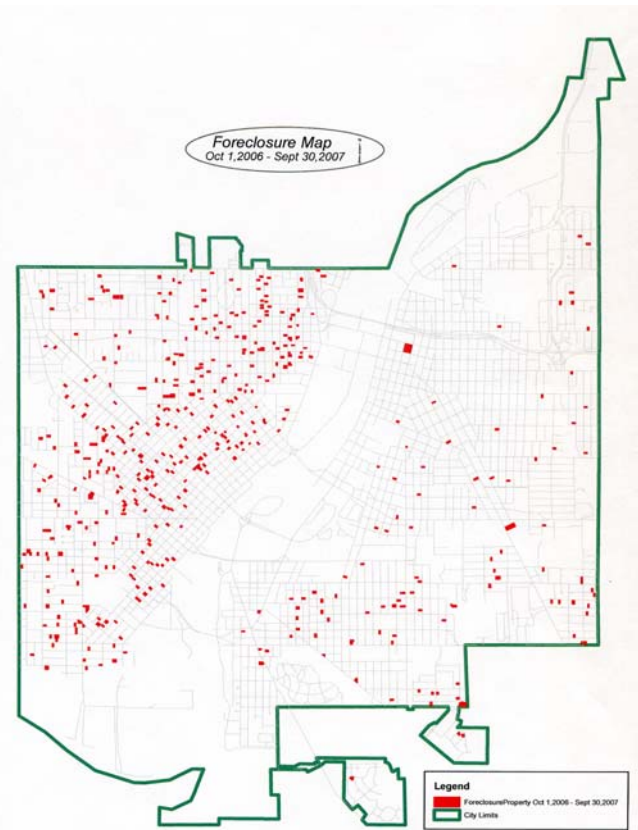
Another map plotted properties which had reverted to a lending institution for non-payment of loans. This map was considered to illustrate neighborhoods at risk or in transition.

Mortgage foreclosures are also a delayed response to market conditions. So, the foreclosure map does not reflect current market conditions, but only those which were processed in a way that they would show up in 2006 and 2007 document recordings at the courthouse. The map illustrates foreclosures over a one year period.

Loan Foreclosures - Impact Market Price

One may look to see if mortgage foreclosures result in resale values which vary significantly from the normal property value. That is, once a property is foreclosed, does it get repaired and re-enter the market with a selling price reasonably close to what it would sell for had there been no foreclosure?

If the post foreclosure price is close to the arms length price then the market is strong. If it is substantially lower, then there may be a price transition going on that will affect the property tax base. We suggest this second situation is what is happening. The residential tax base is declining in value because a significant number of homes that were owner occupied before loan foreclosure, are being re-introduced into the market as rental units. In the city of Saginaw Market, it is clear that rental properties do not command as high a market price as owner occupied homes do.



Investor Decisions - Converting single family homes into rentals

The difference in value between homes purchased to be owner occupied and those purchased by investors as rental property was verified by the Board of Review during sworn interviews with appellants. A number of them were asked to state the guidelines they used for purchasing properties and preparing them for rental.

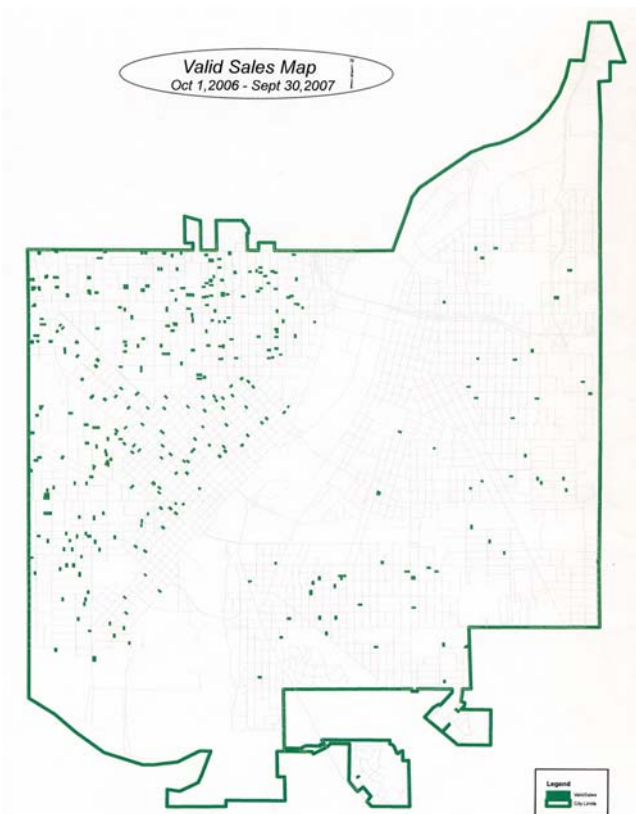
Almost without exception, the respondents were landlords who had secured licenses for these rental homes. There were no detectable issues of a low purchase price being associated with unlicensed properties (poorly maintained housing structures). Furthermore, the homes considered for this discussion were offered for sale as owner occupied but were purchased by investors after being exposed to the market and not receiving viable offers from potential owner occupants.

