



The Prolonged Recovery
of Michigan's Taxable
Values

The Prolonged Recovery of Michigan's Taxable Values

Detroit Area Business Economics

December 1, 2016

Eric Luper, President

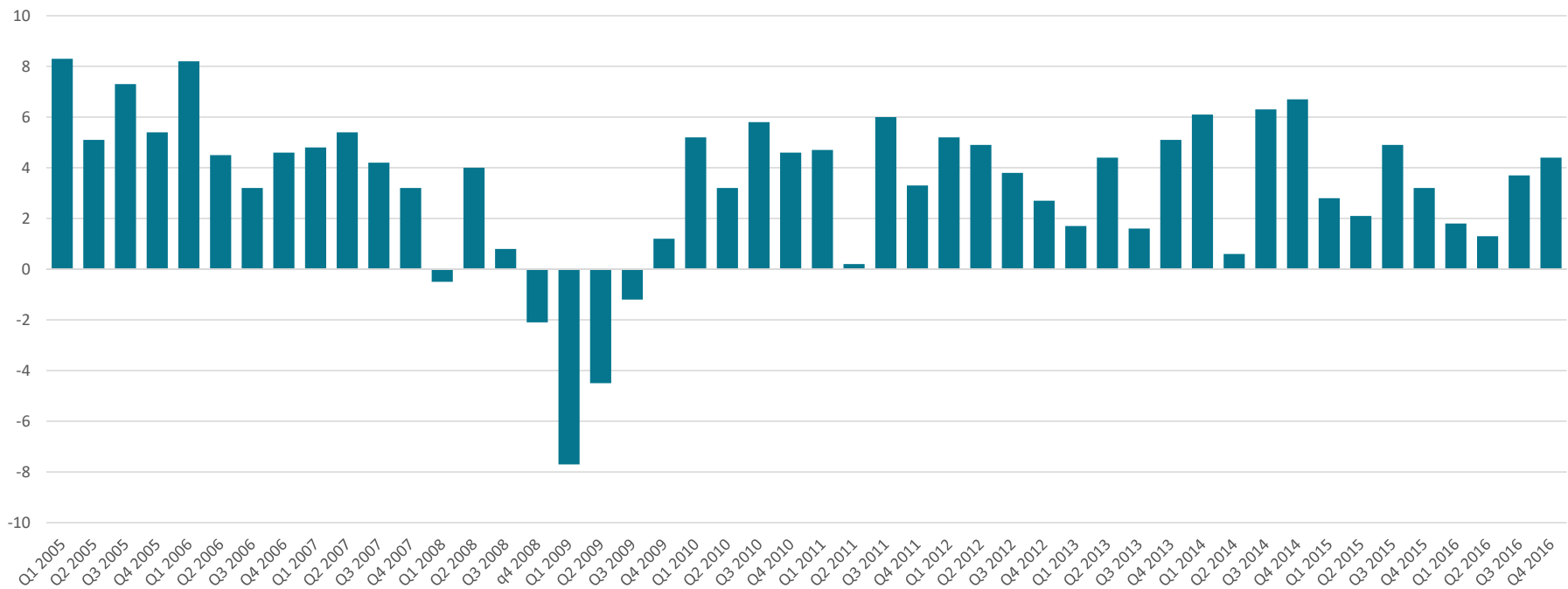
Citizens Research Council

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- Statewide
- Non-partisan
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- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions from Michigan foundations, businesses, and individuals
- *www.crcmich.org*

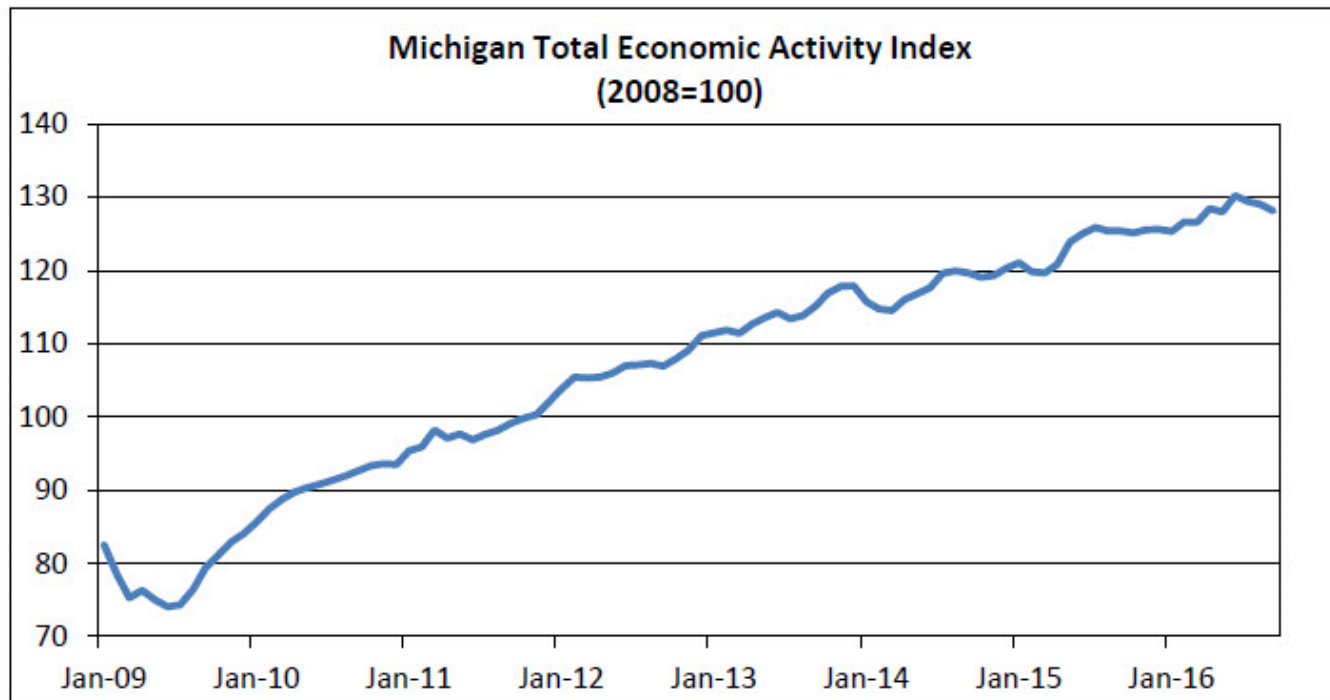
Economic recovery since worst of recession has not been shared by all

Things have gotten better since the end of the Great Recession – GDP has been positive

Growth in Michigan Real GDP



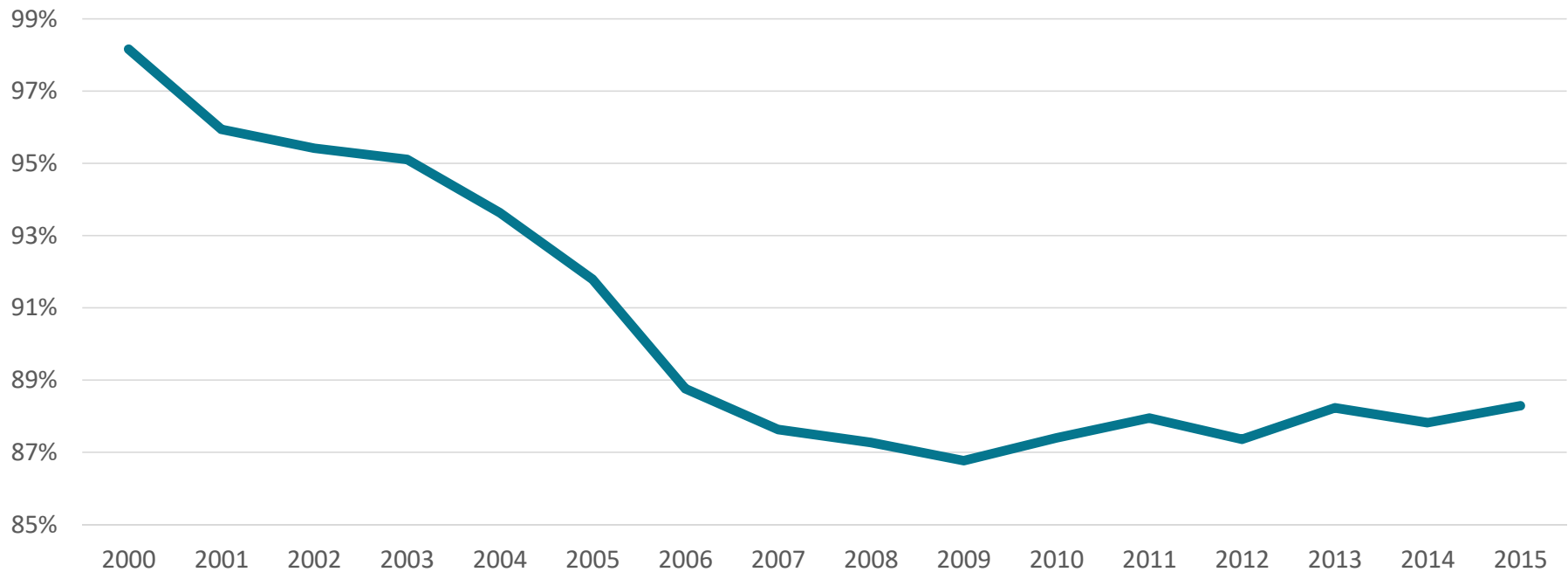
Economic Activity has trended up



Source: Comerica Bank's Michigan Economic Activity Index, email received November 30, 2016.

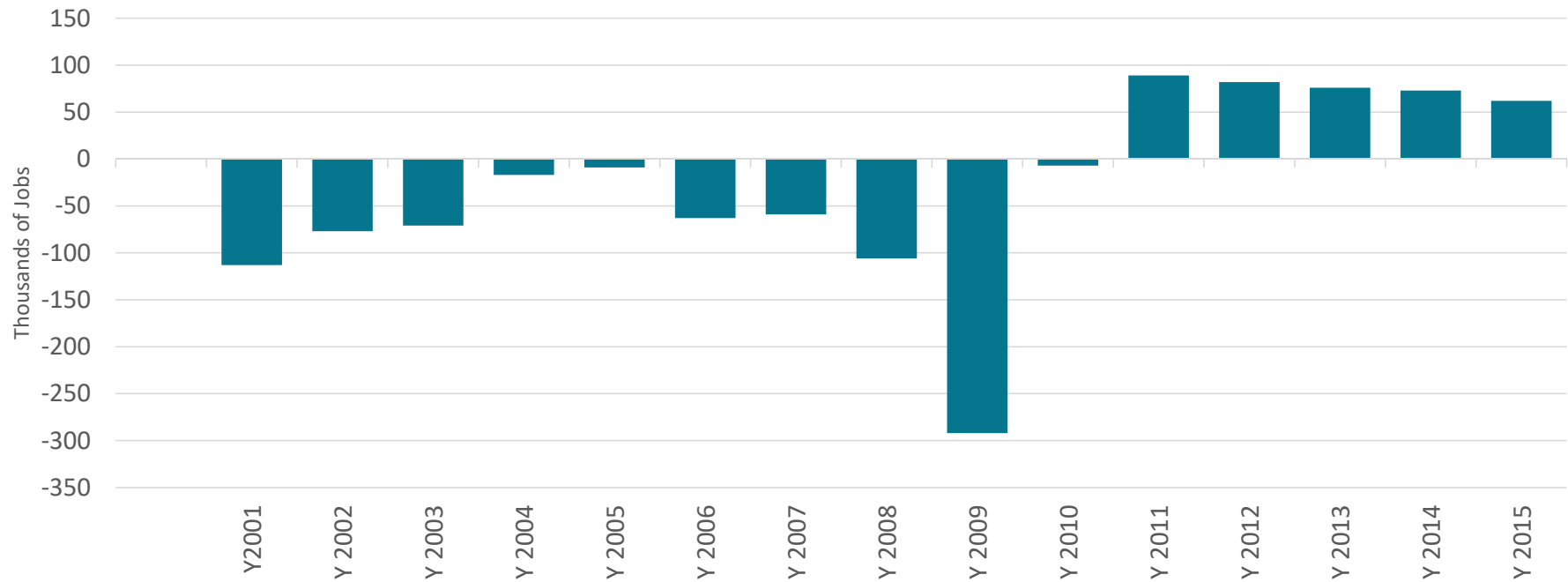
Michigan personal income has grown a little faster than the U.S. Average

