

November 2014

# Running on Empty: SEMCOG's Local Government Revenue Task Force Report

**SEMCOG**

Southeast Michigan Council of Governments

*Developing Regional Solutions*

## **SEMCOG** . . . Developing Regional Solutions

### Mission

SEMCOG, the Southeast Michigan Council of Governments, is the only organization in Southeast Michigan that brings together all governments to develop regional solutions for both now and in the future. SEMCOG:

- Promotes informed decision making to improve Southeast Michigan and its local governments by providing insightful data analysis and direct assistance to member governments;
- Promotes the efficient use of tax dollars for infrastructure investment and governmental effectiveness;
- Develops regional solutions that go beyond the boundaries of individual local governments; and
- Advocates on behalf of Southeast Michigan in Lansing and Washington

# Running on Empty: SEMCOG's Local Government Revenue Task Force Report

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## Abstract

The “Great Recession” has had a deep and lasting impact on every local government in the seven-county SEMCOG region. There are communities in the region that are receiving less revenue from their property tax collections than they were prior to the enactment of Proposal A 20 years ago. The SEMCOG Local Government Revenue Task Force has performed an in-depth review of the state’s system for funding local governments. This report outlines two findings and seven recommendations that are a result of the work done by SEMCOG related to local governments’ generating revenue and the state’s role in funding local government operations.

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Also, a special thank you to Dr. Dale Thomson, Director, Institute for Local Government, University of Michigan-Dearborn and his graduate students for sharing their findings with the task force.

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## Introduction

Michigan is in the process of picking up the pieces from the financial storm that many refer to as the “Great Recession.” This storm has left in its wake an unprecedented number of bank-foreclosed homes in our communities which have sapped property values in the process. We have seen a retooling of operations at our largest employers and we have a local government system that has been battered and undermined to its foundation. While great deal of focus has been on those communities under emergency management, in reality, many communities in the SEMCOG region were struggling to find the resources to maintain and improve their community before the Great Recession. The post-recession financial climate has created an even greater challenge.

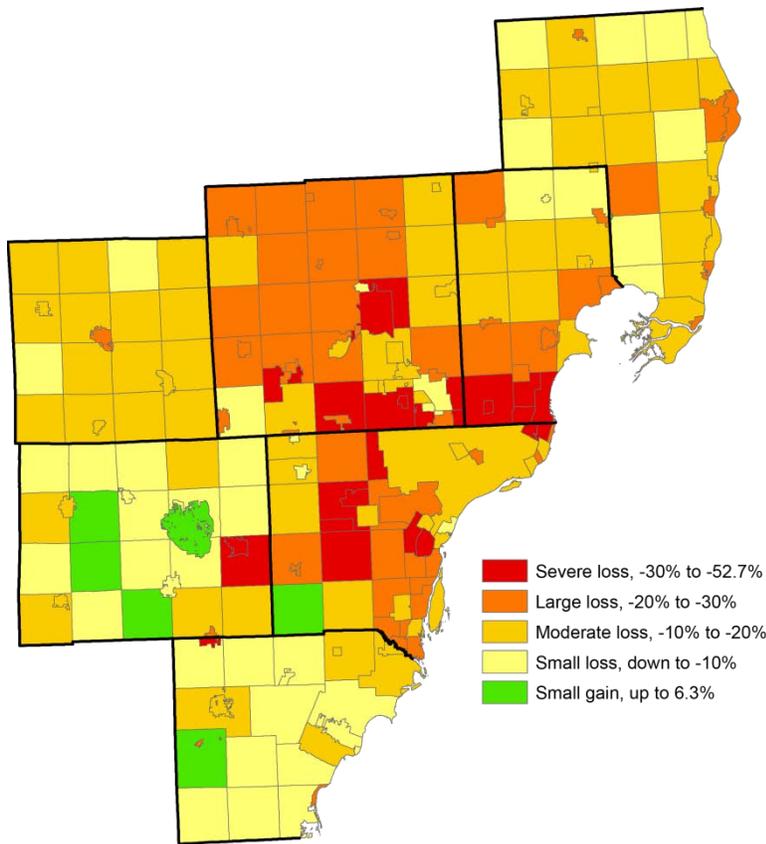
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*While a great deal of focus has been on those communities under emergency management, in reality, many communities in the SEMCOG region were struggling to find the resources to maintain and improve their community before the Great Recession.*

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A startling number of communities in Southeast Michigan are now dealing with a loss of one-third to one-half of their ability to generate property tax revenue, compared to the onset of the Great Recession in 2007. The impact of the Great Recession required many communities to evaluate both revenues and expenditures. After years of assisting communities in reducing expenditures, SEMCOG is now focusing on revenue issues. The SEMCOG Local Government Revenue Task Force was formed in December 2013 in response to needs expressed by members. The common concern – local governments are not only devastated by the loss of property tax revenue but also by reduction of funding from the state. These became focal points of study for the task force.

Figure 1  
Percent Change in Taxable Value, Southeast Michigan, 2007-2013



Source: Michigan State Tax Commission

SEMCOG studied the combined impact of the Headlee and Proposal A constitutional amendments on individual communities. It was also concluded that one provision of Headlee may be having an unexpected impact on local governments: That being the inability to convert enhanced economic development into increased property tax revenues for the community.

In the area of state funding for local governments, SEMCOG looked for a measurement tool to judge the historical role state government has played in local government operations. A little-discussed component of the Headlee amendment proved to be an excellent method to evaluate the state’s yearly commitment to local governments.

The results of the work of the task force are groundbreaking in several areas. Two findings resulted in seven recommendations for financing local government in the future.

Figure 2  
Michigan Percent Change in SEV by County, 2007-2013

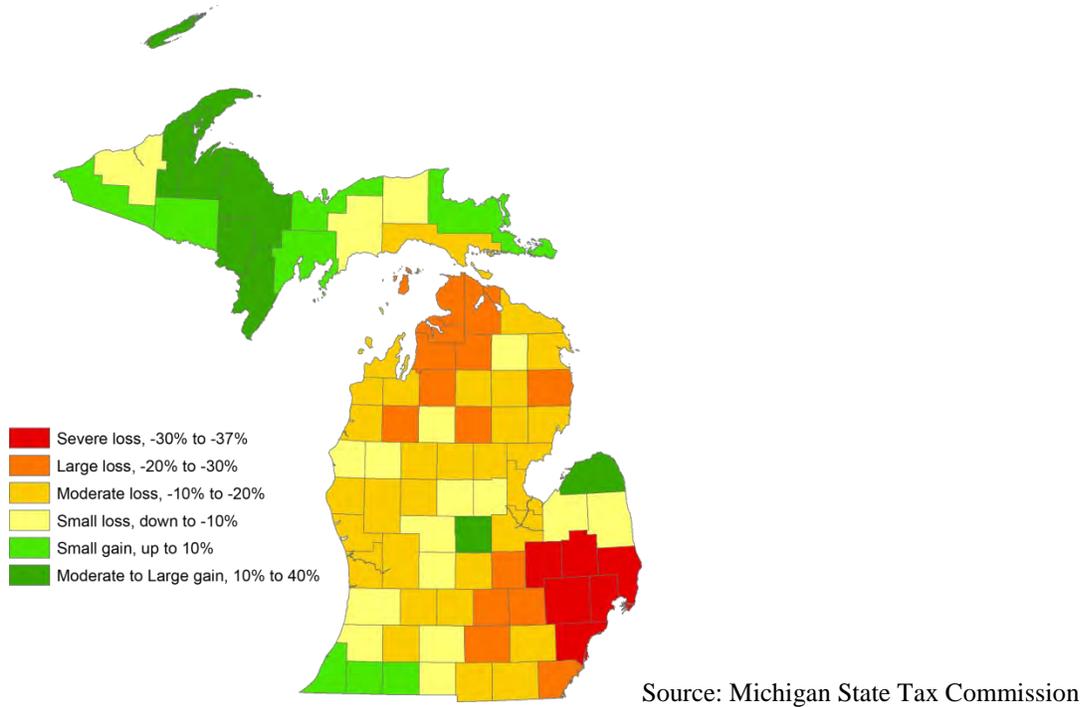
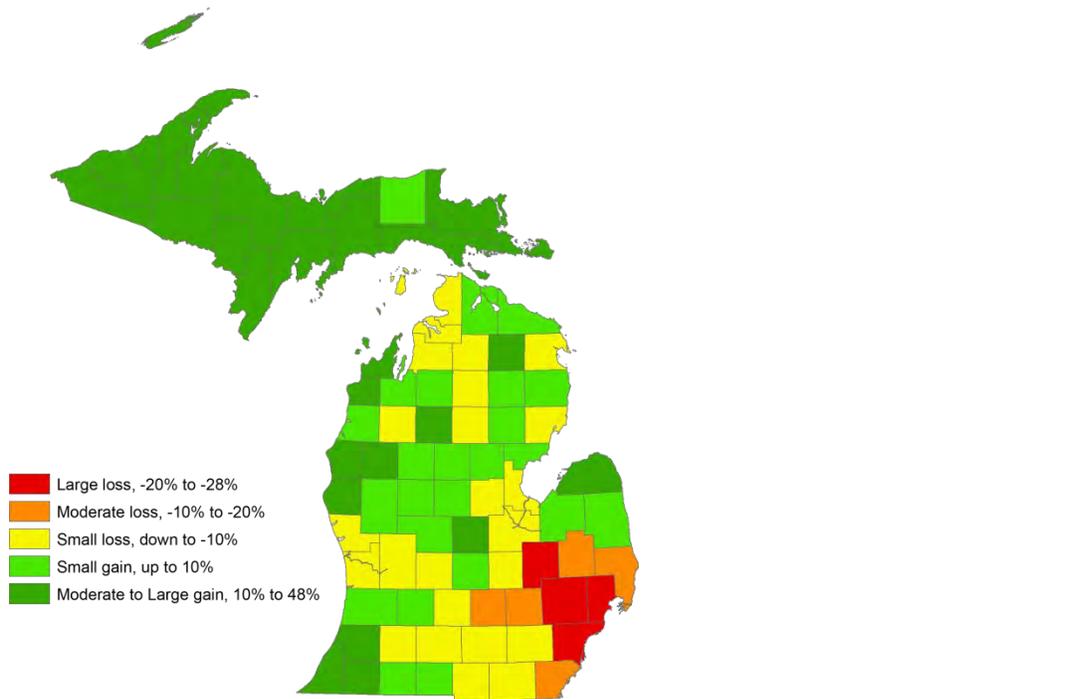


Figure 3  
Michigan Percent Change in Taxable Value by County, 2007-2013



## Findings

**Finding 1:** The Michigan Constitution has been instilled with the concept that, for local governments, economic growth is only recognized when a physical structure is constructed. This creates very different outcomes for local revenues when comparing development to redevelopment. This issue has been slowly eroding the vitality of Southeast Michigan's developed communities over the past 35 years.

**Finding 2:** Proposal A effectively nullified a constitutional provision that the state maintain distributing state collected revenues to local governments. Over the past decade, the percentage of state collected revenues that has been appropriated for local government purposes has been falling consistently.

## Recommendations

**Recommendation 1:** Eliminate the Headlee rollback calculation found in Article IX Section 31 the Michigan Constitution.

**Recommendation 2:** Amend Article IX Section 30 of the Michigan Constitution in such a way that the calculation contained within that section should take into account the significant shift of revenue that was associated with Proposal A.

**Recommendation 3:** Increase the statutory cap on municipal millage rates to allow voters to decide if a community should increase the millage rate to recoup some of the lost property tax revenue.

**Recommendation 4:** Remove the language from law that makes a decline in occupancy a "loss" when determining taxable values.

**Recommendation 5:** Base any decision to modify an assessment at the Board of Review or at the Michigan Tax Tribunal on a comparison of the assessment of that property to the assessment of other property within the taxing jurisdiction.