The general rules *stated by the investors* were:

1. Most investors purchased the homes for cash rather than financing them
2. The targeted purchase price was in the range of \$7,500 to \$10,000
3. There was a little testimony of cash offers hitting \$15,000
4. The typical investment to prepare the home for city certification and rental was \$1,000 to \$3,000. (The properties were in good shape, often requiring only painting and carpeting)
5. There were a few investors who financed a home acquisition through a lender
6. In those cases, the purchase price might range from \$20,000 to \$30,000; but the loan was for a larger amount; excess funds were used for repair and to finance other purchases.
7. Investors are able to make purchases of attractive and relatively well maintained homes because of the extremely small number of buyers and the large number of sellers

Board members were able to listen to purchases who had acquired foreclosed properties as their primary residence and buyers who had acquired properties as investments. In all cases, property values were reduced from the values the homes had been originally offered at when the property was purchased by an investor. We saw an actual loss of value. Most disturbing though was

discovery of the rules used by investors, because they highlight the potential for a significant drop in the value of the city's residential property. It is important to remember investors are active in markets throughout mid-Michigan, not just the city of Saginaw.



Arms-Length Transactions

In order to further examine the geographic areas of the city in terms of market viability, the Board looked at legitimate sales (map at right).

The map to the left illustrates the density of market transactions which met the state criteria for “arms-length transactions” that might be used in a sales ratio study. These sales occurred in the same time period as did the tax reversions and loan defaults.

It is suggested that the “arms-length” transaction map illustrates neighborhoods were

market conditions are healthier or more robust than the areas in which there is evidence of substantial loan foreclosures or tax reversion.

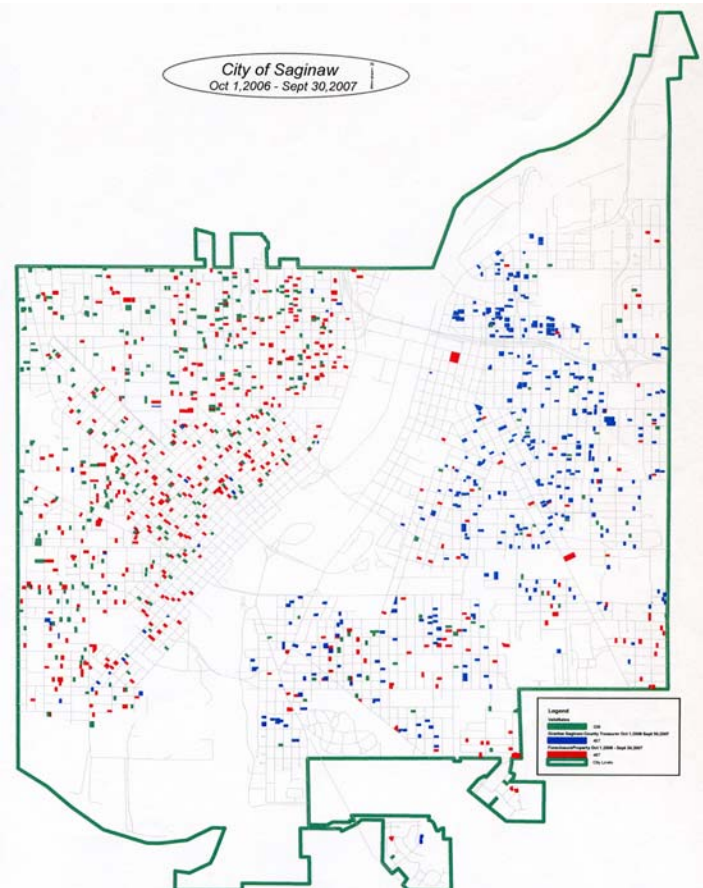
Combining all transactions

The map to the right combines each of the former maps into one illustration of 2006-2007 market conditions. Based upon the interviews the Board conducted with investors, it is suspected areas in which there are both arms length transactions and defaults, property values will decline if conversions of formerly owner occupied structures to rental units are permitted. If it is true *the red and blue areas* are not as robust as the green areas, then a large portion of the city is at risk.