Michigan Per Capita Income as a Percent of U.S. Per Capita Income



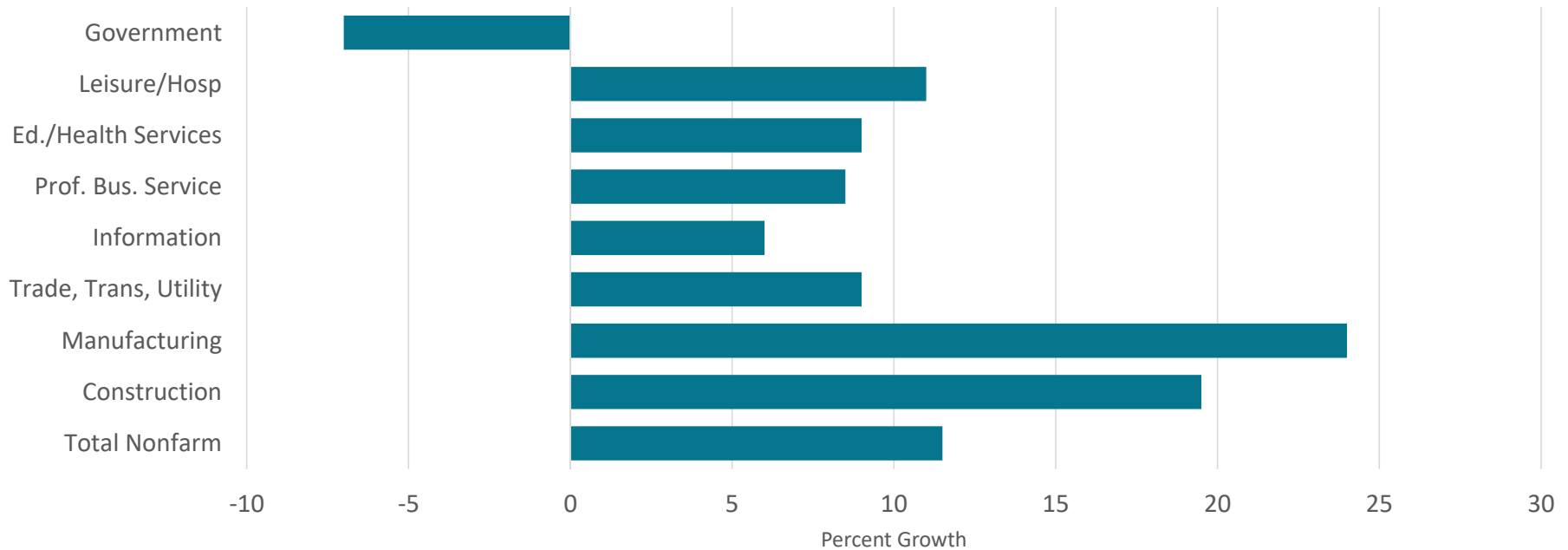
Michigan has had several years of positive job growth

Michigan Annual Employment Growth

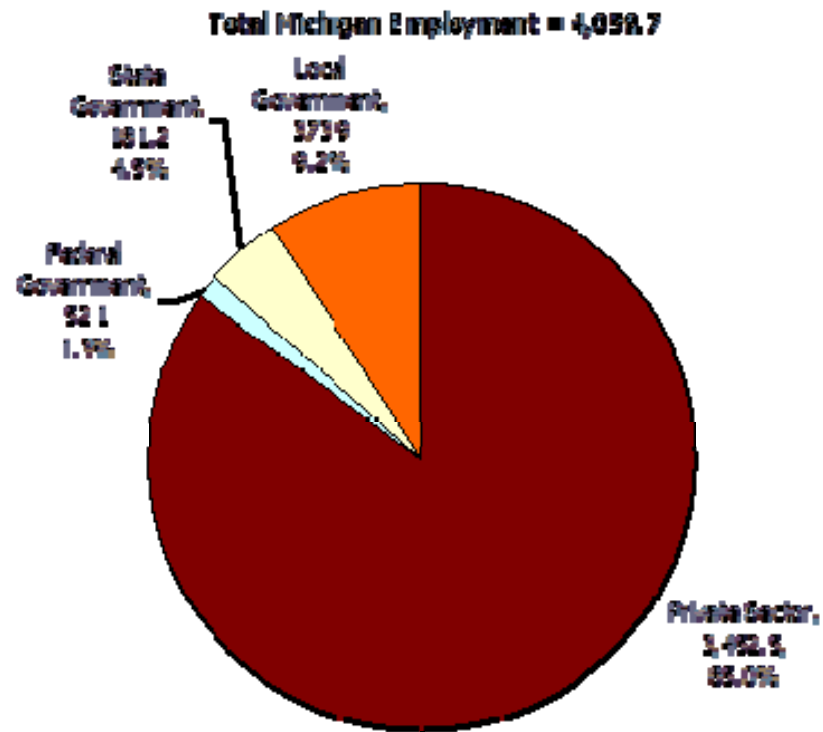


But a significant sector of the economy has not experienced the growth

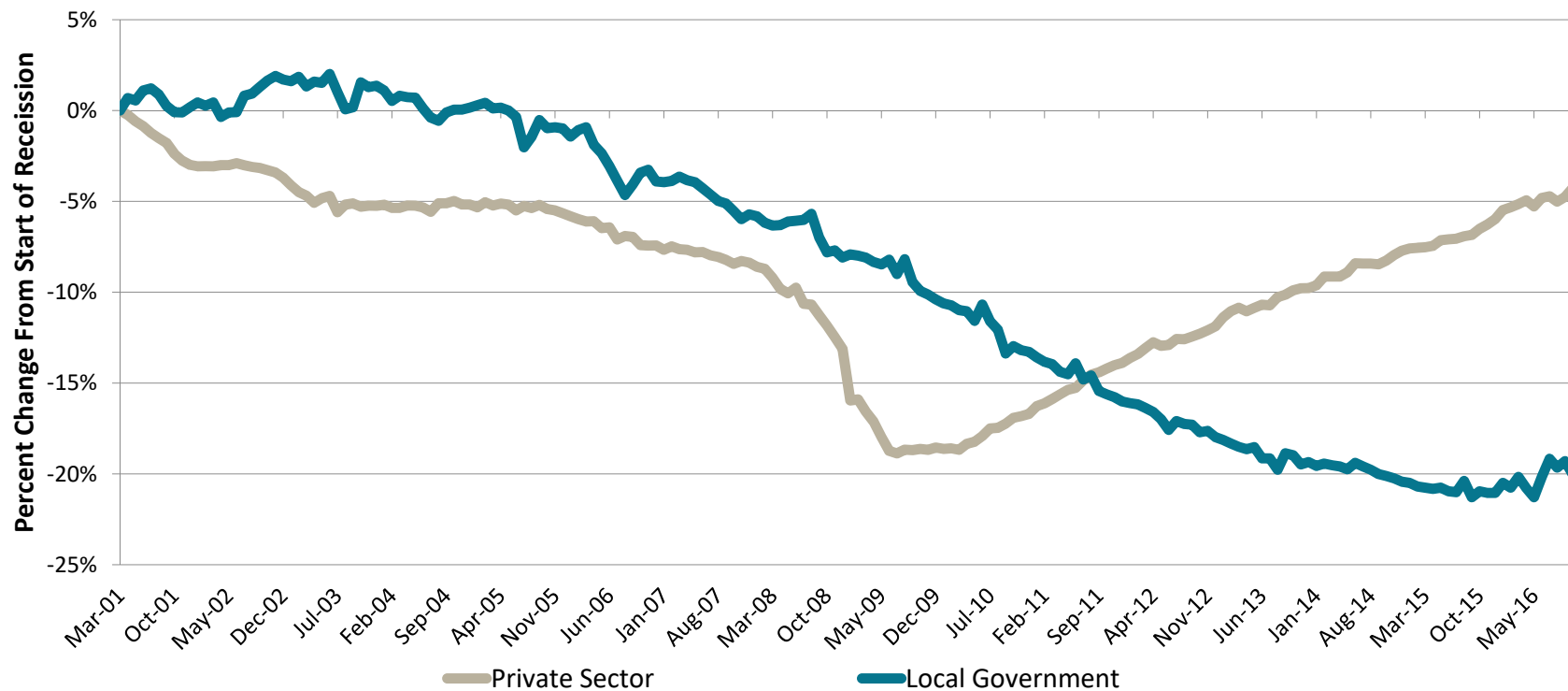
Michigan Job Growth by Industry Jan. 2010 to Sept. 2016



Seasonally Adjusted Michigan Employment by Sector: 1Q2013 (in thousands)

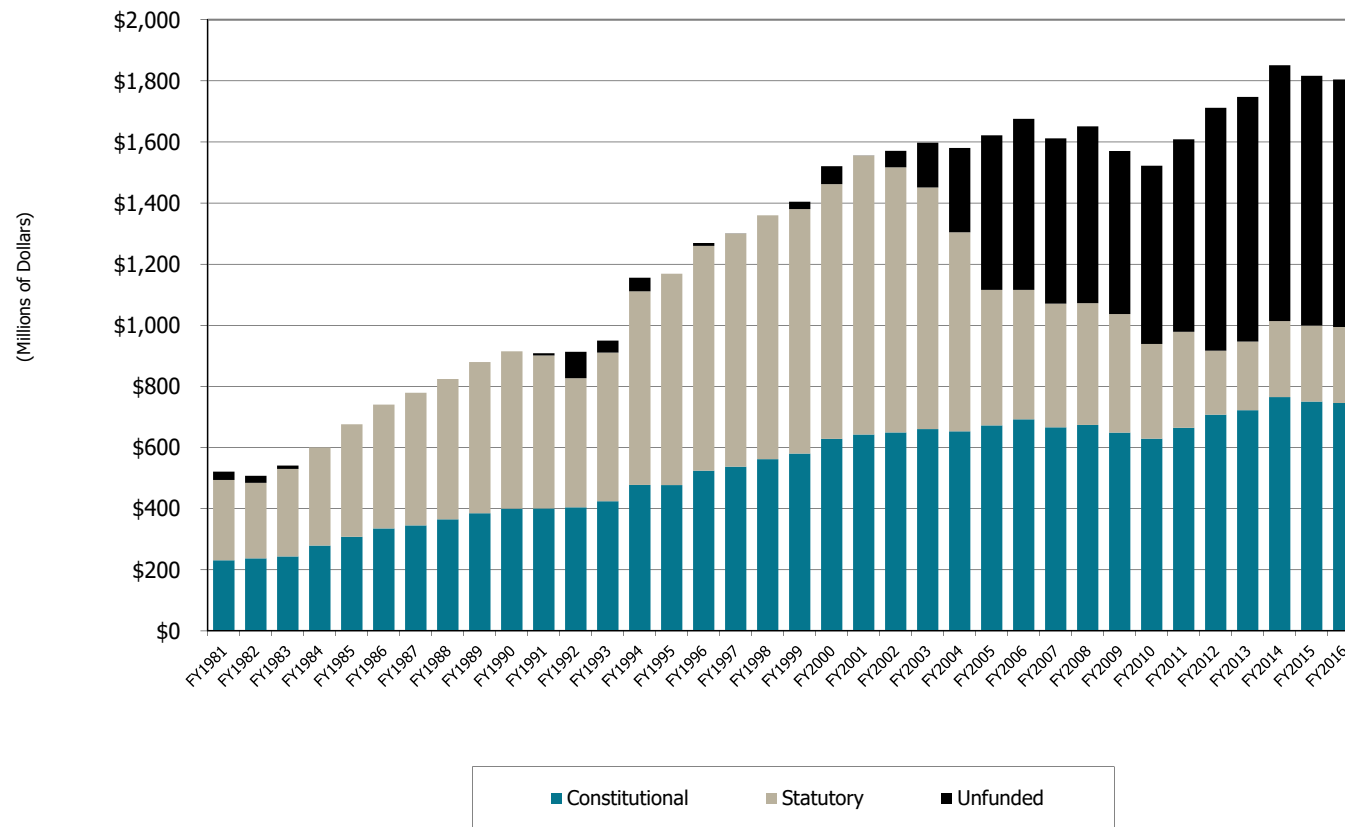


Local government employment is down more than 20% since beginning of 2001 recession