**Recommendation 6:** Encourage the Michigan Department of Treasury to administer local income tax systems through cooperative agreements.

**Recommendation 7:** Prohibit tax capture of economic development programs from funding new projects from captured revenues that were a result of past projects.

## Conclusion

This report challenges the current revenue structure for funding local governments. The recommendations to amend the constitution are bold but respectful to the needs of the citizens from both the perspective of controlling taxes and funding the government services that they depend upon every day. Local governments provide the foundation upon which economic development can evolve and prosper. Conversely, by eroding the foundation, the long-term prospects for our neighborhoods, for our downtowns, for our schools, for our future are significantly threatened.

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## Overview

Michigan's local government system depends on three main revenue sources: local taxes, funds provided by the state, and user fees. Local taxes are key to the overall operation of the local government. Michigan is extremely dependant on local property taxes, especially for municipal, county, and many educational operations. Property taxes can be approved for general operations and for dedicated purposes.

Revenues provided by the state can take many forms. Some are very specific in use, such as transportation funds; others, such as constitutional revenue sharing, are used for general operations and critical to local government base operations. User fees are directly tied to operating a specific program. As a result, this paper only discusses the two main sources of local government operations: local taxes and state funding. User fees such as those paid to fund water, sewer, and other similar programs are not reviewed.

This report focuses on revenues associated with county, city, village, and township operations or other forms of government created by these governments, such as authorities. However, task force members included representatives from other local governments such as Intermediate School Districts. The impact of property taxes also has an influence on the educational community.

## Property Taxes

When it comes to local taxes, Michigan local governments depend on the property tax system for operations. Twenty-two cities in the state levy an income tax; all of these communities also levy property taxes. Additionally, Michigan allows other limited options for generating revenue, but they generally play a very minor role in local government operations, the most notable being the utility tax and casino taxes that are levied by Detroit. Michigan does not allow local sales taxes, which are a form of local government funding used in many other areas of the country.

### Historical Review

From a local government perspective, there are probably few issues more contentious than the assessment caps and revenue limits created under Headlee and Proposal A. This report examines many of the issues associated with these provisions and how they evolved.

The Headlee Amendments were proposed by Richard Headlee, a businessman from the Detroit area, in 1978. While the Headlee amendment is often referred to as a singular issue, it actually created 10 new sections to the state constitution that had multiple impacts centering on a handful of principals. The primary purpose of Headlee was to protect citizens against excess taxation.

Headlee protected citizens by placing restrictions on state and local governments's power to tax. Constitutional provisions had been in place for decades which limited the millage rates that could be levied by local governments in total. Those are found in Article IX, Section 6 of the Michigan Constitution. Headlee focused on two issues related to local government operations. The first issue concerned the ability of local governments to enact taxes without citizen approvals. Prior to Headlee, it was possible, in many situations, for a local government to increase its property tax rates. Article IX, Section 31 created the specific prohibition of this practice. However, Section 31 did not limit itself to the issue of voter approval of taxes. The second protection provided by Headlee was to place a specific

limitation on the growth of property tax revenues that may be collected by a local government compared year to year.

Property taxes have a specific problem associated with their administration – they are the only tax that can't be controlled by the taxpayer through the rate. Under the income tax, if the rates are set, the taxpayer has complete predictability of any tax associated with the next dollar earned. The same is true for sales tax. If the decision is made to purchase an item, the associated tax is completely calculable. Property taxes did not have this predictability.

The problem lies in the annual assessment process. Each year in Michigan, a government official – the local assessor – places a value on the property in question. The individual property owner has no real control over how this value is derived, but must pay taxes based on this seemingly arbitrary change in property value.

### Headlee's Impact on Property Taxes

In order to give control of the property tax back to the property owner, Headlee put into place controls over the rate. But as noted, simply controlling the rate did not give the citizen control of the taxation process. Headlee had two choices; he could either place controls on the base, that being the assessed value of the property, or he could try and control the end result, that being the total revenue collected; he chose the latter. In Section 31, Headlee placed a cap on the amount of property taxes that may be collected by limiting the property tax revenue increases of each individual local government to no more than inflation on existing property, plus any revenue associated with new construction and improvements.

The Headlee amendment created the need to set up an assessing system that tracked not only the value of property, but also what caused the change in value. The new laws associated with the Headlee amendment introduced new terms to the assessing process – “additions” and “losses.” Additions were put into place to describe the new construction and improvements language that was added to the constitution; losses was the term used to define the removal of existing property, as required by the constitution.

While the Headlee amendment created a check system in the growth of property tax collections, it failed in protecting individual property owners from excessive annual increases in property tax bills. The proposal also did not function well with the school-aid formula in place at the time.

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When viewed from the perspective of the individual property owner, Headlee had minimal impact on controlling individual property tax bills. Because Headlee focused on total revenue collections, it did not account for variations in property value growth from one part of the community to another. For example: if half of the community saw a five percent increase in assessments and the other half saw a 15 percent increase in assessments, with inflation in that particular year at five percent, the overall millage rate would be reduced by five percent under the Headlee calculation (10 percent average growth less five percent inflation). The final tax bills would result in half of the property owners seeing no year-to-year increase in their tax bill, to their delight; the other half would see a 10 percent increase, much to their dismay.

The second problem under Headlee was its incompatibility with the school-aid formula at the time. Prior to 1994, Michigan distributed state revenues to local schools based on a formula that matched state money to local money so that each student would receive a minimum sum for every mill that was levied in the district. If the district could raise more money per pupil per mill through their own property taxes as compared to the state foundation amount, they were classified as “out-of-formula.” For districts that did not have a large property tax base per pupil, the most critical funding issue was the millage rate; the higher the rate, the more money available per student. This became a key issue when calculating millage reduction fractions under Headlee.

If property values in a school district increased substantially more than the rate of inflation, the school district was required to reduce its operating millage. This would result in only an inflationary increase in locally generated revenue plus additions. However, because the millage rate was reduced, state support to the local district would also be reduced, because the local tax effort had been reduced. It was not unusual for a school district to see a real reduction in total operating revenue from one year to the next because of required millage reductions under Headlee. This then created a yearly trip to the ballot box for “Headlee override” elections. The voters’ choice: vote yes and see property-tax bills increase by more than the rate of inflation, in some cases much more than the rate of inflation; or, vote no and see actual reductions in total funds for their schools. The end result was a lot of very angry voters.

From a property-tax perspective, Headlee was generally effective in returning property-tax-rate control to citizens. However, many would claim differently because of the numerous property-tax questions being placed before the voters, especially for Headlee overrides on school taxes.

Headlee and the state school-aid formula worked against each other from 1978 until 1994. Headlee fared poorly in creating predictability for individual property owners. That lack of control dominated legislative discussions during the late 80s and early 90s. Multiple plans were debated; the legislature even froze assessment increases for one year while trying to deal with the issue, which caused an even bigger problem the year the assessment freeze was removed. Boards of Review were swamped with appeals associated with two years of valuation increases. This set the stage for Proposal A.

### Proposal A

The issue of property taxes and school funding were at the root of what eventually became Proposal A. Proposal A began by focusing on two issues – reduce local property taxes and create greater equality in funding between school districts. It was not until the very last stages of debate that the issue of controlling individual property-tax bills was added into the mix. Proposal A was a debate on property taxes related to school operations. However, changing school financing had an impact on all forms of local government, once the discussion shifted to controlling individual property-tax bills.

The basic premise behind Proposal A was to eliminate or significantly reduce the K-12 system’s reliance on property-tax revenue. State taxes would be increased and redistributed back to the local school systems. Multiple concepts were considered. The various proposals included reinstating a significant amount of the property taxes, raising income taxes, and the plan that was eventually approved by the voters – creating a heavy reliance on sales-tax revenue. With additional funding coming from the state, this allowed the shift of more money into the poorest funded districts in the state. Some wanted absolute financial equity between the students, but given the wide disparities between school districts in the state in per-pupil funding, this would have required either significantly more revenue or the top-funded districts in the state to make significant cuts. In the end, the more modest proposal of accelerating payments to the bottom-funded districts while allowing only limited growth to the top-funded districts was the prevailing objective.

The issue of limiting the growth of assessments on individual pieces of property was not part of the discussion during the months of preparation that went into constructing Proposal A. The issue of a cap on SEV growth on a per-parcel basis was first offered during floor debate in the House of Representatives. The language to cap yearly assessment increases at the rate of inflation, or five percent, whichever was less, was inserted as a floor amendment and immediately received solid support. The amendment was co-sponsored by a Democrat and a Republican.

The initial concern to the amendment actually focused on the “or five percent, whichever is less” language. At that time, it was a normal occurrence to see annual inflation figures topping five percent. The concern was that less than inflationary increases would occur on a regular basis. As it turns out, there has been no year where inflation has approached five percent since the proposal was adopted. While school leaders have had serious questions of the ability of Proposal A to fund schools, the focus of other local governments has been on the impact of taxable values or assessment limits on individual parcels of property.

## The SEMCOG Study

### An Evaluation of Statewide Property Tax Collections

From 1996-2007, total property taxes collected in the state increased from \$7.5 billion to \$14.3 billion. It is easy to argue that a doubling of the revenue in just over a decade is a healthy increase. Once the Great Recession hit, total revenue fell to \$12.8 billion in 2013, still a reasonable growth rate over a 17-year period. However, looking strictly at total revenues collected masks some very important trends that differentiate between types of local governments.

The Michigan Department of Treasury breaks down total property-tax collections by type of government. While statewide property-tax collections increased by nearly 70 percent between 1996 and 2013, growth in taxes collected for township use grew from \$370 million to \$875 million during that same time period, 136 percent increase. Revenues for cities increased from \$1.487 billion to \$2.260 billion, a 52 percent growth in revenue. Counties, being a blending of the city and township values, saw a 74 percent increase.

As repeatedly noted, total revenue growth can come from property value growth or changes in millage rates. While the vast majority of the increases were associated with increased property values during the study period, part of the increased revenues were associated with increases in average millage rates. From 1996-2013, the average millage rate in counties increased by seven percent; in cities, it increased by 12 percent; and townships saw an average increase of 22 percent. Cities saw a pronounced jump in average millage rates between 2007 and 2013, increasing from 16.25 to 18.02 mills. This likely reflects the significant measures taken by communities that were seeing double-digit losses in their property-tax revenues due to the Great Recession.