In areas where there is *primarily red and green, with little blue*, buyers are still active, but pricing structures appear to be undergoing transition. The *blue areas* are areas where the average selling price through the Board of Realtors lies between \$15,700 and \$17,900 (rounded). *Areas in red and green* have properties with an average selling price of between \$44,500 and \$48,599 (rounded).

In analyzing the sale data provided to us for a decision, Board members were mindful of neighborhoods in which there was high home ownership and those which may be in transition.

The data within the maps supplied could be enhanced by overlaying them with Part One crime statistics, arson statistics and the location of rental properties. Should such illustrations be developed for multiple years, it is believed that city officials will have maps which will effectively illustrate the location of at risk neighborhoods, movement of blight towards healthy neighborhoods, neighborhoods which are growing healthier and neighborhoods in which the potential tax base is either growing or at risk.



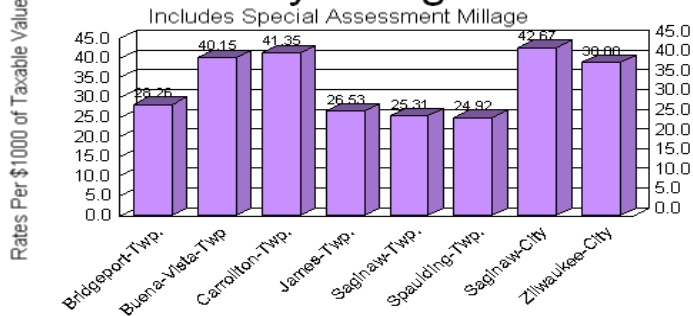
Threats to Tax Base - High Millage Rates

It has long been held within economic development and government administration circles, that lower taxes provide greater property development, higher investment and jobs. One way of viewing the situation is to think about TICs: Taxes, Image and Crime. TICs on the body of

government, are somewhat analogous to deer ticks on the human body. When a person is bitten by a tick, the person may not die, but sometimes, an autoimmune like reaction occurs and the whole body hurts and vitality goes away. Communities in which the balance between taxes, image and crime are out of whack suffer a similar problem. They may not become ghost towns, but they do

suffer a loss of vitality; blight often takes hold. Competing tax rates are important.

Community Millage Rates



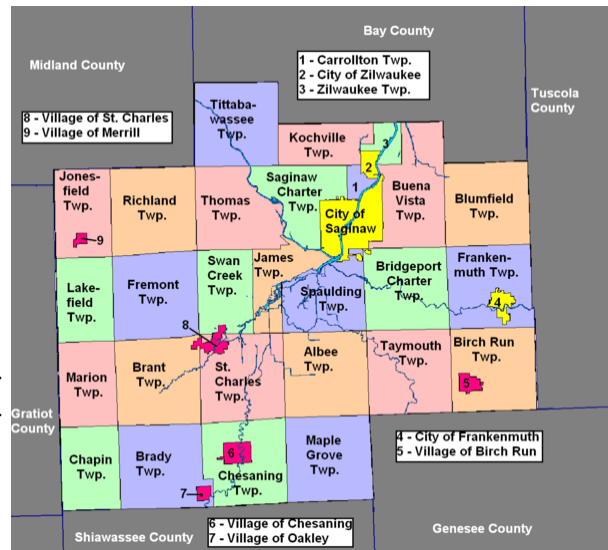
This section is provided so Council members will have a resource which compares millage rates levied on the city's properties to neighboring areas. Millage rates levied upon residents within the city of Saginaw are higher than all of its neighbors. The Chart illustrates the 2007 *Homestead* ad valorem rate for the city of Saginaw and its neighboring communities.

Homeowners made it clear over the last several Board sessions that high property taxes were considered in their decisions of selling and buying. Some said, when they bought, it was because property prices in the city were low enough to offset the tax burden. Others indicated they either could not sell or had to lower a property's price because buyers balked at the potential uncapped tax.

Foreclosure buyers argued that the tax burden should reflect the prices of the at-risk properties they purchased. Property taxes were a concern in those neighborhoods where homesteads are being converted to rentals. The concern translated into lower prices too, but based upon rental rates rather than the amenity values an owner occupant expressed.

In cases of foreclosure, the assessor does not consider the property transaction as indicative of market value. When the Board reduced the value of properties purchased through foreclosures, they too discounted the selling price and instead focused on the physical condition of the property as of Tax Day (December 31st) or of changes within a neighborhood that were forcing prices down (e.g. criminal activity, nuisance activities and nuisance situations such as trash and vacant housing).