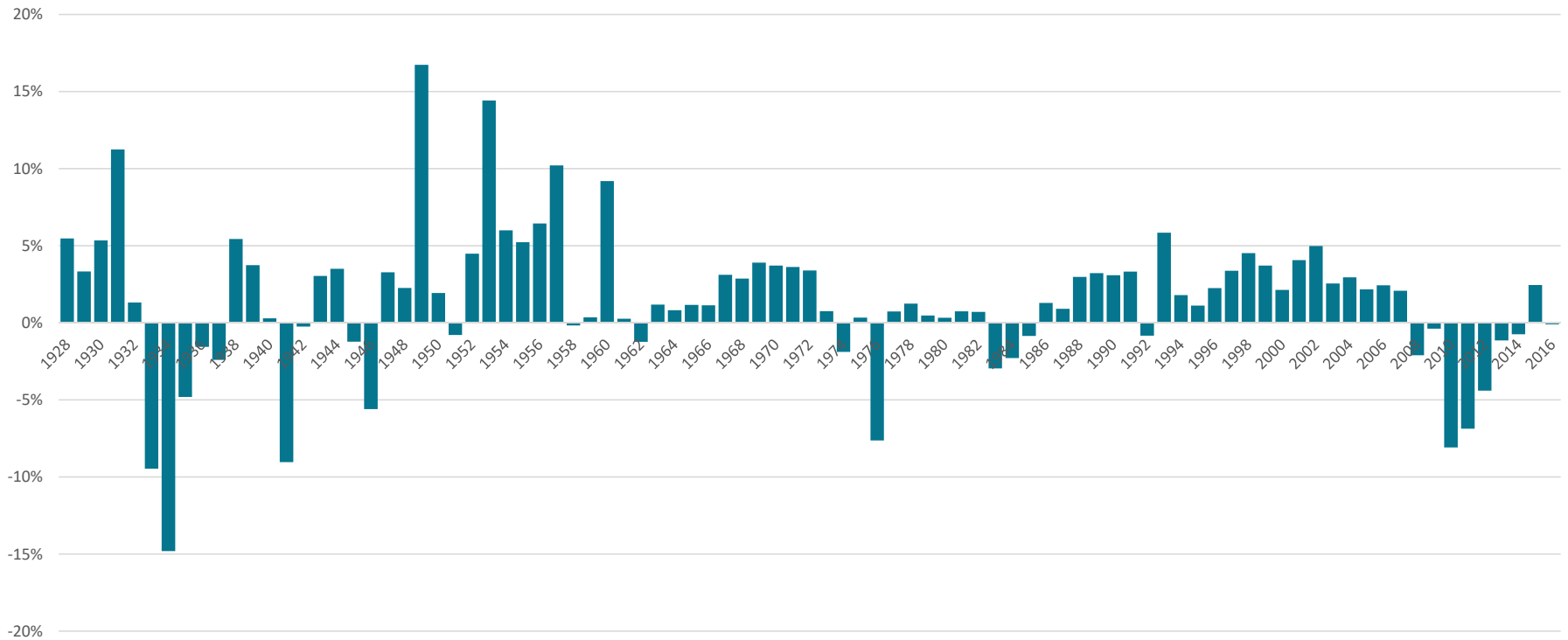
Partly the fault of state policy

Constitutional, Statutory, and Unfunded State Revenue Sharing

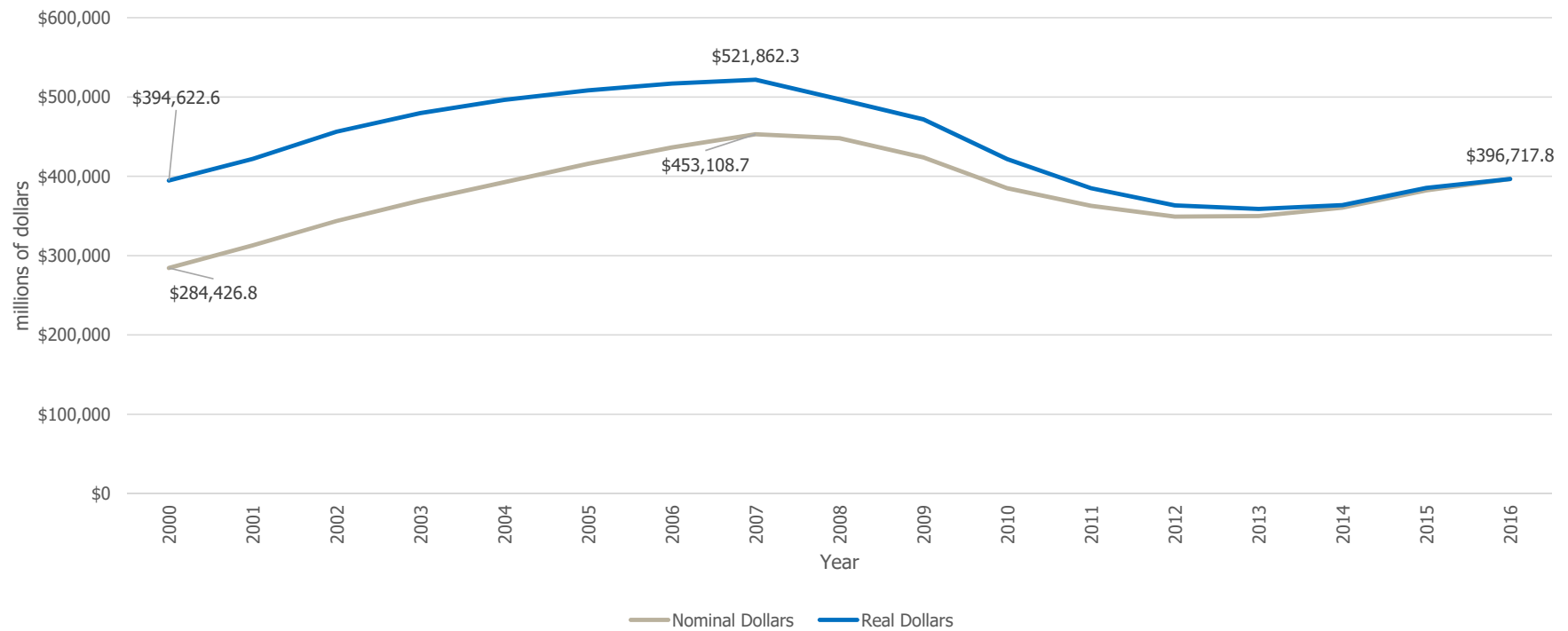


Also the result of lost property values and
Michigan's constitutional tax limitations

Year-to-Year Percent Change in Inflation-Adjusted State Equalized Value/Taxable Value, 1928-2016



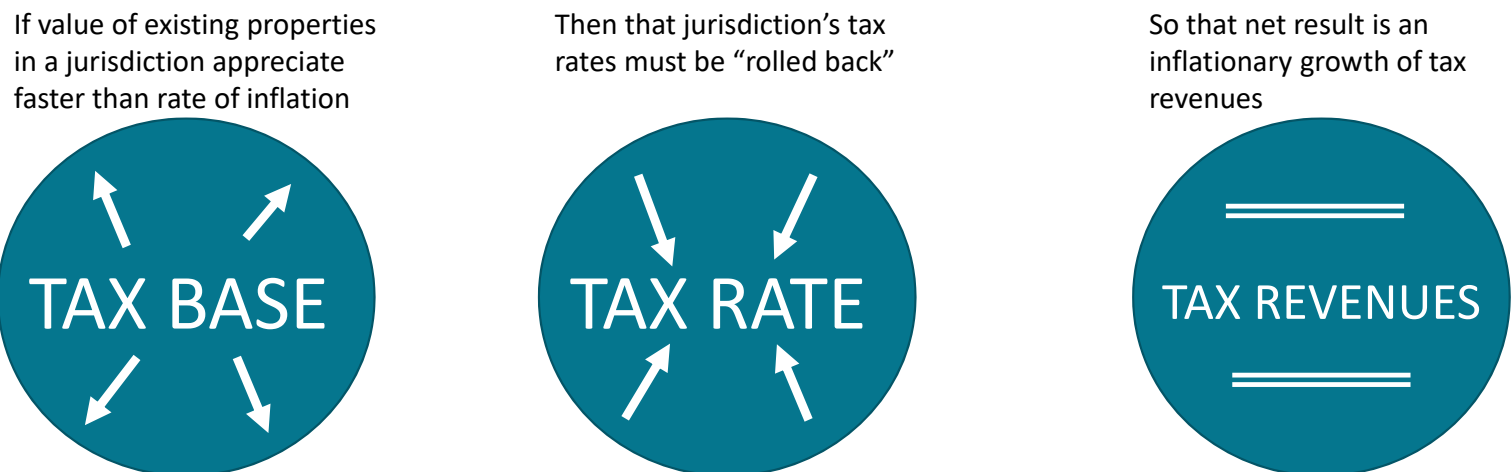
Nominal and Real Statewide Property Values, 2000-2016



Headlee Amendment



- Tax Yield = Tax Rate x Tax Base
- Headlee attempted to control growth of taxes by controlling the tax rate



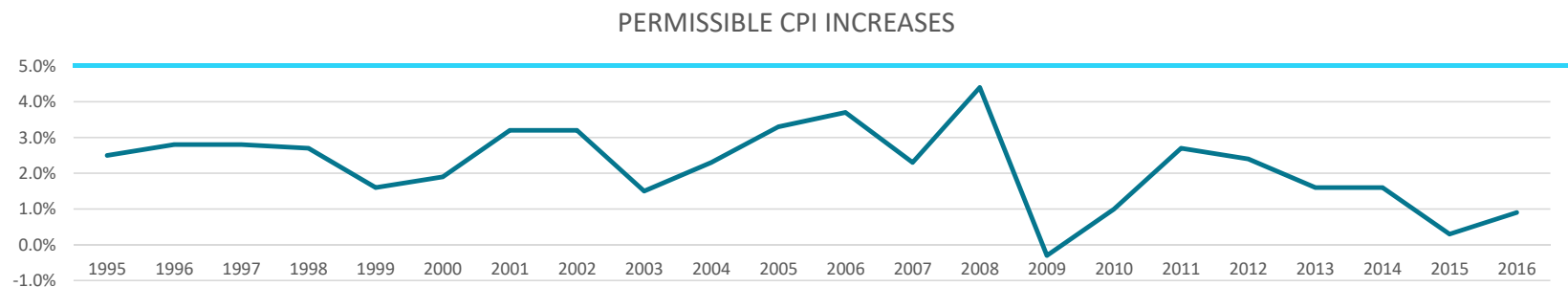
- There is no mechanism to counteract lost tax base

Headlee was not completely successful

- Tax Base growth was measured on a jurisdiction-wide basis
 - The value of properties growing at a rate less than inflation offset growth in the value of properties at rates faster than inflation
 - Some property owners were still experiencing steep increases in property tax bills