Table 1

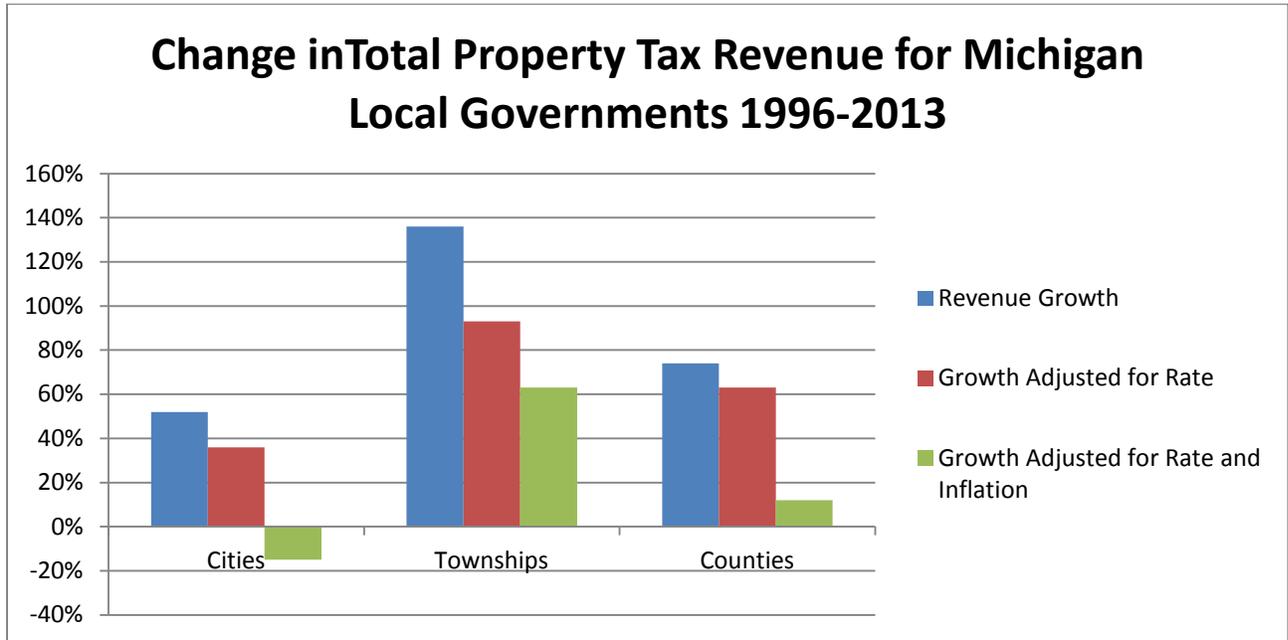
Property Tax Revenue and Millage Rates, Michigan Local Governments, 1996-2013

	<b>1996 Property Tax Revenue</b>	<b>2013 Property Tax Revenue</b>	<b>Average Millage Rate 1996</b>	<b>Average Millage Rate 2013</b>
<b>Cities</b>	\$1.487 billion	\$2.260 billion	16.07	18.02
<b>Townships</b>	\$370 million	\$875 million	3.74	4.58
<b>Counties</b>	\$1.219 billion	\$2.120 billion	6.33	6.76

Taking into account changes in millage rates, the percent growth related to changes in property value for each level of government can be calculated. Townships still saw the greatest growth pattern at 93 percent after taking into account rising millage rates. This growth is approximately double the rate of inflation, which was 51 percent over this period of time. The growth in excess of inflation is associated with the physical growth or “additions” under the property-tax laws, which occurred within these communities during this time frame. On the other hand, cities saw an adjusted growth rate of only 36 percent in total between 1996 and 2013, only about a third of that seen in townships. After taking into account inflation, cities, as a group, had 15 percent less capacity to fund their services in 2013 than they had in 1996. As a group, the increases in millage rates have only allowed these cities to stay even with inflationary cost

increases. Counties again landed in the middle, with an adjusted 74 percent growth rate over 17 years, just slightly above the rate of inflation.

Figure 4  
Property Tax Growth by Type of Government, 1996-2013



Under Headlee, local governments are allowed to increase their revenue at the rate of inflation, plus growth associated with new construction in the community. This formula creates a distinct disadvantage to fully developed communities. It is rare that new construction within a fully developed community is of a scale that would result in anything more than a small incremental increase in property-tax collections. As a result, any growth in revenue is modest in relationship to the overall spending of the governmental unit. On the other hand, developments that occur within developing communities, generally townships, can often create a significant bump in annual property-tax revenue because of the smaller base.

Michigan’s established communities, most often cities, are showing the impact of this long-term fiscal limitation. The concept that operations of a community will only grow at the rate of inflation, creates a community that is simply looking to be the same thing tomorrow that it is today. In many ways, the funding system has created an overall stagnation within developed communities, by denying resources that can be used to maintain or enhance the infrastructure and services within the community. Many of the communities need to reinvest in themselves, but historical property-tax-collection data indicates that our constitution and laws may have prevented this from occurring. As the saying goes, if you are not moving ahead, you are falling behind.

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*this from occurring. As the saying goes, if you are not moving ahead, you are falling behind.*

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With the passage of Proposal A and limits on the growth of property value used to calculate taxes on a parcel-by-parcel basis, the purpose of having the Headlee revenue limitation must be questioned. Proposal A is far more effective in protecting individual property owners than the original Headlee provision that requires millage rollbacks when revenues exceed the rate of inflation. The numbers show that the Headlee rollbacks are restricting an extremely important group of communities in our state. If this particular part of Headlee no longer protects individual taxpayers, but is slowly creating financial distress in the communities in which we live, why should this particular provision remain in place?

## Finding 1

The Michigan Constitution has been instilled with the concept that, for local governments, economic growth is only recognized when a physical structure is constructed. This creates very different outcomes for local revenues when comparing development to redevelopment. This issue has been slowly eroding the vitality of our developed communities over the past 35 years.

**Background:** Cities and counties are dedicating significant resources to creating vibrant downtown areas and place making. But if those efforts result in new tenants and renovations instead of new buildings, or if construction is occurring because of abatement or tax-capture tools, the monetary return on these efforts for future operations of the local government is very small. The community is better off, but the local government is not. Michigan's economic development laws focus on abating or capturing any property taxes associated with additions as that term applies under property-tax laws. This is especially true in developed areas of the state. In those same areas, virtually all of the spin-off benefits associated with these economic development efforts create wealth for business, employees, and property owners; revenue for state government; and nothing more than the satisfaction of a job well done for the local government.

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### SEMCOG Study: A Tale of Two Communities

In order to better understand the differences in ability to generate property-tax revenue between different types of local government, even a review of property-tax collections by type of government still lacks insight. For this reason, SEMCOG's Local Government Revenue Task Force looked at this issue by reviewing the representative group of communities within the region and then reviewed Proposal A and Headlee restrictions for each community. When broken down and reviewed on a case-by-case basis, two very distinct scenarios present themselves within the SEMCOG region.

The SEMCOG study of the impacts of Proposal A and Headlee also created a set of data that allowed a comparison of the capacity to generate property-tax revenue under the constitutional limitations over a

two-decade time period for each individual community. Extraneous factors such as expired or newly approved millages impacting revenues are effectively stripped out of the analysis. Property-tax revenue capacity can be compared from community to community to understand the impacts of changes in assessed values as well as construction and demolition issues.

Between 1994 and 2007, all of the local governments studied saw at least inflationary growth patterns in their ability to generate revenue. However, there was a very distinct difference in the ability to grow revenue based on development patterns. The well-established communities, usually cities, had much more modest gains as compared to “greenfield” areas that had room for new development, typically townships. Communities that saw the weakest revenue-growth patterns were Eastpointe, Clawson, and Southfield, each seeing growth rates in the 40 percent area over the time period (Figure 5). This means that those communities were only seeing three percent annual growth rates during the “good” years in their capacity to generate property-tax revenue, barely above inflationary levels. Warren, Farmington Hills, and Mt. Clemens each saw growth in the 50-65 percent range from 1994-2007. Pontiac had a surprising 83 percent growth rate over the time period, while neighboring Lake Angelus came in with a 77 percent growth rate.

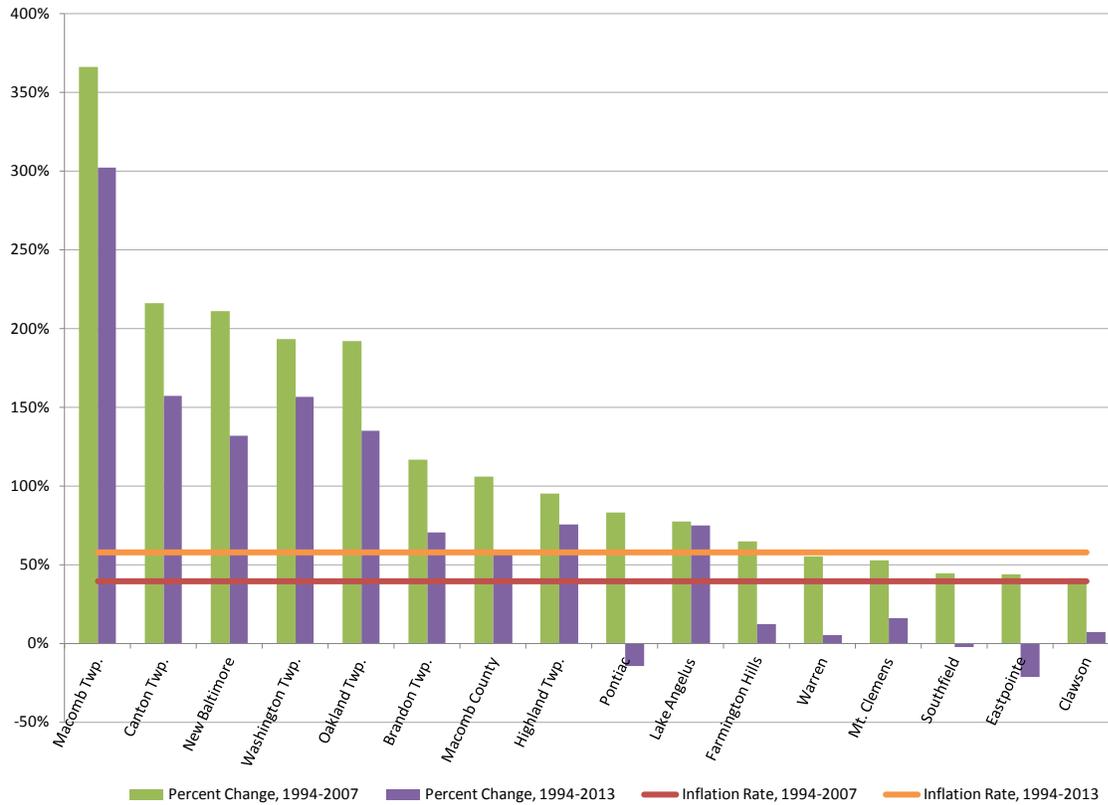
Growth numbers for cities pale compared to growth patterns in many of the townships studied. Oakland Township, Canton Township, and Washington Township all saw their property-tax-revenue capacity triple during the time period. Macomb Township, which had the strongest housing starts in the region during that time frame, saw their capacity to collect property tax revenue increase nearly fivefold.

As with all evaluations, there are outliers. The City of New Baltimore saw its ability to generate revenue triple during the evaluation time period, while Brandon Township saw a more modest doubling occur. Considering the range of growth being discussed, it should not be a surprise that Macomb County saw its capacity to collect property taxes double from the beginning of Proposal A to 2007.

The Great Recession had a significant impact on property-tax-revenue capacity for most of the communities studied. Everyone saw a real decline in the ability to collect property-tax revenue post 2007. Lake Angelus came very close to breaking even during that time period. Once again, the data shows the significant strain placed on many of the fully developed communities in the region. In this study, Eastpointe took the hardest hit. The city saw a real loss of 21 percent, compared to its ability to collect property taxes in 1994. This loss does not even take into account the nearly 60 percent inflation that occurred during the same time period. Pontiac and Southfield also saw declines in their capacity to collect taxes in 2013 compared to 1994. The highest growth rate of any of the cities studied outside of New Baltimore and Lake Angelus was in the teens. All cities, except the two just mentioned, had less financial capacity to run their community in 2013 as compared to 1994, when taking into account the erosive nature of inflation: In most cases, far less capacity.

Each of the townships studied saw significant declines from 2007-2013, but still showed significant growth from 1994. It should be noted that because of the large growth in population in these communities, much of the revenue growth had to be dedicated to expanding services for the larger populations being served.

Figure 5  
SEMCOG Study: Property Tax Capacity for Select Communities, 1994-2013



### Redevelopment and Headlee

The property-tax-revenue capacity chart showing differences between various communities in the SEMCOG region brings into stark reality the challenges of developed communities trying to “grow” their way to prosperity. That term “grow” takes a very different connotation when working with a developed community verses a greenfield area. We need to look at whether the state’s constitution and laws have inadvertently handicapped developed areas in the state from further revenue growth.

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Consider the typical economic development plan for urbanized areas of the state: Generally speaking, these plans focus on sparking specific elements within the community in anticipation that growth in one area will then create spill-over impacts that will enhance other aspects of the community. Most often, municipalities will focus on job creation and downtown commercial activities to enhance the community. The theory is to create jobs and the resulting economic activity will draw more people to the community and further enhance other commercial activity.