Sophisticated observers know existing millage rates are in part, a result of factors such as the city's historical role as the county seat and as a center of power. For example, there are two tax levies currently restricted to basically city of Saginaw taxpayers: the Saginaw Transit Millage and the public library millage. Both services are used by individuals from across Saginaw County, but it is only city of Saginaw taxpayers who shoulder the tax burden which supports these two entities. In fact, their combined millage rates (3 mills + 4 mills) removes more money from the wallet of taxpayers than the operating millage of the city of Saginaw.



A similar situation exists when population statistics are analyzed. In part, this is because when the services were originally created, the vast majority of citizens and businesses were located within the corporate bounds of the city of Saginaw. In fact, as late as 1970, the city of Saginaw contained 50 percent of the taxable property value of Saginaw County. Today, its tax base represents less than 15 percent of the total county tax base.

Threats to Tax Base - Nuisances and Criminal Behavior

Unlike tax data, information related to property value complaints and nuisances and or criminal behavior which the BOR heard as part of the appeal process must be treated as anecdotal. The Police Department certainly has records of crimes against property and persons and the Fire Department has arson records. However, the information has never been laid out on a map for the Board. This would help substantiate some citizen complaints and provide a rebuttal to others.

Complaints of conditions which affect property values fall into several broad categories. Nuisance complaints may be complaints of vacant and abandoned structures which are attractive to youngsters as playgrounds or adults for use as a drinking spot or some other illicit activity. Nuisances also consist of reports of junk cars, siding ripped off of homes and trash or other debris strewn across various properties. Nuisances may also consist of reports of streets that are badly damaged by potholes or sunken surfaces et cetera.

Criminal activity ranges from minor to some severe issues. It is clear, where violent crime has taken place or where dangerous activities are happening daily and there appears to be no response from city representatives, property owners tell us that their property values have dropped. They also claim they cannot sell their home at any price when there is serious criminal activity.

A similar pattern is true with commercial property. In past years, the author has interviewed business owners who complained that their employees had to duck under cars due to gunfire or employees were followed home from work. In one case, employees and individuals trying to get to a business were forced to view a body lying on the sidewalk across the street. While these are extreme situations, they illustrate how critical it is that there be a timely and appropriate response from government representatives.

The Board has heard consistent and recent complaints that law enforcement officials refuse to come to a crime scene. This year one example was a fellow who brought in dramatic pictures of alleged drug deals being conducted within sight of his home. Many other taxpayers have stated they were told to report their claims to the main police station and no one would come out. Irrespective of if these assertions have been verified and explained or not, it is clear that people who have choices, will not reside in an area where there is a threat to them or their property or the tranquility of the neighborhood - when law enforcement refuses to respond.

Board members are not in a position to make judgements and we are trying to do so. However, as to the truthfulness of these complaints to us, at least one Board member has personally called to report a theft of siding at a neighboring house and been told to travel to the police station. We relay this information to Council, assuming it is not new news, but merely to report what we are hearing and have heard.

Most common complaints; most dramatic complaints

Of the most common complaints this year, two really stuck out. First, there is the theft of plumbing and metal from inside homes. Second, was the theft of siding. Both cause blight. A substantial number of properties were granted reductions because their plumbing and other metal objects such as hot water heaters had been stolen. Two individuals who were removing siding from one residential structure were interviewed by the Board's Chairman. The home from which the siding was being removed was approximately 1,000 square feet in size. The individuals expected to receive around \$450-\$500 for the aluminum siding they were removing. It is little wonder so much siding is being stolen. The time to remove it is minimal. The cash return is significant.

Of complaints which come forward; some stand out. In one situation, we had an older woman (60s) with a modest earned income, who has invested most of her disposable cash in her home over the years. She lives in a neighborhood which the maps included herein substantiate as a *transitional neighborhood*. That is, current *owner occupants* are moving out and the homes are being purchased by individuals and entities intending to convert them into rental units. This woman stated that as transient occupants have moved into the neighborhood, she has become surrounded by "thugs, thieves and drug dealers." She told the Board she cannot sell the home with such severe criminal activity and she lives in fear and sleeps in her basement because of the noise from these ruffians and gunshots.

A fellow came in with a similar complaint in another neighborhood we would regard as transitional. He brought extremely sharp pictures of drug deal going down next to his yard. His pictures showed two individuals and a small package of material being traded. While Board members do not have enough personal knowledge to determine if the alleged activity was truly a drug deal, it certainly appeared to many of us to be representative of the activity.