Proposal A Taxable Value Cap

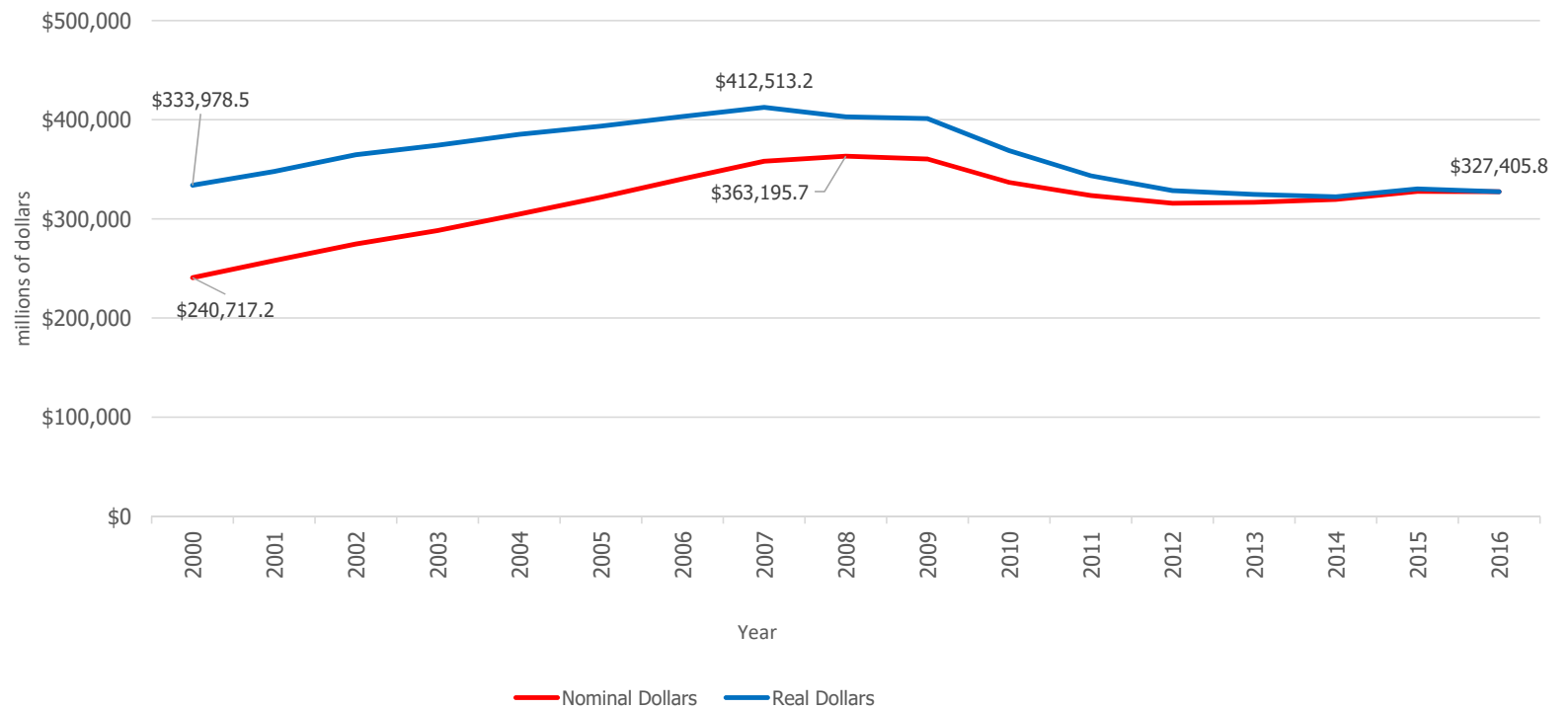
- Modified Acquisition Value Method of determining Taxable Value
 - Annual increases in the taxable value of individual parcels of existing property are limited to the lesser of five percent or inflation
 - When ownership of a parcel of property is transferred (sold), the parcel is reassessed “at the applicable proportion of current true cash value.”
 - Additions and modifications to existing property and new property are placed on the tax rolls at 50 percent of current true cash value



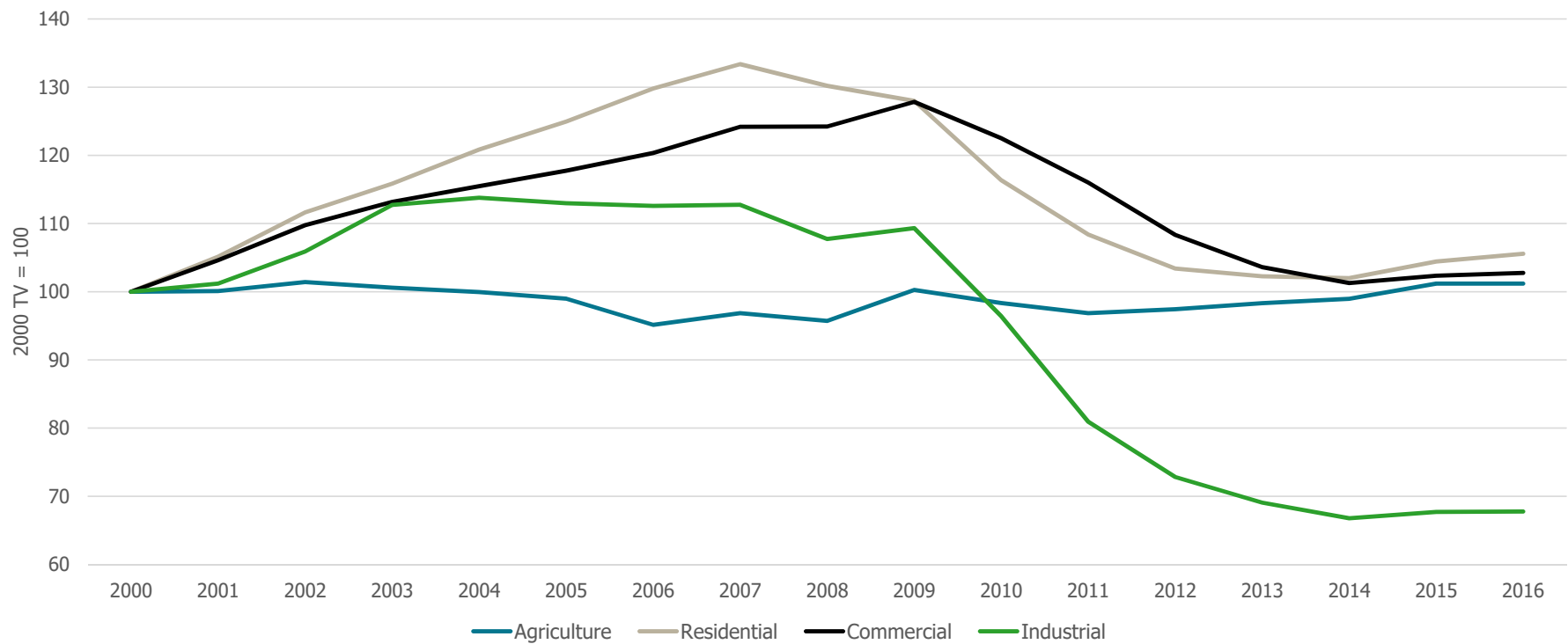
The Interaction of Headlee and Proposal A

- Each tax limitation layered on top of earlier tax limitations
- Both Headlee and taxable value cap use inflation as the target for growth
 - Taxable value limits existing property to inflationary growth
 - Transfer of ownership (sale) of properties allows tax base to “POP UP” from inflationary depressed taxable value to market based state equalized value (50% of true cash value)
 - Pop up triggers Headlee tax rate rollback that is applied to all properties
 - Net result is less than inflationary growth of tax revenues

Nominal and Real Statewide Taxable Values, 2000-2016



Change in Inflation-Adjusted Taxable Value by Property Class, 2000-2016



Our Methodology

Methodology and Policy Questions

- Adjust for inflation to account for normal appreciation of values
- How does 2016 value compare to the inflation-adjusted taxable value of the government when it reached peak level* (prior to the Great Recession)?
 - But that reflects housing bubble that inflated values for some/all properties
- How does 2016 value compare to the inflation-adjusted taxable value of the government in 2000 (prior to Michigan's "single state recession")?

* Peak levels vary for individual governments. Most governments peaked in 2007 or 2009. Some struggling governments peaked earlier. Northern and affluent communities peaked later or continued to grow throughout these 16 years.

2016 Taxable Values Compared to Peak Values

2016 Compared to Inflation-Adjusted Peak Values

- The 2016 taxable values in 85% (1,295) of 1,515 cities and townships is less than their inflation-adjusted taxable values at their peak
 - 94.7% of the state population resides in one of these communities
- As a group, they are 22% (\$84.2 billion) below their cumulative peak values
 - Residential ↓11.9%
 - Commercial ↓10.0%
 - Industrial ↓41.9%

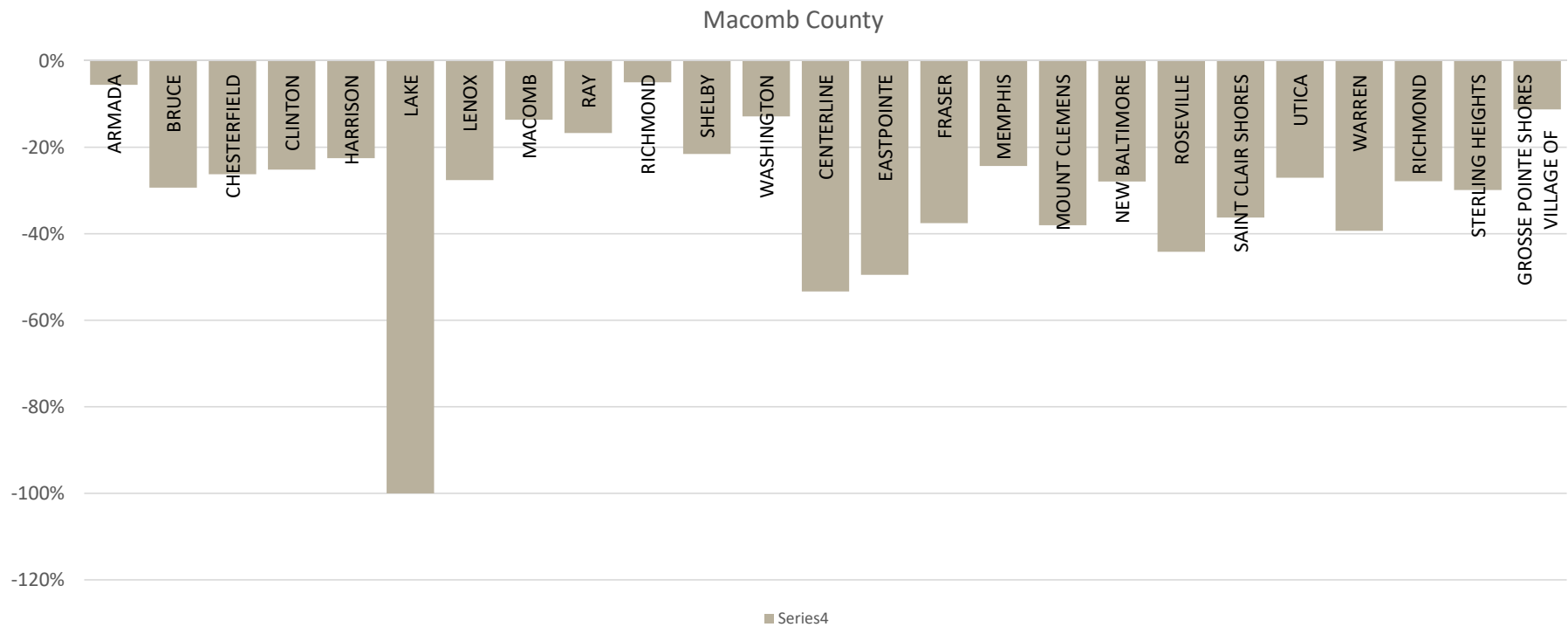
15 Cities for whom 2016 Taxable Values are the Furthest Below their Peak Taxable Values