Typically, local governments use an assortment of economic development tools to attract businesses. If the objective is to attract industrial employers, the use of tax abatements is the most common approach. Abating half or all of the extra tax revenue associated with the newly built or renovated facility is now standard practice. The proposal to exempt all industrial personal property from taxation is another example. The local community could also use a tax-capture tool such as Brownfield Redevelopment Districts to offset the costs of the business in preparing the property for its new use. The point is that in order to lure significant new jobs to the area, most local governments must forego the property taxes associated with those new jobs in order to close the deal.

Most communities are willing to abate or capture those taxes because they are looking to improve the overall local economy. That overall growth will then create prosperity for the community and, in turn, generate additional funds for the local government. At least that is the common belief. However, a closer look at the secondary impacts of this economic development model is appropriate.

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*The only time the local government sees a financial gain from the economic development activities is if something new is built and the new construction isn’t part of some other economic development activity.*

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## ***Why economic development doesn't necessarily translate into more property-tax revenue***

In a hypothetical example, a new major factory has opened in a typical fully developed city through use of tax abatements and tax-capture tools. There is an infusion of thousands of jobs and millions of dollars in salary into the community. In some cases, existing residents are hired; in other cases, people from outside the area receive these jobs. The people from out of town look for a new home closer to the new job. As a result of the market demand, existing homes are snapped up in the nearby area. This causes home prices to increase. As the new employees move into the area, they start investing in their recently purchased homes. New owners spend money inside and out to update the homes. Business is good in the area. Tradesmen are busy. Retail stores are thriving, perhaps to the point that new employees are added. Who benefits from all this new economic activity?

The new industrial company benefits through the tax break. Thousands of new employees benefit because they are employed or have a better job. Individuals who sold their homes at a premium price benefitted. Neighbors benefit as they see the value of their homes increase. Tradesman and retail stores benefit as they see additional income. More shoppers create greater property value in the commercial corridors – another benefit. More income and business activity creates benefit for the state in more state revenue. Increasing property values associated with enhanced economic activity should benefit the local government. But, maybe not. Let's take a closer look.

The new industrial facility is likely covered by a PA 198 tax abatement or a Brownfield Redevelopment tax-capture program. No financial benefit accrues to the city or county in that situation – not for years and then at a depreciated value. Rising home values are great, but homeowners are protected by Proposal A from increases in value creating additional property-tax liability, so no extra property-tax revenue comes from that source. Property value is released when homes are sold, but the extra value above inflation simply causes the operational millage rates to go down for cities and counties due to Headlee rollback provisions, so no financial gain to local governments. Many homes are being updated, but under assessing rules very little, if any, of this investment will be considered additions, so again, there is no financial benefit to local government.

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The only time the local government sees a financial gain from economic development activities is if something new is built and the new construction isn't part of some other economic development activity. If the economic development is occurring in a fully developed area of the state, much of the redevelopment will either not be considered an addition, or the addition will occur in an area where the financial gain is captured for redevelopment in a limited area, such as a DDA.

Our economic development laws, combined with state constitutional provisions regarding taxation, have created two fairly distinct scenarios regarding benefits associated with economic development. Greenfield scenarios generally create much more direct financial benefits to communities where the development takes place. First, the business is less likely to be involved in an abatement or tax-capture scenario. If it is receiving a PA 198 abatement, 50 percent of the value is taxed because it is new construction, as opposed to the 100 percent abatement if it is going into an existing facility, the more likely scenario in fully developed areas.

If jobs are created in greenfield areas, housing stock is probably not sufficient to accommodate the growth, so new houses are built. Again, the local government benefits financially when construction

occurs. In developed areas, there is little room for new housing, so the growth occurs mainly within the existing housing stock. This translates to only marginal financial benefit to local governments that are associated with infill new housing or identified additions. In greenfield areas, new people with new money means new businesses. Again, the lack of existing buildings requires new buildings to be constructed to meet demand, meaning new financial resources for local governments. In redevelopment areas, the business is more likely to find an existing building and rehabilitate it. Some new property-tax revenue may be generated, but it is also likely to occur within a tax-capture area such as a Downtown Development Authority or Brownfield Redevelopment Authority. The financial benefit accrues to the downtown or brownfield site, but not to the service needs of the community as a whole.

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*The concept that growth only exists if something is constructed has created distinctly different outcomes in Michigan between established communities and those that are seeing growth through new construction.*

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Figure 5 illustrates the impact that Proposal A or, more specifically, Headlee, has on developed communities. The concept that growth only exists if something is constructed has created distinctly different outcomes in Michigan between established communities and those that are seeing growth through new construction.

## Recommendation 1

Eliminate the Headlee rollback calculation found in Article IX Section 31 the Michigan Constitution.

**Background:** SEMCOG recommends eliminating the last sentence of the first paragraph of Article IX, Section 31 of the Michigan Constitution. The state constitutional provision that assumes economic growth occurs only when something new is constructed is slowly strangling developed communities. This provision can be eliminated while still protecting individual property owners. By eliminating this sentence, additional revenue will begin accruing to communities that have been subject to inflationary, or less, revenue growth spanning decades. By making this change, communities that are fully focused on creating vibrant centers of living and working environments for Michigan's future will see some reward for their efforts. At the same time, property owners continue to be protected by the promise that their taxes will not go up by more than the rate of inflation without their consent, based on the continued application of Proposal A's Taxable Value Cap.

### Constitutional Amendment

There are many ways that the state constitution could be changed to have a positive impact on local government revenues, but many involve reversing a taxpayer protection. There is one change that could be made that has become extremely restrictive while, at the same time, has lost its original intended purpose. That would be the required Headlee rollbacks.

With the passage of Proposal A, individual property owners have much greater control over their property taxes than what was provided by Headlee's cap on property-tax revenue. Even within the current property tax bills, the Headlee rollback provisions only impact select components of the tax bill. Millage rates associated with bond payments are exempt by constitutional language. The six-mill State Education Tax (SET) is not covered by the Headlee rollback requirement, because Headlee only applies to local taxes. The fact that the 18-mill non-Principal Residence Exemption (PRE) rates are subject to rollbacks has lost

all meaning. The school-aid fund is designed to penalize any school district that doesn't levy the full 18-mills. This requires school districts to periodically ask voters to reauthorize a tax that few of them must pay. Do we really need to go through this exercise on a regular basis?

If Michigan were to keep in place the Proposal A cap on the growth of taxable value, but eliminate the required Headlee calculations and associated rollbacks, we would create an extremely important revenue stream, especially for fully developed communities. By only recognizing economic growth associated with building a new structure, Headlee is discriminating against fully developed communities. This limitation impacts the ability of many communities to create an environment to attract redevelopment opportunities, that being the investment in services and infrastructure.

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Where does the extra local government revenue come from? Again, this is one of the unusual quirks of Proposal A. When Proposal A was being considered, voters were told that the assessment on their property could not increase by more than the rate of inflation. This protected them from unexpected yearly increases every time new assessments were determined. However, no one mentioned that while their assessment was capped at inflation, in many years the rate that determines how much tax is owed would often be reduced due to Headlee rollback requirements, meaning that they would pay less than inflationary yearly increases in taxes to their local municipal and county governments.

## Recommendation 2

Amend Article IX, Section 30 of the Michigan Constitution in such a way that the calculation contained within that section take into account the significant shift of revenue associated with Proposal A.

**Background:** SEMCOG recommends that Article IX, Section 30 of the state constitution be amended. The base fiscal year of 1978-79 should be changed to 1996-97, the year when full revenues associated with Proposal A were part of the state budget. This will ensure that the state may not disproportionately divert additional revenues from local operations to fund state operations in difficult financial times. The state would also be required to significantly increase funding to local governments. This will benefit local government operations, school operations, roads, and county services.

### The Other Leg of Local Government Revenue: State Funds

When the name Headlee is mentioned, Michigan local government officials immediately think revenue limits. One of the lesser-recognized provisions in the Headlee amendment is Article IX, Section 30. This section of the constitution consists of one sentence: "The proportion of total state spending paid to all units of Local Government, taken as a group, shall not be reduced below that proportion in effect in fiscal year 1978-79."

The Headlee amendment is an intertwined plan impacting state and local governments that includes checks and balances within its tax/revenue limitation scheme. For example, the drafters of the proposal anticipated that if state revenues were limited, it would be a natural reaction of the state to shift functions to the locals or cut their funding in order to balance the state budget. The provision requiring the state to fund any mandated programs has had mixed results. While the state has rarely been shy about creating additional requirements for local governments, mandates have been attached to services that are considered “optional.” It needs to be noted that services such as police and fire protection, as well as water and sewer services, are all considered optional services and not considered covered by Headlee protections.

For years, the real backbone for requiring the state to fund local government services was found in Article IX, Section 30. It was determined that this section required the state to distribute 48.97 percent of all state-collected revenues to local governments. State-collected revenues include income tax, sales tax, business taxes, lottery proceeds, gas taxes, vehicle registration fees, hunting licenses, and others. Funds received by the state from federal sources are not included in the calculation. Some of the major categories that are considered as local government distributions include school aid, revenue sharing, transportation funding that is sent to counties or cities, funding for local mental health programs, and funds for certain court operations.

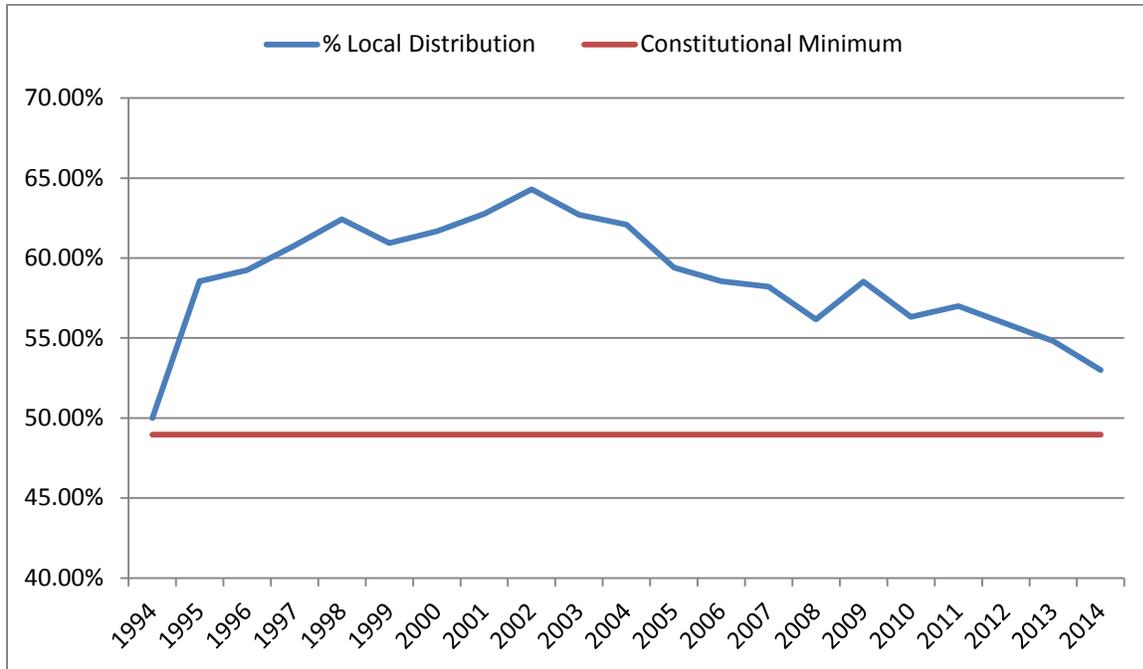
### Proposal A

In 1993-94, the official calculation produced annually by the Michigan Department of Technology, Management and Budget concluded that the state was distributing 50.0 percent of their revenues to local governments, just above the requirement. In 1994-95, the percentage increased to 58.5 percent, and over the next decade it varied between 60 and 64 percent. The large increase was attributed almost exclusively to one factor – passage of Proposal A. Proposal A, while significantly cutting local school property taxes, added billions in additional state-collected revenue that was dedicated mainly to school operations. This included the two-cent increase in the state sales tax and implementation of the six-mill State Education Tax.