CONCLUSION

From personal testimony made before the Board in March 2008 and buried in the data from both the Assessor's office and the Board of Realtors, there can be little doubt Saginaw's property tax base is at risk. The risk arises from external forces such as weak national and state economies and from local forces such as poor or non-existent police response to nuisance complaints and petty criminal activity. Buyers are concerned about poor standardized test scores in local schools, about both young and not so young citizens who roam neighborhoods behaving in threatening ways that disrupt the peace and tranquility of neighborhoods, about the accumulation of trash, cars parked on front lawns and other clear symbols of an unkempt community and from deteriorating roadways, vacant structures, structures stripped of the siding and other untreated urban blight.

Board members have considered these factors as they deliberated individual appeals. However, we have also borne in mind that change is a certainty in the life cycle of any neighborhood or community. For example, within the area cited by Delta College, a crime ridden housing project was removed and new factories and a beautiful new subdivision of single family, owner occupied homes has arisen. Research on selling prices per square foot of homes in the Cathedral District demonstrate that in ten year period between 1992 and 2001, average selling prices per square foot doubled. The BOR has seen sales in the Cathedral District of \$60,000 to \$90,000.

When considering commercial property trends, Board members look to an example provided by City Council in the 1990s. A neighborhood business area along Michigan Avenue near Dearborn and Vermont Streets had its street resurfaced, store fronts refurbished by owners and attractive signs placed identifying the commercial district. One year after completion, a member of the Assessor's office interviewed every store owner in the refurbished area. The interviews provided information that gross sales for every business had grown since the area was "spruced up." The increases ranged from 25% to 50% annually. Similar, but undocumented activity has occurred in Saginaw's Old Town area due to robust entertainment and dining facilities (which may now be suffering an economic malaise resulting from general economic conditions). The situation is now being replicated on Washington Avenue as a result of newly paved roadways, streetscaping and the effort of skilled, private developers who've built large medical treatment facilities.

Our report concludes that Saginaw's property values are in transition. A few formerly low priced residential areas are showing evidence of slow growth and stability. The middle class neighborhoods ranging from Woodbridge to the Saginaw River are at risk as are certain other west side neighborhoods. We've had many reports of property values being negatively affected by continuing minor and major criminal activity as well as blight and nuisance complaints.

The letter to the Assessor from a landlord cited within this document articulates the belief of some citizens that lawlessness has combined with the inability of government to respond to persistent complaints and requests of help. This grave threat to property values is evidenced through missing siding on homes in neighborhoods that had previously been crime free and in the widespread theft of plumbing and metal from vacant structures.

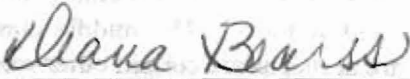
In spite of these harsh judgements, there are good things happening. It appears plans to reforest or otherwise enhance green areas are moving forward. Years of academic research support the proposition wooded lots, parks and green areas increase property values, increase a sense of well being and counter blight. Properly "greening" any community improves the tax base in two ways: (1) it eliminates loss of value due to blight, and (2) it increases property values in close proximity to the green area (*The Proximate Principle*, monograph of the National Park System, 2005).

In this report we have attempted to relay information provided to the Board through its hearings. Some of it is well known, other parts are unique to property tax appeal testimony. We've tried to highlight factors which illustrate positive actions that have strengthened the tax base and those market factors which threaten it. With housing prices plummeting nationwide and a general economic slowdown, the prospects may seem grim to a lot of people. However, Saginaw appears to have taken some very deliberate, positive steps over a series of years with regard to both housing and commerce. While the struggles are significant, there have been successes.

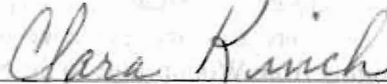
This year's testimony was worrisome because of the eminent threat to property values raised by conversion of single family homes to rental structures. It was also very disturbing to hear testimony describing the extent of criminal activity. If council is to preserve the city's tax base in existing stable neighborhoods, and in areas of healthy commercial enterprise, then it must assure protection of those pockets of prosperity with appropriate zoning, policing and other actions.

Signature Page

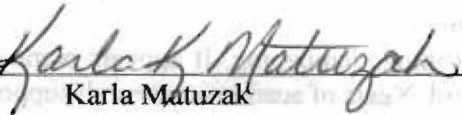
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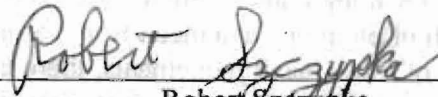
Diana Bears



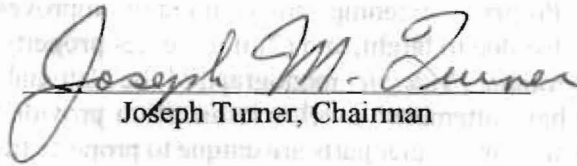
Clara Kinch



Karla Matuzak



Robert Szopyka



Joseph Turner, Chairman