<u>County</u>	<u>City</u>	<u>Population</u>	<u>Total</u>	<u>Percent of Peak Level</u>		
				<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>
Presque Isle	Onaway	841	16.7%	13.2%	43.7%	0.2%
Genesee	Flint	98,310	34.1	37.5	65.1	22.0
Wayne	Ecorse	9,257	36.8	45.6	79.4	53.9
Oakland	Pontiac	59,917	41.4	37.6	69.7	24.8
Monroe	Luna Pier	1,389	43.3	81.0	67.0	11.4
Wayne	Harper Woods	13,836	43.4	39.6	51.2	81.9
Oakland	Hazel Park	16,597	44.6	39.3	73.6	22.6
Wayne	Wayne	17,081	48.2	59.3	86.3	46.4
Wayne	Inkster	24,672	48.8	41.6	67.9	57.2
Macomb	Centerline	8,320	50.2	50.9	79.6	48.7
Macomb	Eastpointe	32,657	50.5	44.1	78.9	24.1
Saginaw	Saginaw	49,347	52.7	58.0	74.3	41.8
Wayne	River Rouge	7,546	53.2	51.7	108.9	61.7
Osceola	Ewart	1,861	57.2	89.2	98.6	71.5
Genesee	Mount Morris	2,964	62.8	58.3	67.9	135.2

15 Townships for whom 2016 Taxable Values are the Furthest Below their Peak Taxable Values

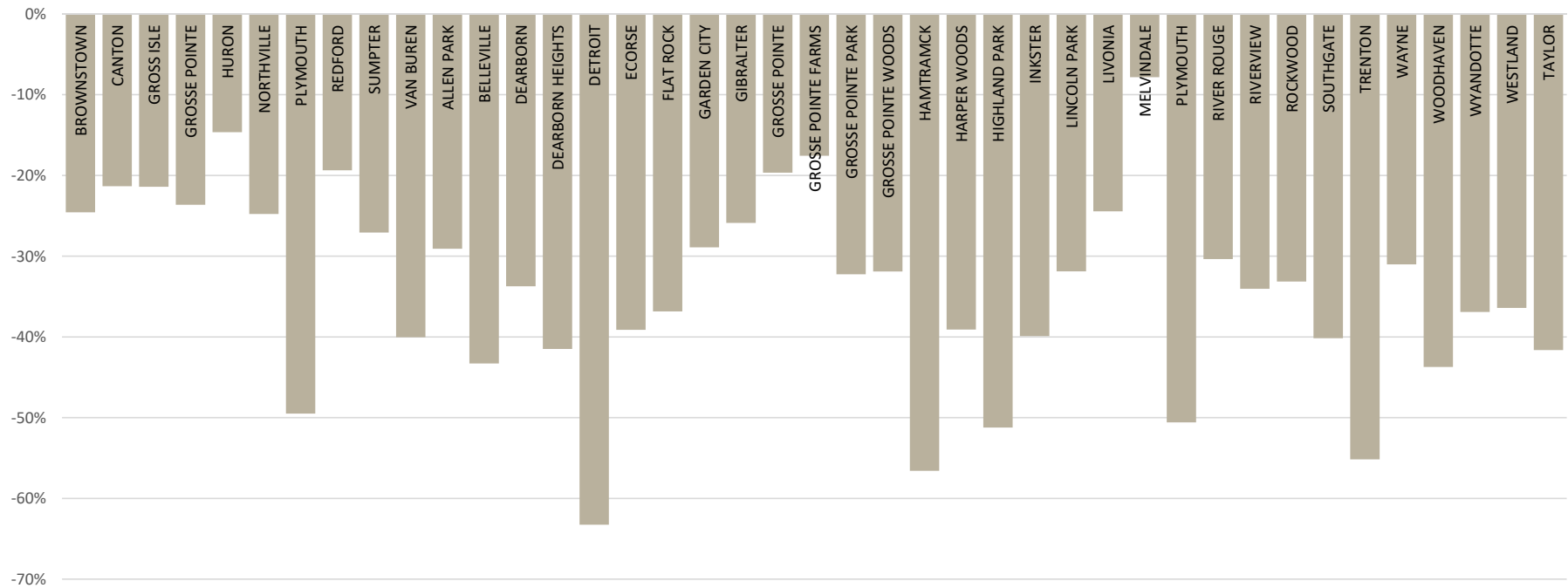
<u>County</u>	<u>Township</u>	<u>Population</u>	<u>Total</u>	<u>Percent of Peak Level</u>		
				<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>
Oceana	Greenwood	1,181	19.9%	18.9%	7.6%	NA
Marquette	Michigamme	351	28.9	106.6	91.8	0.2%
Tuscola	Indianfields	2,566	33.7	42.3	17.1	11.0
Oakland	Royal Oak	2,454	36.3	82.1	27.7	29.2
Hillsdale	Fayette	1,054	36.4	45.3	8.2	10.7
Washtenaw	Sylvan	2,934	46.1	55.1	7.0	52.1
Wayne	Redford	47,389	50.5	44.5	84.0	67.6
Saginaw	Buena Vista	8,239	53.9	78.0	99.4	89.3
Delta	Wells	4,825	57.1	97.1	104.3	28.0
Washtenaw	Ypsilanti	54,613	61.0	66.6	46.2	29.9
Genesee	Flint	30,690	61.2	59.7	59.9	100.9
Genesee	Genesee	20,577	62.4	56.6	70.2	78.2
Genesee	Mount Morris	20,659	62.8	58.3	67.9	135.2
Charlevoix	Chandler	249	64.3	97.4	77.2	69.6
Saginaw	Zilwaukee	65	68.6	95.6	93.7	106.6

2016 Taxable Values Compared to Inflation-Adjusted Peak Values

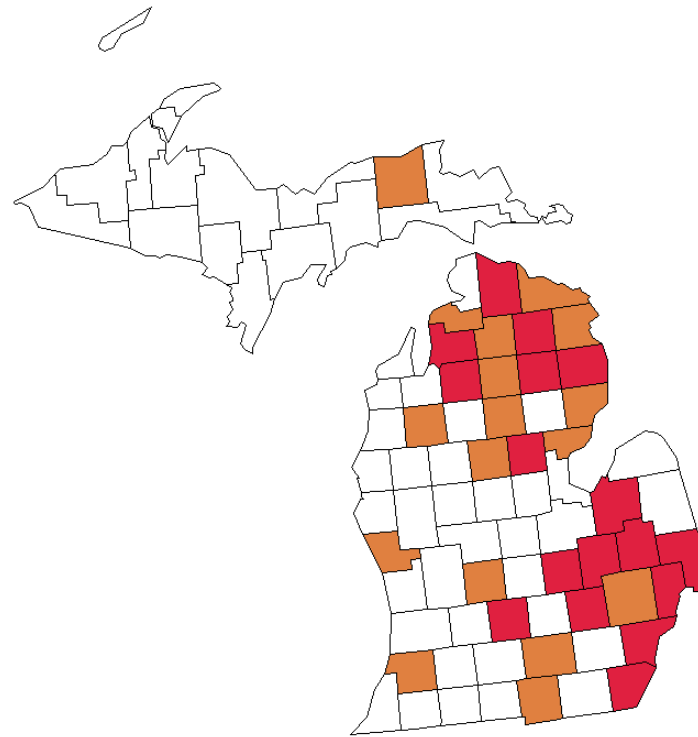


2016 Taxable Values Compared to Inflation-Adjusted Peak Values

Wayne County

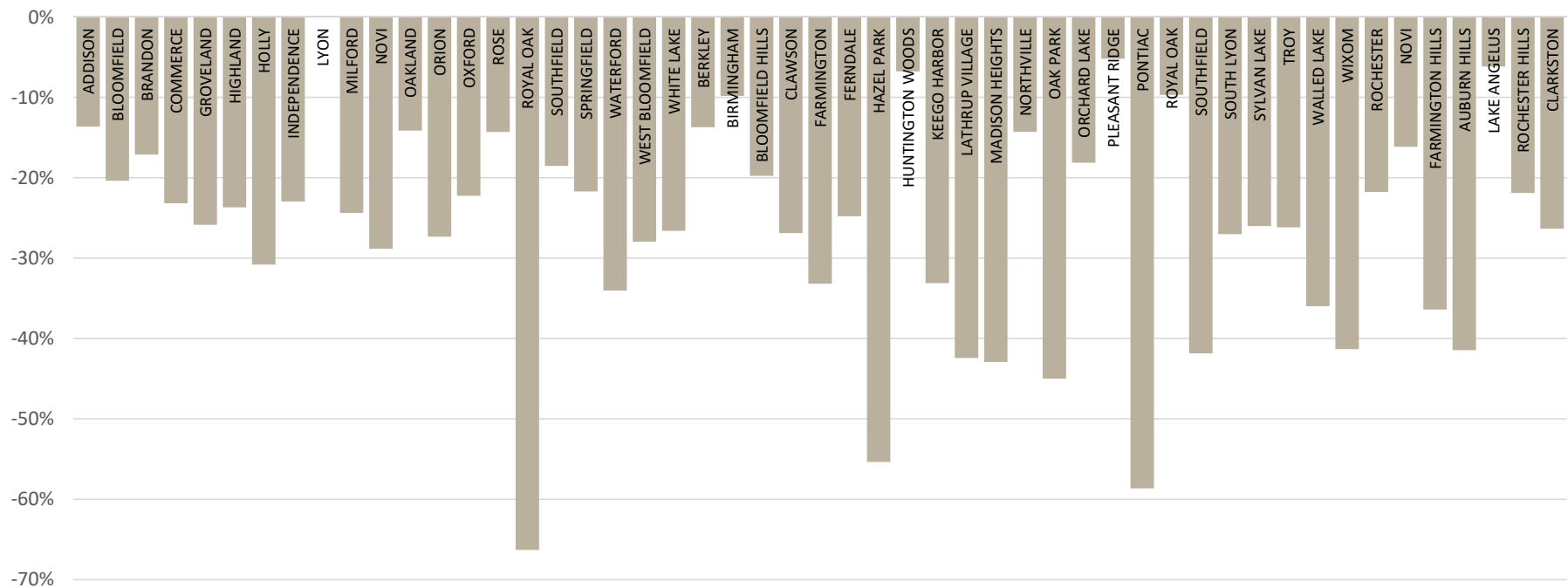


17 more counties have only one township that has recovered to inflation-adjusted peak value