### Proposal A Erases the Headlee Checks and Balances

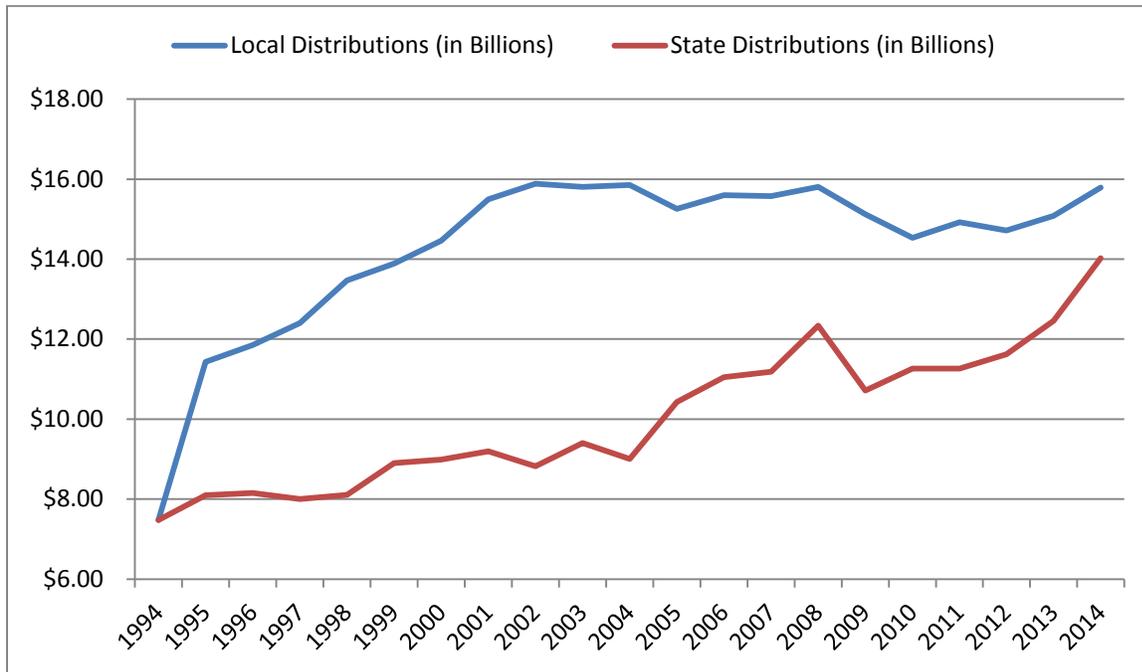
When Proposal A was drafted, the legislature purposely avoided changing the cap on state revenues found in Article IX, Section 26. This protected citizens from the state using its legislative authority to raise additional revenues. However, Proposal A also left Section 30 untouched. Because the state added so much additional revenue that was distributed to local governments, Section 30 became virtually irrelevant. The loss of the protection provided by Section 30 became much more evident as the state grappled with the “Great Recession.”

Figure 6  
Article IX, Section 30 Percent Distribution of State Collected Revenues, 1994-2013



Each year, the Department of Technology, Management and Budget submits a report on state spending as it relates to Section 30 of the constitution. Figure 6 shows the percentage of state revenues distributed to local governments as contained in those reports. The final three years of data are based on original appropriation numbers. In 1995-96, the state distributed just under 60 percent of its revenue to local governments. The level remained over 60 percent through 2003-04. This occurred despite numerous tax cuts adopted during that time. From 2004-05 through the original budget for 2013-14, the percentage of state funds distributed to local governments steadily declined, with the FY14 budget originally estimated to distribute approximately 53 percent of revenues to local governments. Headlee’s concern of tight state budgets making appropriations to local governments a prime target for budget cuts became a reality.

Figure 7  
Distribution of State Collected Revenues, 1994-2014



In Fiscal Year 2002-03, the state distributed \$15.9 billion to local governments. Over the next decade, distributions never topped that amount, and sank to a low of \$14.5 billion in FY 2010-11. In the 2014 fiscal year, the legislature appropriated \$15.8 billion for local government operations. Over the course of a decade, the best that can be said about state appropriations to local governments is that they were flat.

Conversely, as shown in Figure 7, the amount of state-collected revenues retained for state operations, defined as total revenue collected by the state less the amount appropriated to local units of government, grew from \$8.8 billion to \$14 billion over the same time period. Over the decade, state-collected revenues for state purposes only declined in two years, with one of those declines caused by planned tax cuts. So while distributions to local government have seen no growth, when viewed in total over the past decade, distributions to state programs have increased nearly 60 percent. None of the state-collected revenue growth over the past decade has made its way back to local governments.

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This is in stark contrast to distribution of state-collected revenue for the first decade after Proposal A was adopted. Then, the amount of state-collected revenues retained for state operations saw very modest growth, from about \$7.5 billion to \$9 billion. At the same time, overall state-revenue collections were increasing substantially.

The reason for the large increase in distributions to local governments as opposed to state governments during the decade after Proposal A is likely found in changes to the state's tax structure. This was the time period when the legislature was making numerous tax cuts based on strong revenue growth. However, the legislature was very focused on protecting revenue streams that had been promised to fund K-12. Many of the legislators serving at the time had been part of creating Proposal A and had a vested interest in how it functioned. As an example, if the legislature made a cut to the state income tax, the proportion of the income-tax revenue that was dedicated to the school-aid fund was increased. As a result, the legislators internalized tax cuts within the budgets that they controlled. Once the Proposal A legislators were term-limited out of office, the emphasis on protecting local operations became much less of an objective. Elimination of the Single Business Tax and creation of the Michigan Business Tax may have been an important exception to this trend. The significant spike that occurs in 2008 in Figure 7 displays this event. However, the downward trend quickly returned the following year.

In the 2014 state fiscal year, the state is approximately \$1.2 billion above the spending floor established by Section 30. At its high point, the state was \$3.8 billion above the constitutional minimum.

## Finding 2

Proposal A effectively nullified a constitutional provision that the state maintain distributing state-collected revenues to local governments. Over the past decade, the percentage of state-collected revenues appropriated for local-government purposes has been falling consistently.

**Background:** The state has systematically disinvested itself from local government operations over the past decade. This disinvestment has impacted school, municipal, and county functions. Given the current state of collected revenues, at least an additional \$2 billion should have been distributed to local governments in FY 2013-14. Proposal A created a dynamic that has allowed the state to shift more money into state operations at the expense of local government operations.

### Proposal A Opened the Door

The rationale of Headlee in creating Section 30 has been justified by the actions of the legislature over the past decade. The passage of Proposal A opened a door to allow the state to divert significant sums of state-collected revenues to state operations instead of being distributed to local services. The diversion of statutory revenue-sharing payments to cities, villages, townships, and counties and the use of the school-aid fund to fund state universities are two notable examples of this diversion.

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*By not amending Section 30 when Proposal A was adopted, the legislature effectively neutralized one of the protections that Headlee gave to citizens of the state.*

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By not amending Section 30 when Proposal A was adopted, the legislature effectively neutralized one of the protections that Headlee gave to citizens of the state. Proposal A, which was approved by voters, shifted school funding from the locally collected property tax to the state-collected sales tax and the new State Education Tax. The voters were not informed that by approving this plan it allowed the state to divert billions of dollars a year away from supporting local services which citizens depend upon in their daily lives.

The state has proven that Mr. Headlee's assumption on organizational behavior was correct. As local governments were struggling with massive declines in their primary source of funding – property taxes – the state was also dealing with the impacts of a struggling economy. The state's reaction was to retain all revenue growth for operations that they controlled, leaving no new money for struggling local governments. As a result, state revenue covering state operations grew by more than 50 percent over a decade. Locals saw no overall growth.

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### ***How the state has disinvested in local government***

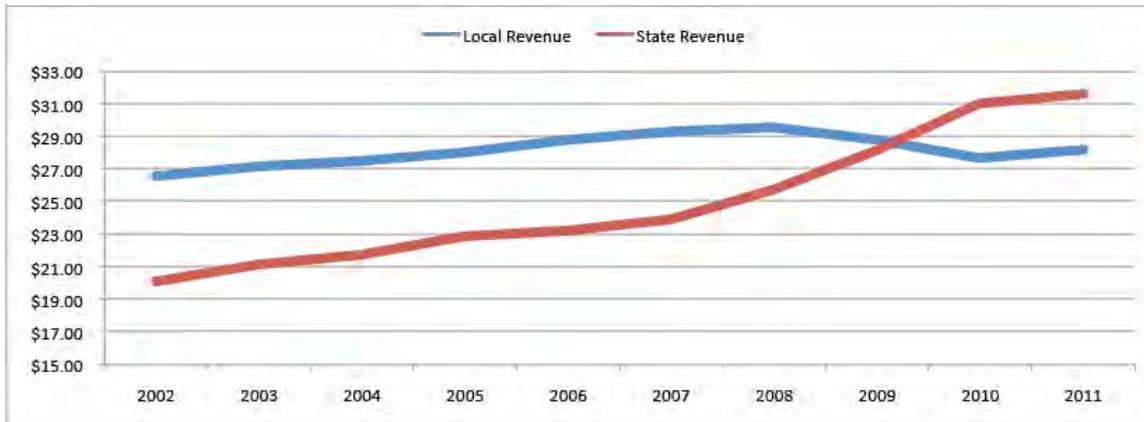
Local governments have been hit in every direction by budget cuts. Property-tax revenues in the SEMCOG region have declined \$1 billion per year since the housing bubble burst. Schools have been subjected to regular freezes, intermixed with cuts in the foundation allowance. Cities, villages, townships, and counties have seen consistent reductions in revenue sharing. The state always seems to have its own budget problems. Sometimes it is worthwhile to take a step back and look at the bigger picture.

Local government officials are quick to point out how difficult it has been to maintain operations over the past decade due to the lack of revenue. A look at local-government revenues reinforces this concern. Figure 8 shows the 10-year history of basic revenues for statewide local government operations, including K-12 education; this consists of property taxes added to revenues received from state and federal government. The results are stark. Total revenues for K-12, counties, cities, villages, townships, and other local governments increased from about \$26.5 billion to \$28 billion per year. This is only a five-percent increase over the course of 10 years.

Over the same time period, anyone who reads the newspapers or has had discussions with their legislators knows the state has also had perpetual budget problems. Local governments have been told on numerous occasions that they would be required to be part of the state budget solutions. However, the state numbers do not paint as bleak a picture as many would think. When looking at state revenues used for state purposes – that being all sums appropriated, less interfund transfers, adjustments, and money disbursed to local governments between 2002 and 2011 – state revenues increased from \$20 billion to almost \$32 billion. While local governments were trying to survive on a five-percent increase in funds over the decade, the state saw an increase of 60 percent.

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Figure 8  
10-Year Comparison of State vs. Local Revenue (in billions)



State Revenue = Total appropriations less interfund transfers, adjustments, and disbursements to local governments  
Local Revenue = Property taxes plus revenues received from state and federal sources

## Select Property Tax Topics

### Recommendation 3

Increase the statutory cap on municipal millage rates to allow voters to decide if a community should increase the millage rate to recoup some of the lost property-tax revenue.