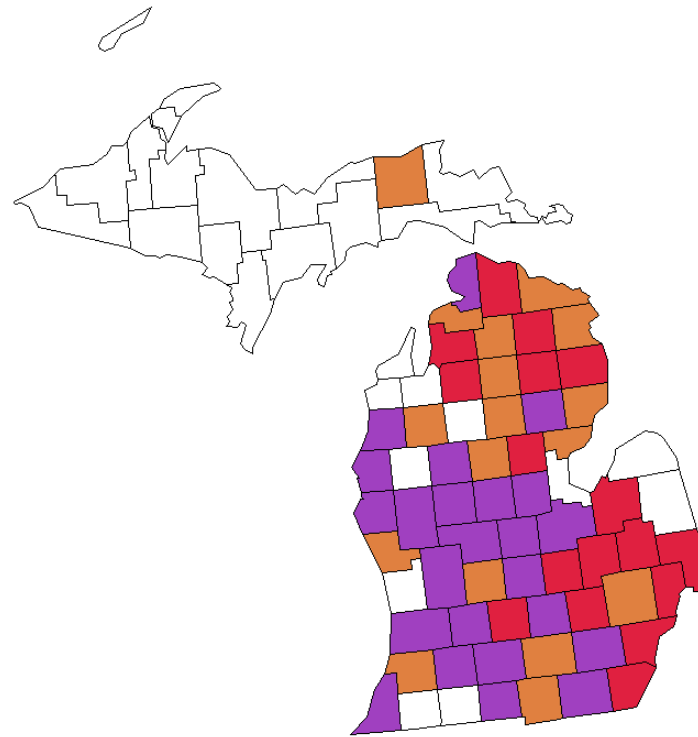


2016 Taxable Values Compared to Inflation-Adjusted Peak Values

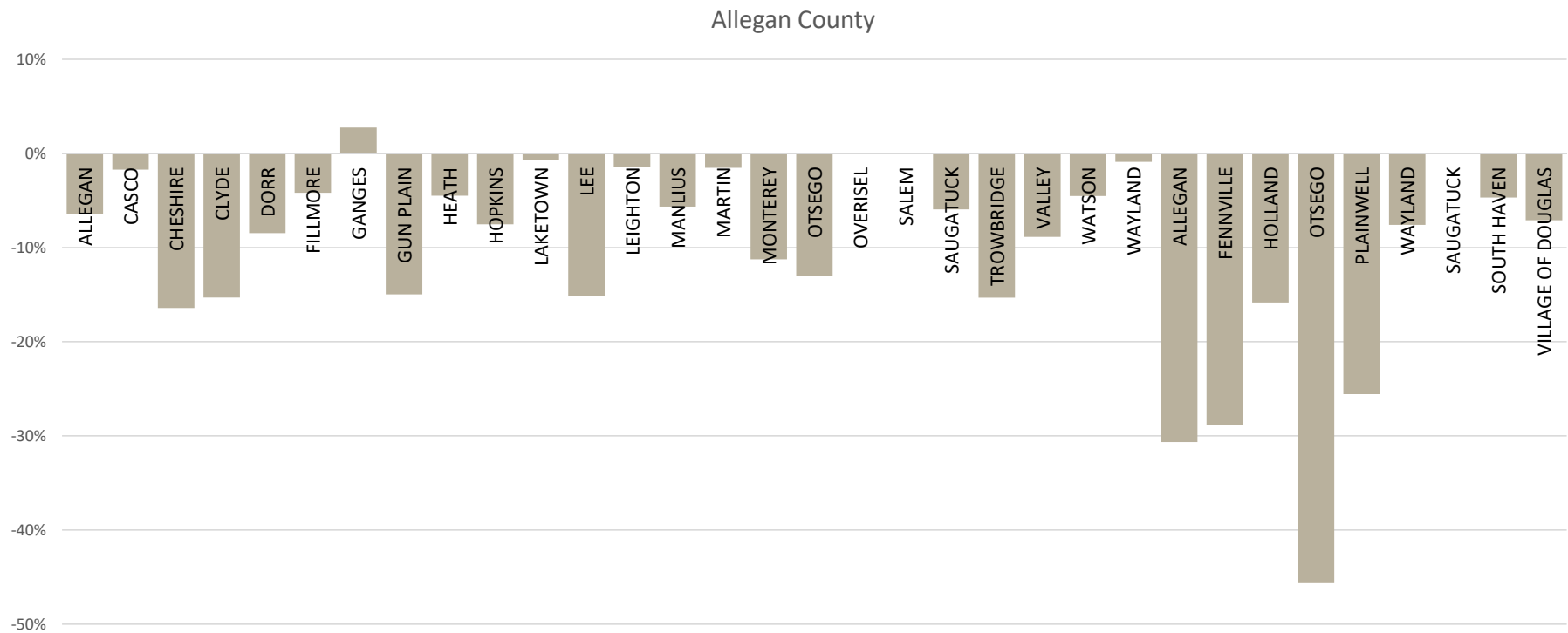
Oakland County



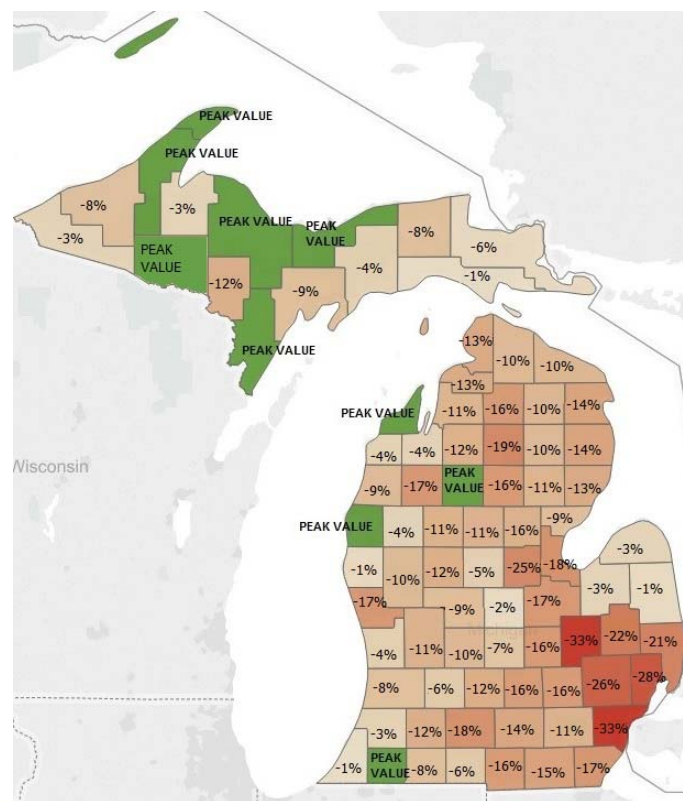
24 more counties have at least 80% of jurisdictions below inflation-adjusted peak value



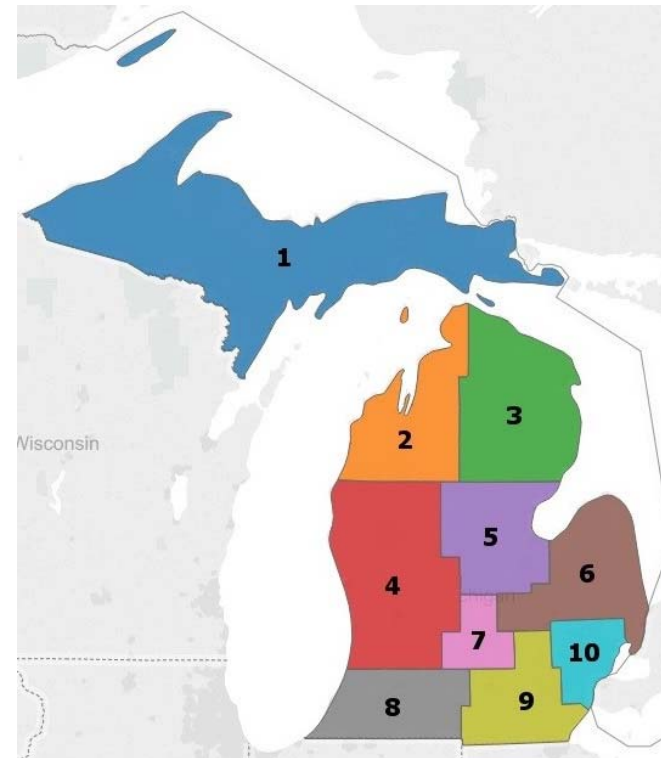
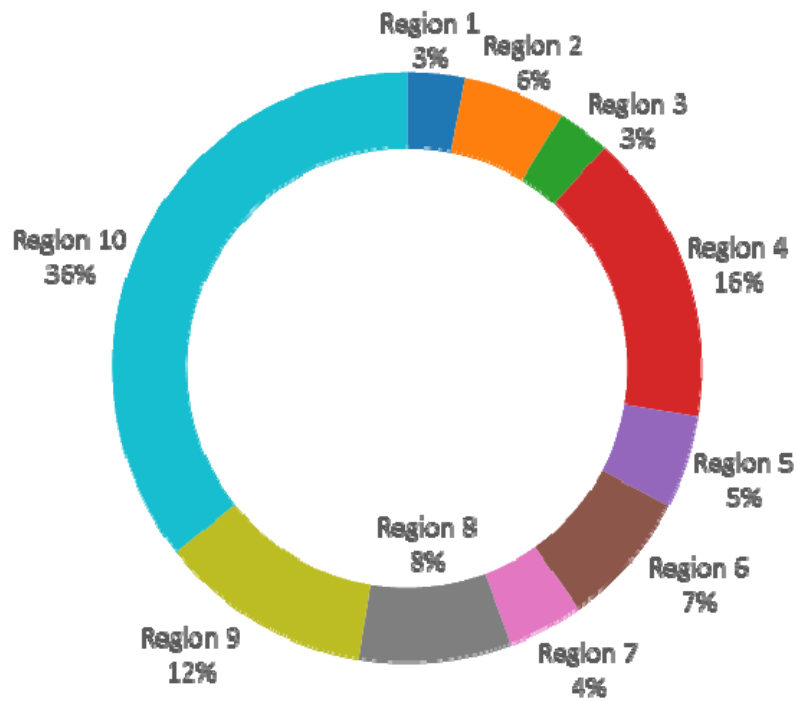
2016 Taxable Values Compared to Inflation-Adjusted Peak Values



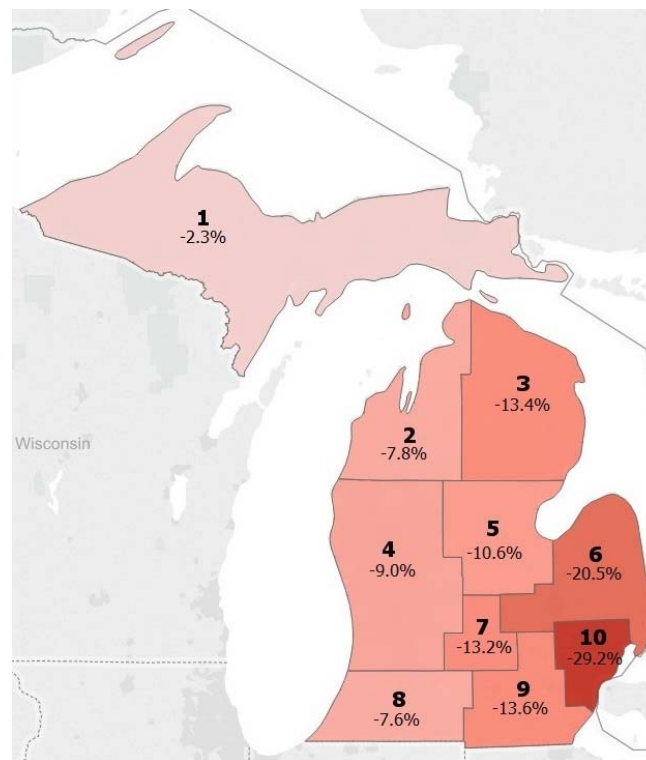
2016 County Taxable Values as a Percent of Inflation-Adjusted Peak Values in Each County



Regional Share of 2016 Total State Taxable Value



2016 Regional Taxable Values as a percent of Inflation-Adjusted Peak Values in Each Region



But perhaps peak values were artificially inflated...