**Background:** SEMCOG recommends that the legislature amend MCL 117.3 to allow cities to seek higher millage rates from citizens. One option would be to amend the act so that the revenue cap within the act is two percent of SEV, as the law allowed prior to 1994. This does not mean that taxes would be collected based on SEV, but rather that the revenue would be limited by the higher standard. This will allow communities that are at or near their cap to access additional potential revenue with permission of voters. As an alternative, the legislature could increase the percentage of Taxable Value that may be taxed on a yearly basis. An increase to 2.5 percent would be appropriate. Again, any additional taxation would require approval of local voters.

#### Limitations on Tax Rates

The Michigan Constitution, in Article VII, Section 21, provides that state laws shall limit the rate of ad valorem taxation for municipal purposes. This provision was enacted into statute through MCL 117.3(g). As originally written, the Home Rule Cities Act limited cities to generating revenue that was no more than two percent of the State Equalized Value of the property within the city, which equates to a tax levy of 20 mills. With passage of Proposal A, the act was amended to say that the limit would be based on the Taxable Value of the city instead of State Equalized Value.

One of the impacts of Proposal A, as noted in the SEMCOG study, was that it resulted in higher millage rates than would have been levied without the concept of Taxable Values. This means that a cap of two percent of Taxable Value will generate less revenue than a cap of two percent of SEV. For communities that have been extremely hard hit by the Great Recession, many are finding that even increasing millage rates to 20 mills will not come close to generating the same amount of revenue they received a few years ago. As property values begin to rise, those same communities will see limited revenue growth due to Headlee limitations. This is yet again a situation where revenue limitations are being placed on the communities in the greatest need of revenue in order to revitalize infrastructure that leads to economic development growth.

### Recommendation 4

Remove the language from law that makes a decline in occupancy a “loss” when determining taxable values.

**Background:** SEMCOG recommends that the Property Tax Act be amended so that reductions in occupancy for commercial property no longer are considered a loss under Proposal A, and that any change in value be reflected on SEV. Taxable Value would only be reduced if the resulting SEV falls below the Taxable Value, just like all other property.

#### Resolving WPW Acquisition Company v. City of Troy

In 2002, the State Supreme Court ruled that the City of Troy violated the state constitution when it included a change in occupancy rate as an addition as prescribed by the Property Tax Act. As a result of

this decision, the courts have created an imbalanced equation for calculating Taxable Value for commercial properties that are assessed using the income approach in determining property value. SEMCOG supports a legislative fix to this issue so that individuals will be unable to manipulate Taxable Values of commercial properties such as strip malls, or office and apartment buildings.

### **Background**

When Proposal A was debated in the legislature, one of the last concepts added to the proposal was the addition of language that capped the value of the property that could be taxed. The cap was set at five percent or the rate of inflation, whichever is less. Once the constitutional amendment was approved by voters, the legislature was required to prescribe procedures for establishing Taxable Values. It was during these workgroup meetings that the issue of properties assessed using the income approach had different issues to deal with, as compared to the way most property is assessed, which is the cost approach.

When Proposal A was adopted, the terms additions and losses went from being obscure terms used by assessors calculating millage reduction fractions under Headlee, to critical terms in the wording of the constitution. It needs to be noted that using these terms in the constitution was an imperfect fit. Prior to passage of Proposal A, the fact that an increase in SEV was a result of an addition or simple increase in the value of the property was not a concern to the typical property owner; they owed additional taxes under either scenario. A mistake by an assessor in identifying an addition or loss may change the millage reduction fraction, at the fifth or sixth decimal place, again something that did not generate a lot of controversy. The mistake would not likely impact any individual property owner by more than a penny or two. After Proposal A was adopted, additions and losses became much more important because the amounts involved specifically impacted the amount of taxes owed by the owner of a single piece of property.

The income approach to assessing is used on many commercial properties. Strip malls, office buildings, and apartment buildings are the most common buildings assessed in this manner. The simple concept is that the value of the building is very dependent on the amount of rent that can be generated on a yearly basis. However, occupancy for these structures can be very volatile. It was concluded, when implementing Proposal A, that a change in occupancy should be an addition when more units were occupied; a loss would be used in years when occupancy went down. This meant more taxes would be paid when the building was more fully occupied, and taxes would be reduced when tenants were scarce.

This approach was challenged in court. The State Supreme Court ruled that occupancy could not be considered an addition. Unfortunately, the court made no judgment on the other half of the equation, that a decrease in the occupancy was a loss.

The legislature has the authority to create at least a reasonable compromise solution. They can strike the language in the property tax act that requires the reduction of tenancy to be considered a loss. By doing this, any reduction in occupancy would result in a reduction to the State Equalized Value of the property, but it would only change the Taxable Value if the SEV was reduced to a point below the previous year's Taxable Value. Without modification of the law, any negative change in occupancy would always create a reduction in Taxable Value and the taxes paid.

The current economic conditions make this an opportune time for the change. With the economy rebounding, most commercial property values have hopefully bottomed out. This means the balanced equation would be implemented in a situation where SEV and Taxable Values are likely the same or very close. This is the most opportune time to make the change and be fair to the taxpayer.

This concept is contained in Senate Bill 117 offered by State Senator Vincent Gregory of Southfield. It has recently passed the Senate and awaits action in the Michigan House of Representatives. Legislation has been proposed and passed one chamber in past legislative sessions, but has always fallen short of final passage.

#### **Why this change needs to be made**

Because of the unbalanced formula, it creates a scenario where property owners could actually manipulate assessments. For instance, an individual with multiple apartment complexes could conveniently direct potential renters away from one complex and into other buildings he owns. When the building is reassessed for taxation, the owner can show reduced occupancy, resulting in a reduction in taxes. As soon as this occurs, prospective renters are directed back into the building with the lower taxes and, because of the Proposal A cap, taxes can't increase by more than the rate of inflation. Each year, a different complex could be targeted to get taxes lowered.

## Recommendation 5

Base any decision to modify an assessment at the Board of Review or at the Michigan Tax Tribunal on a comparison of the assessment of that property to the assessment of other property within the taxing jurisdiction.

**Background:** SEMCOG recommends that the constitutional uniformity requirement for the assessment of property in this state be adhered to through the appeals process for assessments. Changes to assessments must be accompanied by identifying incorrect parts of the property descriptions used to create the assessment. This requirement should be enforced at both the Board of Review and the Michigan Tax Tribunal.

### Concerns with the Michigan Tax Tribunal

Local units of government regularly take issue with decisions handed down by the Michigan Tax Tribunal. Property owners may appeal their tax assessments to the local boards of review and, if dissatisfied, they may then appeal those valuations to the Tax Tribunal. The largest concern expressed by local governments is that tribunal decisions are often not based on the assessors' manual or the process that generated the value; instead the tribunal simply concludes that a piece of property is overvalued and an assessment reduction is ordered. In many cases, there is no specific reason given for the reduction other than the assessment is considered to be over the perceived market value.

Concerns with the Michigan Tax Tribunal can be reduced to a single question: Is the purpose of the tribunal to guarantee that no piece of property is assessed at a value that exceeds 50 percent of its market value or is the purpose of the tribunal to ensure that all property is assessed in a uniform manner?

In reviewing the operation of the Boards of Review and decisions of the Tax Tribunal, it would seem evident that citizens expect these boards to evaluate whether their home is being assessed at a value that exceeds their perception of 50 percent of the value. In reviewing the constitution, this is likely the wrong emphasis.

The basis for the discussion is in Article IX, Section 3. The title of the section states the purpose of Section 3 is to provide uniformity in taxation of property. The constitution indicates that the legislature shall provide laws to determine the true cash value of property and that all property shall be assessed in a uniform manner. Once assessed, no more than 50 percent of that value may be used for taxation purposes. This is how the state creates the State Equalized Value, being 50 percent of the calculated true cash value.

The constitution does not define what true cash value is, but reiterates that it must be uniformly determined.

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*The basis of assessing in Michigan is to establish a uniform method of determining value of property within the state.*

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The basis of assessing in Michigan is to establish a uniform method of determining value of property within the state. Through the use of the assessing manual, properties are broken down into a series of objective criteria. How big is the building and what kind of materials were used in construction are the foundation of the assessment. Factors are then applied that take into account location in order to acknowledge that market factors are at work. In the case of the assessing manual, the focus is not to match the sales price of the home, but to find an expected value for that type home knowing that the market could mean that the real sale of the property could be higher or lower. This is the cost method of assessing.

In some cases property is assessed in alternative manners. For commercial purposes, the value of the property is not simply a matter of how much it cost to build, but instead how much revenue it can generate on an ongoing basis. In these situations, an income approach to assessing is used. Finally, some properties are so unique, they must be evaluated separately from everything else.

As required by the constitution, the state assessing system is designed to provide a uniform assessment for property across the state. Local assessors work within a system that is designed to treat every parcel the same way across the community. Studies are broken down by neighborhoods to recognize that different neighborhoods may result in different property values. County Equalization is required to monitor the assessing practices from community to community, but more importantly to ensure that property from community to community is treated in a uniform manner. Since assessed values are used to determine taxes, uniform assessing practices must be used across municipal lines, because taxing jurisdictions cross municipal lines. This is to ensure that all property owners pay their fair share. Finally, the state creates the standards for uniformity – the assessor’s manual – through the state tax commission.

Once the assessment is mailed, the concept of uniformity disappears in Michigan’s property-tax system. The appeal process, both at the Board of Review level and at the Tax Tribunal level, shifts focus from process to end result. Citizens are encouraged to compare their assessment against the sales price of other comparable properties. This focus would seem contrary to the constitution. The focus should be the comparison of the assessment of the appellant’s property against the assessment to other comparable properties. Is it uniformly assessed?

Boards of Review are often criticized because they are not modifying assessments despite the homeowner’s assertion that the property is over assessed. This is usually in situations where someone brings in examples of home sales where similar homes have sold for less money. However, if the Board of Review were to reduce the value of the property simply based on that information, they would be violating the uniformity clause of the constitution. They need to find a reason why the application of the assessing manual achieved an incorrect result. These situations occur when the assessor has made mistakes in describing the property or uses incomplete information. Is the size wrong or the condition incorrect? If the record is inaccurate the assessment will not be uniform with other properties.

If the assessor has made a mistake in calculating the market condition influence on value, that impacts all properties that were assessed using those calculations. That is corrected through county and state equalization and should not be evaluated on a single property. This is not a proper subject for the Board of Review or the Small Claims Division of the Tax Tribunal.

The extension of this process of appeals into the State Tax Tribunal is probably the most disconcerting issue, especially at the small claims level. Every time the tribunal reduces an assessment without identifying the specific factor that caused the issue, the tribunal is creating a situation of non-uniformity. The emphasis of focusing on whether something is valued above 50 percent of the demonstrated market value is not a constitutional concern. Half of the property in the state, by definition, is assessed above the value someone might place on the property, the other half is assessed below that level. The assessing system essentially establishes property values using an averaging system. The important issue is that all attributes result in a uniform valuation. The constitution demands that the value of the property be determined in a uniform manner with all other property. If no problem can be identified in the method, then the value meets the constitutional requirement and must not be changed. If the method is wrong, the method must be evaluated and changed to yield a correct outcome that is uniform and fair for all property owners.

## Recommendation 6

Encourage the Michigan Department of Treasury to administer local income tax systems through cooperative agreements.

**Background:** SEMCOG recommends that the Michigan Department of Treasury assume the responsibility of collecting local income taxes through cooperative agreements. State income tax forms should be modified for both the employer and employees so that separate local income tax forms can be eliminated. For employers, this would eliminate the necessity of dealing with a third or even fourth administration office. This change would be beneficial for employers who operate just outside of the cities that impose the tax. For employees, rather than filling out a third set of forms it would instead mean either filling out an additional page on their state tax form, or even just a few more lines.

### Other Forms of Local Revenue

To this point, this report has focused on issues related to property taxes, as Michigan is extremely reliant on property taxes for local government operations. The only other real alternative offered under state law for regular operational revenue is a local income tax, currently used by 22 cities in Michigan. Most of these communities impose a one percent tax on residents and 0.5 percent on nonresidents who work in the community. Detroit, Grand Rapids, Saginaw, and Highland Park have rates that exceed one percent for residents.