Let's Compare 2016 to 2000 Taxable Values

Cities and Townships with 2016 Taxable Values below their 2000 Values

- 16.4% (248) of the 1,515 cities and townships have 2016 taxable values that are below their inflation-adjusted 2000 values
 - 169 cities and 79 townships
 - Located in every region
 - Located in 64 of 83 counties
 - Home to almost 48% of the state population
- Cumulatively 22% (\$33.5 billion) below their 2000 values
 - Residential properties ↓20.3% (\$13.8 billion)
 - Commercial properties ↓ 7.9% (\$1.6 billion)
 - Industrial properties ↓51.1% (\$5.6 billion)

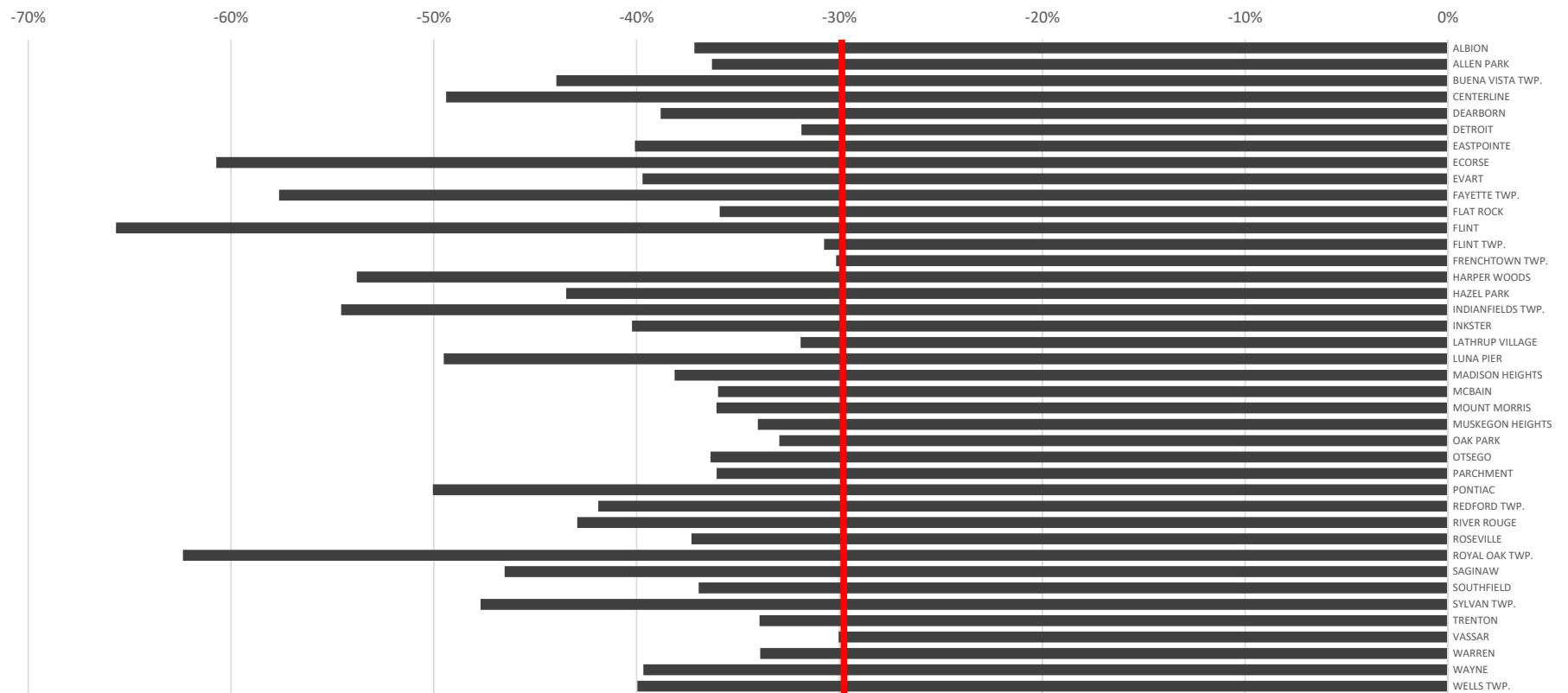
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Macomb	Centerline	8,320	50.6	54.0	82.1	49.1
Saginaw	Saginaw	49,347	53.2	58.5	74.5	43.8
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Wayne	Inkster	24,672	57.4	54.5	77.5	52.1
Macomb	Eastpointe	32,657	59.6	52.3	88.4	45.0
Osceola	Ewart	1,861	59.9	101.2	135.4	97.9
Wayne	Wayne	17,081	60.0	70.8	96.5	50.2
Wayne	Dearborn	95,171	61.2	73.8	69.0	82.7
Oakland	Madison Heights	30,198	61.5	68.1	102.8	25.1

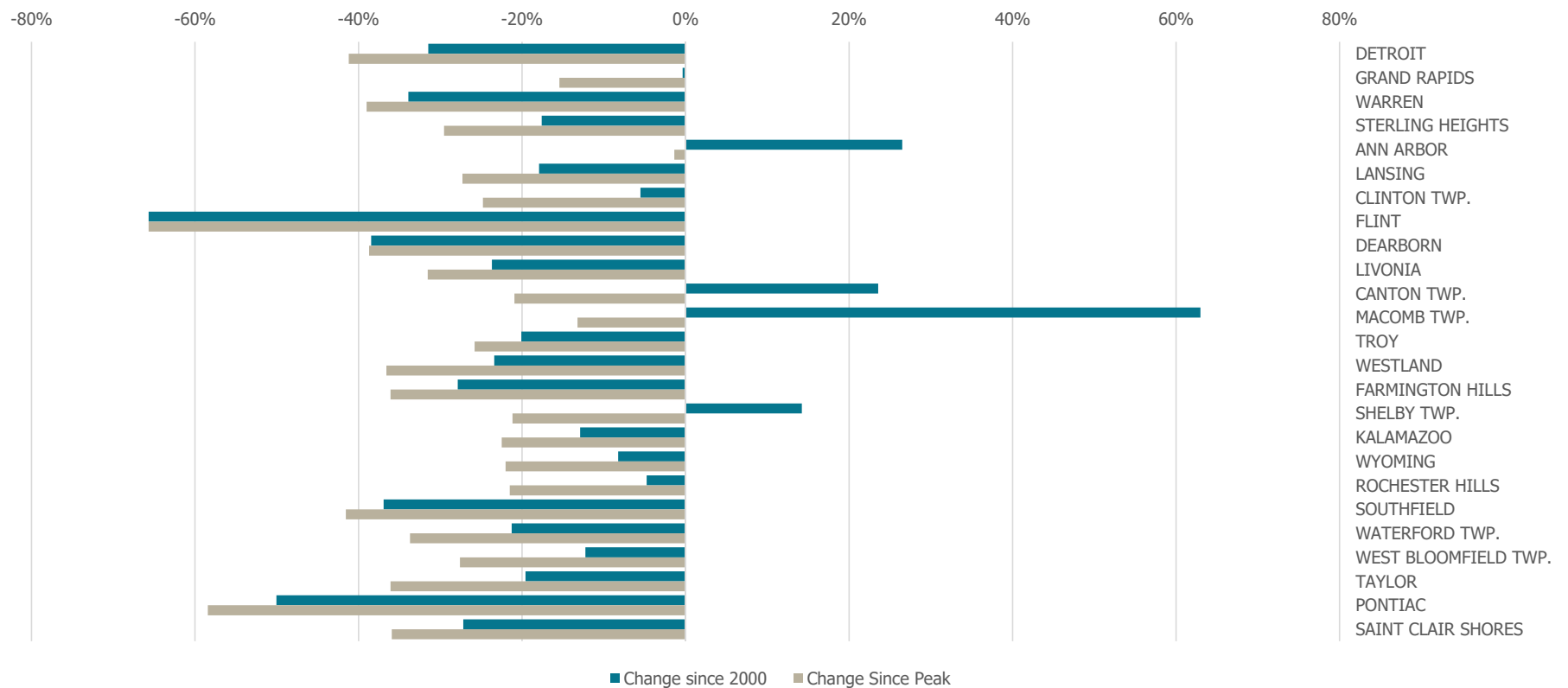
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Tuscola	Indianfields	2,566	45.2	51.6	22.4	25.1
Washtenaw	Sylvan	2,934	52.0	64.0	8.6	54.5
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Delta	Wells	4,825	59.7	135.2	166.9	25.8
Genesee	Flint	30,690	68.8	70.9	68.3	93.0
Monroe	Frenchtown	19,959	69.4	102.7	115.1	42.3
Genesee	Genesee	20,577	70.4	69.6	74.3	53.3
Charlevoix	Chandler	249	73.6	168.9	103.8	48.7
Genesee	Mount Morris	20,659	74.3	71.2	84.4	278.3
Saginaw	Zilwaukee	65	75.0	102.4	88.1	114.8
Bay	Hampton	9,441	78.1	109.4	80.7	51.5
Oakland	Waterford	73,040	78.3	81.2	75.6	92.5

Losses for Local Government at 30% or more below their Inflation-Adjusted 2000 Taxable Values

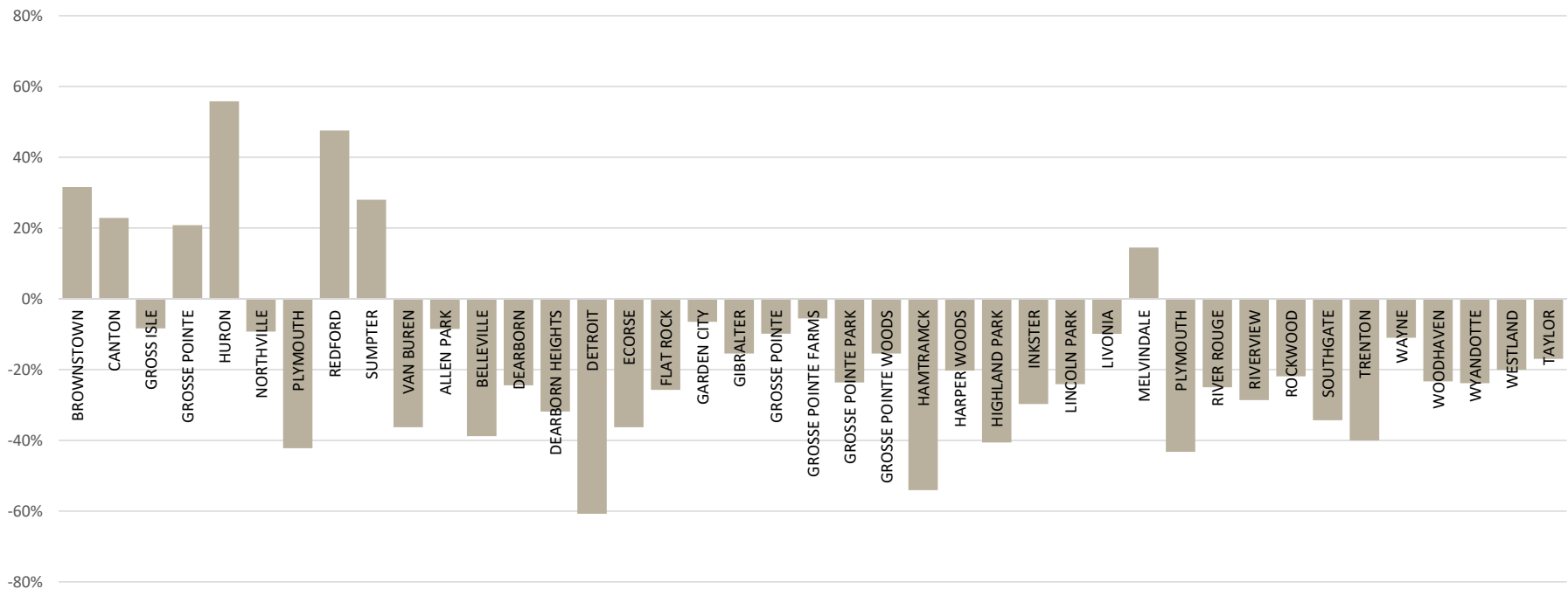


Change in Inflation-Adjusted Taxable Values in Michigan's 25 Most Populated Local Governments