The use of local income taxes is one way in which growth in all forms of economic activity can benefit a local government. A prime example of this strategy can be seen in certain developments in the City of Lansing. The City of Lansing created a PA 425 agreement with Delta Township to contractually transfer jurisdiction of property from the township to the city to build a new GM plant. By doing so, the city could permanently abate all personal property taxes associated with the facility. But it also subjected the employees at the plant to city income taxes. The company built the new plant, more jobs were created, which increased city income tax revenue. That, combined with the property taxes on the building, created a financial benefit for the city, part of which was shared with the township. This was also done with Jackson National Life Insurance headquarters in Lansing. Additionally, the Compuware building in

Detroit and all of the equipment in the building is permanently exempt from property taxes, but the city benefits from the income taxes paid by all employees in the building.

One of the challenges with implementing a local option income tax is the extensive administrative issues combined with the lack of audit authority which is contained to the federal and state levels. Some of these concerns have been expressed during the Detroit bankruptcy discussions.

In 2009, the City of Ann Arbor commissioned a study of the feasibility of implementing a city income tax. Ann Arbor is a perfect example of the limitations of the property-tax system. As home to the University of Michigan and the county seat, much of the property in the city is exempt from property taxes. However, the needs of the community are significant, especially to provide the services necessary to create a physical environment appropriate for a world-class institution of higher learning.

While imposing a local income tax generates significant revenue, it also creates additional administrative costs. The estimate in Ann Arbor at the time of the study was that it would cost \$3 million per year to run an income tax system.

Local option income taxes are problematic for employers. If the business is located in a city that has an income tax, the employer must deal with a third set of tax forms for each employee in addition to the federal and state forms. This also means a third monthly accounting of all income taxes collected by the company. For the employer who operates outside of the city it becomes an even bigger problem. Any employee who lives in the nearby city with an income tax should have part of their wages collected and disbursed to the appropriate city. Add into the example multiple cities in the area having income taxes and the accounting becomes problematic.

Many employers located near cities with local option income taxes don't collect income taxes for those communities. It is believed that Detroit is losing a significant percentage of its income-tax revenue from residents who work for employers outside of the city who do not withhold local income taxes. Under the federal or state income tax systems, these situations would be identified through their audit authority. Unfortunately, local governments have no way of cross indexing records in order to find these situations. As a result, significant revenue is lost.

*During a time when so much emphasis is placed on eliminating duplication and creating collaborative services, this may be the best example where one entity – the state – has the resources and expertise to significantly benefit local units of government.*

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By having the state contractually assume the responsibility for collecting local income taxes it should create significantly greater compliance with the tax laws. The most important factor is that the state has the resources to identify individuals who are subject to local income tax, but not remitting the revenue. This alone would have a significant impact on overall revenue collections. During a time when so much emphasis is placed on eliminating duplication and creating collaborative services, this may be the best example where one entity – the state – has the resources and expertise to significantly benefit local units of government.

#### Local Option Sales Tax

Local option sales tax is very common across the country as a way to fund local governments. In Michigan, the state constitution in Article IX, Section 8 states that the legislature shall not impose a sales tax on retailers at a rate of more than four percent of their gross taxable sales of tangible personal property. The citizens added an additional two percent sales tax with the passage of Proposal A. This language leaves no ability to levy a local sales tax without first reducing the first four cents of the state sales tax. The task force has no expectation of this occurring.

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*The task force has not chosen to make a recommendation to seek the authority to levy such a tax. However, the task force believes that should this become a serious consideration, the tax should not be levied at anything less than a county-wide level with an appropriate distribution back to local units of government. A multi-county level would be preferred.*

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Any local option sales tax would require amending the state constitution. The task force has not chosen to make a recommendation to seek the authority to levy such a tax. However, the task force believes that should this become a serious consideration, the tax should not be levied at anything less than a county-wide level with an appropriate distribution back to local units of government. A multi-county level would be preferred. The ability to generate revenue through a sales tax is too dependent on the mix of commercial activity in a single municipal jurisdiction. The location of a new automobile dealership or retail mall can swing revenues significantly. A local option sales tax should not become another way in which one community is pitted against another over generation of the next dollar of revenue.

## Recommendation 7

Prohibit tax capture of economic development programs from funding new projects from captured revenues that were a result of past projects.

**Background:** SEMCOG recommends that in order to comply with the original intent of tax-capture projects that DDAs and other similar tax capture economic development programs be prohibited from funding new projects from captured revenues that were a result of past projects. This requires that DDAs and other similar entities regularly release captured property values and the associated revenue for use by the appropriate taxing entity. This creates a natural dynamic that will focus DDAs on selecting projects that will result in measurable economic growth, particularly construction, by the private sector.

### Economic Development Through Tax Capture

Tax-capture plans have been a significant source of revenue for economic development purposes dating back to the 70s. The concept is simple: borrow money to improve a property being considered for economic development. The public improvement leads to private-sector investment, creating a higher tax base. Property tax revenue growth generated from the economic development is “captured” in order to pay off the debt incurred to spur the development. Once the project is paid off, the resulting revenue is released and all governments can share in the economic growth that would not have occurred without this seed money. The proverbial win-win scenario is created.

Tax-capture plans generally fall into two categories: those that are site specific and those that are designed to enhance an area. Brownfield redevelopment projects are a good example of a site specific tax capture project. A private investor redevelops an existing structure or builds a new building on property that has existing environmental issues. Future property taxes owed once construction is complete are used to pay off costs that the developer would not have incurred on a greenfield site. Once the costs are paid off, property taxes flow to all taxing entities. The win-win scenario is fulfilled.

Area enhancement tax captures become much more problematic in delivering the second win. Examples of these plans are Downtown Development Authorities and Corridor Improvement Authorities. In each case, a new governmental board is established with the charge to improve the condition of the downtown or corridor to make it more appealing to businesses and consumers. The complaint from other local governments who have their taxes captured is that there is never a point in many of these situations where taxes are released. This is particularly a concern for counties and Intermediate School Districts. It has also become a concern of some of the communities that have established the districts.

The issue raised in the SEMCOG’s Local Government Revenue Task Force was that there is a never-ending stream of projects that can enhance a downtown or a corridor. In some cases, much of the money is not being used for projects, but instead used to pay for municipal services for the area such as police and fire protection. In too many cases the concept of releasing the revenue growth back to the taxing units is nonexistent.

Each DDA or Corridor Authority must have an approved development plan. These plans have evolved to a point where new projects are regularly added. As one project is paid off, money becomes available to fund another project. This supports the concept that investment by the public sector spurs investment by the private sector. However, it also means that DDAs are using gains from prior successes to fund future projects. Whether the new project further enhances the area does not matter, as long as the prior revenue stream remains in place, the district can continue to function. This dynamic is counter to the original purpose of tax-capture plans. Each project should be evaluated from the standpoint of will it induce

further spending by the private sector to construct or rehabilitate buildings along the corridor or in the downtown area. This is what is needed to generate the new property-tax revenue to pay for public improvements. If this does not occur, the downtown may become more valuable to property owners and may become a more desirable place to live, but because of Headlee, it will not generate revenue to pay for the improvement.

SEMCOG's Local Government Revenue Task Force had significant discussions regarding the problems that have evolved in tax-capture districts due to the Great Recession. Because these programs are funded based on property values that exceed a certain level, they have been extremely hard hit by falling property values. In many cases, the local municipality is required to supplement the budgets of these programs because of revenue loss.

## Appendix A

### CONSTITUTION OF MICHIGAN OF 1963 (Excerpts)

#### ARTICLE IX

#### FINANCE AND TAXATION

##### **§ 3 Property taxation; uniformity; assessments; limitations; classes; approval of legislature.**

Sec. 3. The legislature shall provide for the uniform general ad valorem taxation of real and tangible personal property not exempt by law except for taxes levied for school operating purposes. The legislature shall provide for the determination of true cash value of such property; the proportion of true cash value at which such property shall be uniformly assessed, which shall not, after January 1, 1966, exceed 50 percent; and for a system of equalization of assessments. For taxes levied in 1995 and each year thereafter, the legislature shall provide that the taxable value of each parcel of property adjusted for additions and losses, shall not increase each year by more than the increase in the immediately preceding year in the general price level, as defined in section 33 of this article, or 5 percent, whichever is less until ownership of the parcel of property is transferred. When ownership of the parcel of property is transferred as defined by law, the parcel shall be assessed at the applicable proportion of current true cash value. The legislature may provide for alternative means of taxation of designated real and tangible personal property in lieu of general ad valorem taxation. Every tax other than the general ad valorem property tax shall be uniform upon the class or classes on which it operates. A law that increases the statutory limits in effect as of February 1, 1994 on the maximum amount of ad valorem property taxes that may be levied for school district operating purposes requires the approval of 3/4 of the members elected to and serving in the Senate and in the House of Representatives.

##### **§ 6 Real and tangible personal property; limitation on general ad valorem taxes; adoption and alteration of separate tax limitations; exceptions to limitations; property tax on school district extending into 2 or more counties.**

Section 6. Except as otherwise provided in this constitution, the total amount of general ad valorem taxes imposed upon real and tangible personal property for all purposes in any one year shall not exceed 15 mills on each dollar of the assessed valuation of property as finally equalized. Under procedures provided by law, which shall guarantee the right of initiative, separate tax limitations for any county and for the townships and for school districts therein, the aggregate of which shall not exceed 18 mills on each dollar of such valuation, may be adopted and thereafter altered by the vote of a majority of the qualified electors of such county voting thereon, in lieu of the limitation hereinbefore established. These limitations may be increased to an aggregate of not to exceed 50 mills on each dollar of valuation, for a period of not to exceed 20 years at any one time, if approved by a majority of the electors, qualified under Section 6 of Article II of this constitution, voting on the question.

The foregoing limitations shall not apply to taxes imposed for the payment of principal and interest on bonds approved by the electors or other evidences of indebtedness approved by the electors or for the payment of assessments or contract obligations in anticipation of which bonds are issued approved by the electors, which taxes may be imposed without limitation as to rate or amount; or, subject to the provisions of Section 25 through 34 of this article, to taxes imposed for any other purpose by any city, village, charter county, charter township, charter authority or other authority, the tax limitations of which are provided by charter or by general law.

In any school district which extends into two or more counties, property taxes at the highest rate available in the county which contains the greatest part of the area of the district may be imposed and collected for school purposes throughout the district.

**§ 8 Sales and use taxes.**

Sec. 8. Except as provided in this section, the Legislature shall not impose a sales tax on retailers at a rate of more than 4% of their gross taxable sales of tangible personal property.

Beginning May 1, 1994, the sales tax shall be imposed on retailers at an additional rate of 2% of their gross taxable sales of tangible personal property not exempt by law and the use tax at an additional rate of 2%. The proceeds of the sales and use taxes imposed at the additional rate of 2% shall be deposited in the state school aid fund established in section 11 of this article. The allocation of sales tax revenue required or authorized by sections 9 and 10 of this article does not apply to the revenue from the sales tax imposed at the additional rate of 2%.

No sales tax or use tax shall be charged or collected from and after January 1, 1975 on the sale or use of prescription drugs for human use, or on the sale or use of food for human consumption except in the case of prepared food intended for immediate consumption as defined by law. This provision shall not apply to alcoholic beverages.

**§ 10 Sales tax; distribution to local governments.**

Sec. 10. Fifteen percent of all taxes imposed on retailers on taxable sales at retail of tangible personal property at a rate of not more than 4% shall be used exclusively for assistance to townships, cities and villages, on a population basis as provided by law. In determining population the legislature may exclude any portion of the total number of persons who are wards, patients or convicts in any tax supported institution.