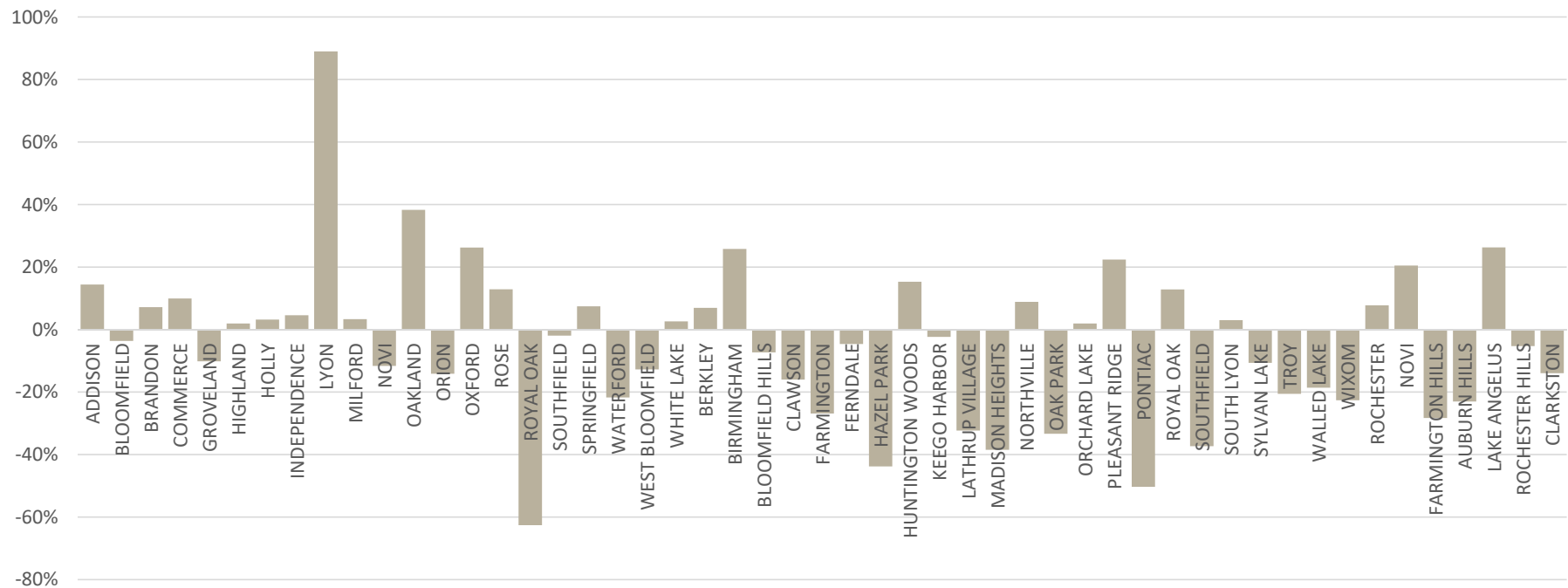
2016 Taxable Values Compared to Inflation-Adjusted 2000 Values

Wayne County



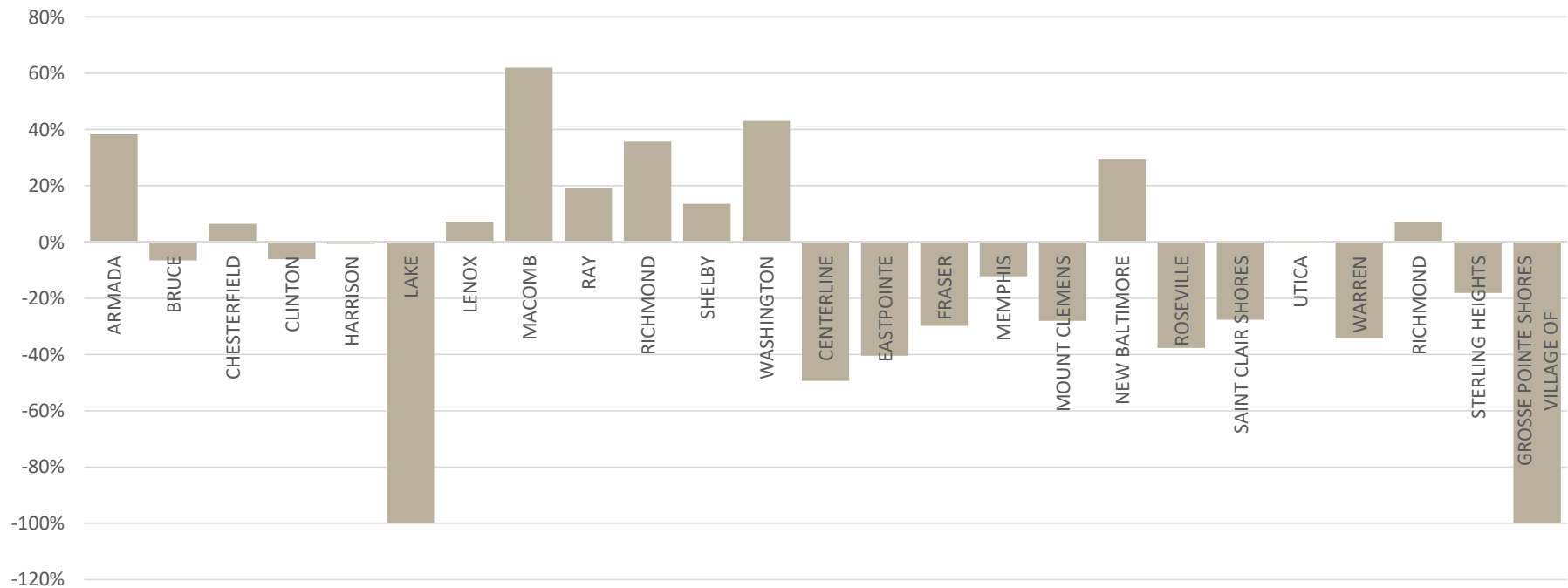
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Oakland County



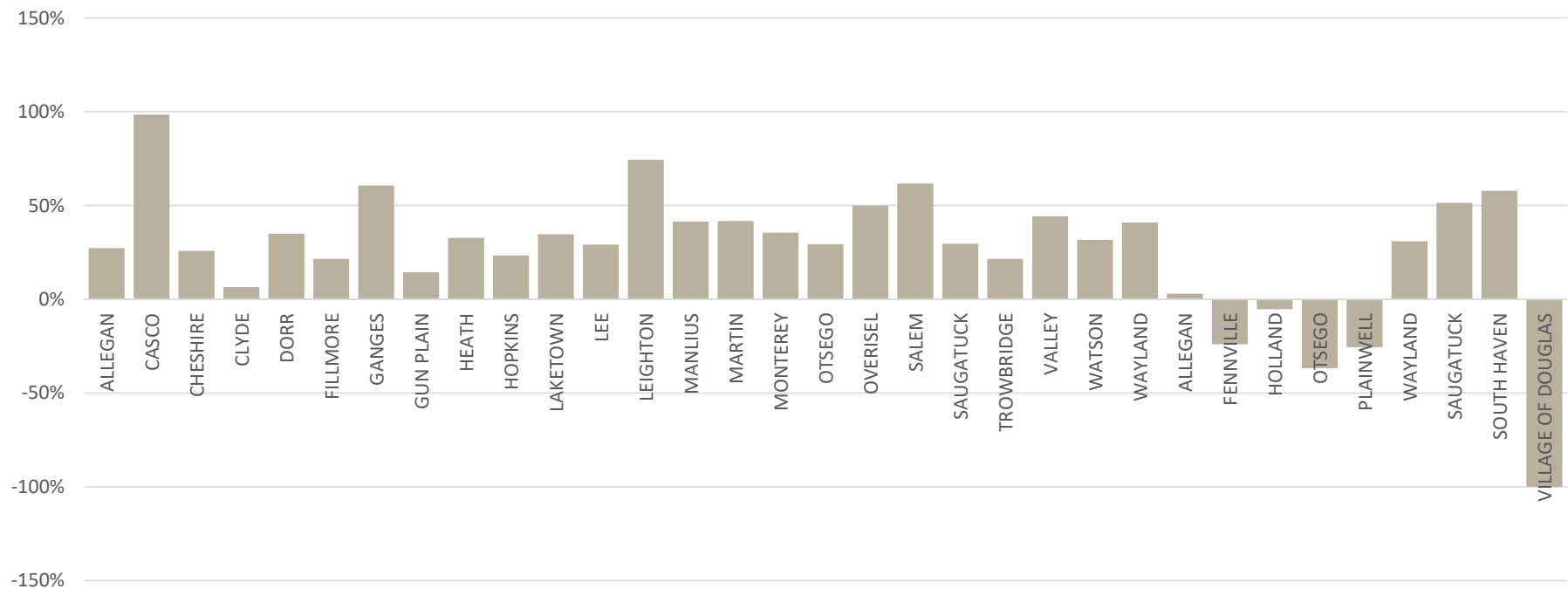
2016 Taxable Values Compared to Inflation-Adjusted 2000 Values

Macomb County

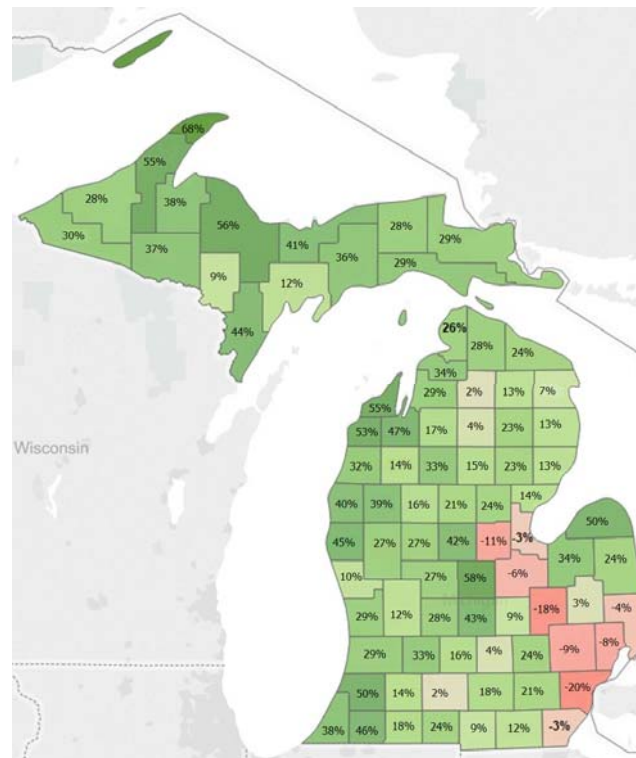


2016 Taxable Values Compared to Inflation-Adjusted 2000 Values

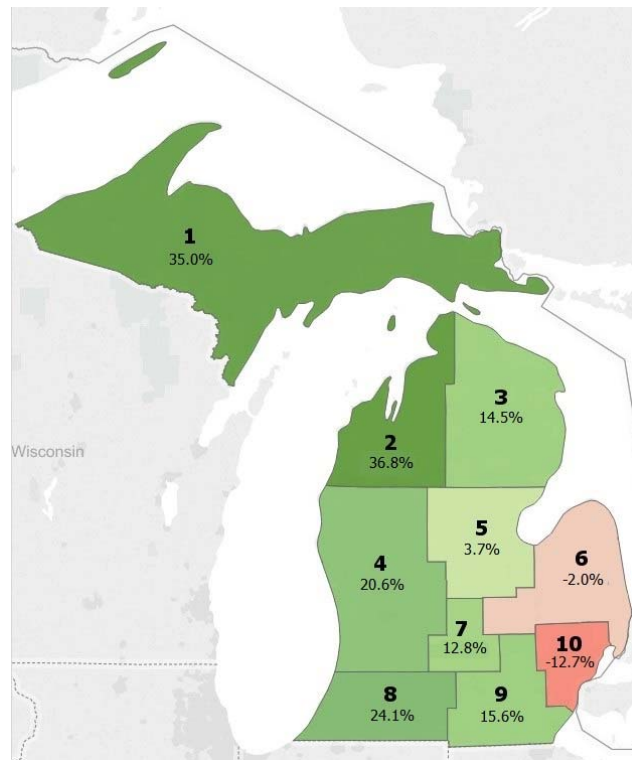
Allegan County



2016 County Taxable Values as a Percent of Inflation-Adjusted 2000 Values



2016 Regional Taxable Values as a percent of Inflation-Adjusted 2000 Values



Why it matters...

- Few funds in reserve to survive next economic downturn
 - 7 years since Great Recession
 - Ability to pay for labor and supplies throughout the year
- Quality of life
 - Public safety
 - Libraries and parks
 - Infrastructure
- Economic development
 - Businesses want to know their facilities will be served
 - That they can get goods to market
 - That their workers will be safe at work and at home

Growing back these losses

- System is geared toward keeping growth of existing property at rate of inflation
- Even with turnover of ownership in existing property, tax revenues will remain at rate of inflation
- Growth is key to growing tax base
 - Requires sufficient developable parcels to make a difference
 - Urban communities often rely on economic development tools (tax abatements and tax increment financing) to attract new development
- Local governments do not benefit from other (income, sales, motor fuel, etc.) economic activity

Policy Alternatives

- Fund and reform state revenue sharing
- Diversify local government revenue sources
- Property tax reforms
- Reform service delivery

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