**§ 11 State school aid fund; source; distribution; guarantee to local school district.**

Sec. 11. There shall be established a state school aid fund which shall be used exclusively for aid to school districts, higher education, and school employees' retirement systems, as provided by law. Sixty percent of all taxes imposed at a rate of 4% on retailers on taxable sales at retail of tangible personal property, 100% of the proceeds of the sales and use taxes imposed at the additional rate of 2% provided for in section 8 of this article, and other tax revenues provided by law, shall be dedicated to this fund. Payments from this fund shall be made in full on a scheduled basis, as provided by law. Beginning in the 1995-96 state fiscal year and each state fiscal year after 1995-96, the state shall guarantee that the total state and local per pupil revenue for school operating purposes for each local school district shall not be less than the 1994-95 total state and local per pupil revenue for school operating purposes for that local school district, as adjusted for consolidations, annexations, or other boundary changes. However, this guarantee does not apply in a year in which the local school district levies a millage rate for school district operating purposes less than it levied in 1994.

**§ 24 Public pension plans and retirement systems, obligation.**

Sec. 24. The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby.

**Financial benefits, annual funding.**

Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities.

**§ 25 Voter approval of increased local taxes; prohibitions; emergency conditions; repayment of bonded indebtedness guaranteed; implementation of section.**

Sec. 25. Property taxes and other local taxes and state taxation and spending may not be increased above the limitations specified herein without direct voter approval. The state is prohibited from requiring any new or expanded activities by local governments without full state financing, from reducing the proportion of state spending in the form of aid to local governments, or from shifting the tax burden to local government. A provision for

emergency conditions is established and the repayment of voter approved bonded indebtedness is guaranteed. Implementation of this section is specified in Sections 26 through 34, inclusive, of this Article.

**§ 26 Limitation on taxes; revenue limit; refunding or transferring excess revenues; exceptions to revenue limitation; adjustment of state revenue and spending limits.**

Sec. 26. There is hereby established a limit on the total amount of taxes which may be imposed by the legislature in any fiscal year on the taxpayers of this state. This limit shall not be changed without approval of the majority of the qualified electors voting thereon, as provided for in Article 12 of the Constitution. Effective with fiscal year 1979-1980, and for each fiscal year thereafter, the legislature shall not impose taxes of any kind which, together with all other revenues of the state, federal aid excluded, exceed the revenue limit established in this section. The revenue limit shall be equal to the product of the ratio of Total State Revenues in fiscal year 1978-79 divided by the Personal Income of Michigan in calendar year 1977 multiplied by the Personal Income of Michigan in either the prior calendar year or the average of Personal Income of Michigan in the previous three calendar years, whichever is greater.

For any fiscal year in the event that Total State Revenues exceed the revenue limit established in this section by 1% or more, the excess revenues shall be refunded pro rata based on the liability reported on the Michigan income tax and single business tax (or its successor tax or taxes) annual returns filed following the close of such fiscal year. If the excess is less than 1%, this excess may be transferred to the State Budget Stabilization Fund.

The revenue limitation established in this section shall not apply to taxes imposed for the payment of principal and interest on bonds, approved by the voters and authorized under Section 15 of this Article, and loans to school districts authorized under Section 16 of this Article.

If responsibility for funding a program or programs is transferred from one level of government to another, as a consequence of constitutional amendment, the state revenue and spending limits may be adjusted to accommodate such change, provided that the total revenue authorized for collection by both state and local governments does not exceed that amount which would have been authorized without such change.

**§ 27 Exceeding revenue limit; conditions.**

Sec. 27. The revenue limit of Section 26 of this Article may be exceeded only if all of the following conditions are met: (1) The governor requests the legislature to declare an emergency; (2) the request is specific as to the nature of the emergency, the dollar amount of the emergency, and the method by which the emergency will be funded; and (3) the legislature thereafter declares an emergency in accordance with the specific of the governor's request by a two-thirds vote of the members elected to and serving in each house. The emergency must be declared in accordance with this section prior to incurring any of the expenses which constitute the emergency request. The revenue limit may be exceeded only during the fiscal year for which the emergency is declared. In no event shall any part of the amount representing a refund under Section 26 of this Article be the subject of an emergency request.

**§ 28 Limitation on expenses of state government.**

Sec. 28. No expenses of state government shall be incurred in any fiscal year which exceed the sum of the revenue limit established in Sections 26 and 27 of this Article plus federal aid and any surplus from a previous fiscal year.

**§ 29 State financing of activities or services required of local government by state law.**

Sec. 29. The state is hereby prohibited from reducing the state financed proportion of the necessary costs of any existing activity or service required of units of Local Government by state law. A new activity or service or an increase in the level of any activity or service beyond that required by existing law shall not be required by the legislature or any state agency of units of Local Government, unless a state appropriation is made and disbursed to pay the unit of Local Government for any necessary increased costs. The provision of this section shall not apply to costs incurred pursuant to Article VI, Section 18.

**§ 30 Reduction of state spending paid to units of local government.**

Sec. 30. The proportion of total state spending paid to all units of Local Government, taken as a group, shall not be reduced below that proportion in effect in fiscal year 1978-79.

**§ 31 Levying tax or increasing rate of existing tax; maximum tax rate on new base; increase in assessed valuation of property; exceptions to limitations.**

Sec. 31. Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon. If the definition of the base of an existing tax is broadened, the maximum authorized rate of taxation on the new base in each unit of Local Government shall be reduced to yield the same estimated gross revenue as on the prior base. If the assessed valuation of property as finally equalized, excluding the value of new construction and improvements, increases by a larger percentage than the increase in the General Price Level from the previous year, the maximum authorized rate applied thereto in each unit of Local Government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the General Price Level, as could have been collected at the existing authorized rate on the prior assessed value.

The limitations of this section shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments on contract obligations in anticipation of which bonds are issued which were authorized prior to the effective date of this amendment.

**§ 32 Suit to enforce sections 25 to 31.**

Sec. 32. Any taxpayer of the state shall have standing to bring suit in the Michigan State Court of Appeals to enforce the provisions of Sections 25 through 31, inclusive, of this Article and, if the suit is sustained, shall receive from the applicable unit of government his costs incurred in maintaining such suit.

**§ 33 Definitions applicable to sections 25 to 32.**

Sec. 33. Definitions. The definitions of this section shall apply to Section 25 through 32 of Article IX, inclusive.

“Total State Revenues” includes all general and special revenues, excluding federal aid, as defined in the budget message of the governor for fiscal year 1978-1979. Total State Revenues shall exclude the amount of any credits based on actual tax liabilities or the imputed tax components of rental payments, but shall include the amount of any credits not related to actual tax liabilities. “Personal Income of Michigan” is the total income received by persons in Michigan from all sources, as defined and officially reported by the United States Department of Commerce or its successor agency. “Local Government” means any political subdivision of the state, including, but not restricted to, school districts, cities, villages, townships, charter townships, counties, charter counties, authorities created by the state, and authorities created by other units of local government. “General Price Level” means the Consumer Price Index for the United States as defined and officially reported by the United States Department of Labor or its successor agency.

**§ 34 Implementation of sections 25 to 33.**

Sec. 34. The Legislature shall implement the provisions of Sections 25 through 33, inclusive, of this Article.

## Appendix B

### Definitions

**Additions** – New structures or improvements to the land that did not exist the prior year. The status of additions is determined on December 31 of each year. This term implements requirements established by the Headlee Amendment.

**Assessing** – The process of describing and determining the value of every parcel of property within a city or township.

**Assessor** – A person certified by the state through the **State Tax Commission** to perform the task of describing all property in the city or township, placing a value on the property and maintaining all records associated with the process.

**Board of Review** – A board of three individuals appointed by the city or township to hear appeals of the property owners within the community. Each community may establish up to three such boards. The board may modify assessments following the limitations prescribed by law. Boards of Review meet in early March on issues related to property assessments and in July and December to deal primarily with errors and omissions.

**Classification** – All property in the state is grouped by use. The categories are residential, commercial, industrial, agricultural, utility, developmental and **personal property**.

**Cost Approach** – Assessing method most commonly used to determine the value of residential property in Michigan. The assessor uses the **Michigan Assessors Manual** to estimate the cost of reconstructing the building in question. The **Economic Condition Factor** is applied to the result to reflect local construction costs. Depreciation is applied, generally at the rate of one percent per year on most residential property, to determine the current value of the building in question.

**County Equalization** – Performs sales studies and uses other methods to determine the total change in property value that occurred in the prior year. Studies are performed for each classification of property within each city and township. County Equalization sets the required level of assessment for the total change in value that must occur for each property **Classification** in each community. The local assessor must then spread this change in value in an appropriate manner against the values in the community. If the total changes in value do not conform to the target, the property in the community may receive an **Equalization Factor**.

**Economic Condition Factor or ECF** – Used in assessing to adjust the depreciated cost of construction in one area as compared to the state normalized cost. This is part of the **Cost Approach** method of assessing property.

**Equalization** – The process of ensuring that all property in the state is valued in a uniform manner so that every property owner is paying their fair share of the tax burden. Final equalization is approved by the **State Tax Commission**.

**Equalization Factor** – All assessments which are sent to property owners in March are tentative valuations. If total values within a community are either too high or too low, the **State Tax Commission** has the authority and responsibility to adjust the value of every property (the factor) to bring the total value in alignment with the total values established through the equalization process. Each class of property is considered separately in each community.

**Headlee Rollback** – Slang for the decrease in the millage rate required by the constitution as a result of applying the **Millage Reduction Fraction**.

**Headlee Roll-up** – Slang for the situations from 1978 to 1994 where the **Millage Reduction Fraction** exceeded 1.0 that was used to justify increasing millage rates when property value changes did not exceed the rate of inflation in that year.

**Income Approach** – Used in assessing to determine the value of rental properties, generally apartment buildings and commercial or office buildings. Capitalization of rental income is used to determine what a typical purchaser would pay for the property and receive a market rate of return on the investment.

**Losses** – Structures that are removed based on demolition or acts of God.

**Michigan Tax Tribunal** – The judicial arm of assessing. Property value appeals that are not resolved at the local level through the **Board of Review** or through other procedures fall under the purview of the Tax Tribunal.

**Millage Reduction Fraction** – Created under statute to implement the **Headlee** limitation that total property tax revenue not increase by more than the rate of inflation after taking into account **additions** and **losses**.

**Personal Property** – In Michigan it is generally machinery used in manufacturing, office equipment and furniture and commercial store fixtures. It is the items found in or used by businesses.

**Real Property** – Lands and all of the structures permanently affixed to the land such as homes and other buildings, in-ground pools and driveways.

**Sales Study** – The start of the assessing process each year. The comparison of actual sales of property against expected sales prices as expressed by the SEV of the property. **County Equalization** performs this task in the fall of each year. During times of property value growth the time period for the study was the two year period from July 1 two years earlier to June 30 of that year. Once the recession hit the study period was from October 1 of the prior year to September 30 of that year.

**State Assessors Manual** – A detailed set of tables that are updated each year by the **State Tax Commission** to reflect normalized building costs in Michigan. The tables reflect the types and quality of materials used in construction and the architecture of the building to be constructed. Costs are expressed in square footage and can be adjusted based on the size of the building being evaluated. These values are then adjusted on a community basis by the **ECF** to determine the cost to construct the same structure in today's market.

**State Equalized Value (SEV)** – 50 percent of the **True Cash Value**

**State Tax Commission** – An appointed board that operates within the Michigan Department of Treasury that oversees the assessing process for Michigan including training and certifying all assessors, creating the Michigan Assessors Manual and overseeing the **Equalization** of all property.

**Taxable Value** – Created by Proposal A. The property value on which property taxes are based may not increase by more than the rate of inflation or five percent whichever is less in any given year until the property transfers ownership. The limitation is calculated using SEV as the base.

**True Cash Value** – Is the usual selling price, at the place where the property located.

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