



CRC Memorandum

THE SMART MILLAGE VOTE

At the August 6 primary election, voters in Macomb County and in participating communities in Oakland and Wayne counties will be asked (Proposal S) to approve the levy of 0.60 mills for 4 years to support the Suburban Mobility Authority for Regional Transit (SMART). Increased revenues from this tax

will not result in new programs or a major expansion of the bus system, but are necessary for continuation of bus operations given increased operating costs and restricted revenues from existing sources.

SMART Revenues

For decades prior to 1995, the Southeast Michigan Transportation Authority (SEMTA) and then SMART operated without a local funding source. In a funding structure uncommon among major transit systems, the lack of a local funding source forced the bus system to rely on state, federal, and farebox revenues for its funding. By the mid 1990s, this funding structure resulted in recurring financial crises and an accumulated deficit estimated at \$19.6 million in Fiscal Year 1994-95.

Current Tax

History. When voters were first asked to approve a 0.33 mill tax subsidy for SMART in 1995, Oakland and Wayne counties opted to create transit authorities. The Oakland County Public Transportation Authority and the Wayne County Transit Authority comprise 49 communities. Macomb County chose not to form a transit authority; therefore, individual communities cannot opt out of the election. Instead, a countywide vote determines Macomb's tax levy. The resulting revenues permitted elimination of the deficit, redesign of the fixed-route bus service, and enhanced community transit service. In addition, the extra funds permitted the authority to capture additional federal funds that further enhanced the bus service.

In 1998, voter approval was given for a 4-year renewal of this millage, which ends this year.

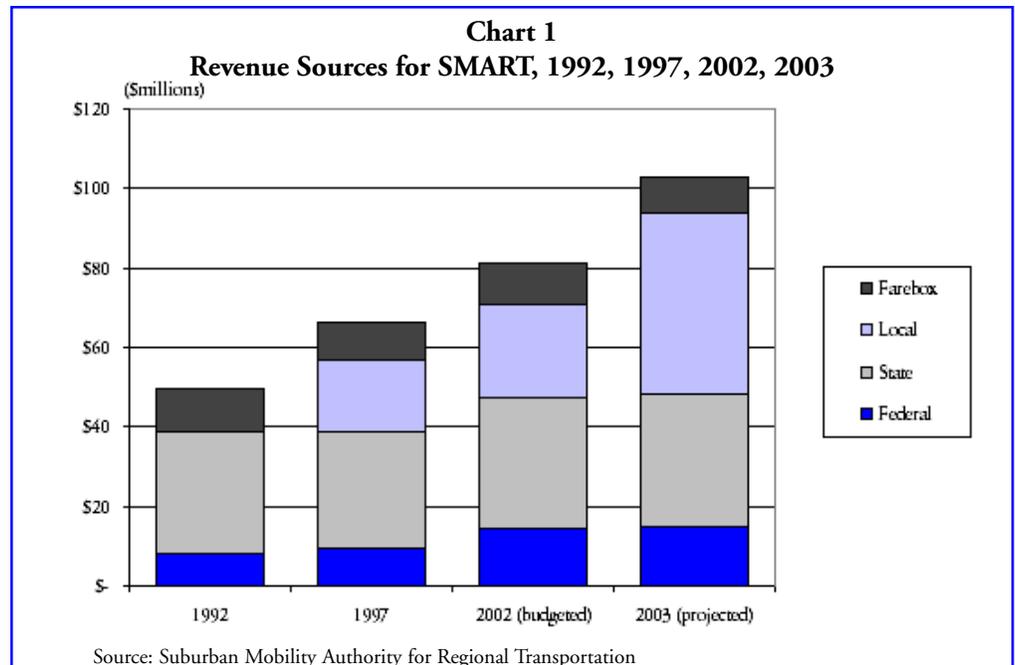
Yield. The 0.33 mill levy generated \$23.4 million in FY02, contributing a quarter of all SMART revenues. An increase to 0.60 mills is projected to yield an additional \$22 million in FY03, for a total of \$45.5 million, or more than 40 percent of all SMART revenues.

Other Revenue Sources

The property tax millage is but one source of SMART's revenue. Revenues are also received from the state for operations. In FY03, state funds should contribute \$29.9 million, or a little less than one-third of all SMART's revenues.

Federal transportation funds are primarily dedicated to capital costs – in the case of transit to the purchase of buses. SMART has budgeted \$14.9 million in federal funds in FY03.

Finally, while transit services are a government enterprise with a business-like structure, farebox revenues are a minor source of funding for all transit providers. SMART farebox revenues should contribute \$9.3 million in FY03, less than 10 percent of total revenues.



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Revenue Issues

Property Tax Rate

Several counties and municipalities levy millages dedicated to the provision of public transit services. **Table 1** provides lists of these counties and municipalities. A number of other municipalities, such as the City of Detroit, subsidize public transit services through their general funds.

As **Table 1** illustrates, the amount of millage levied for public transit by local governments in Michigan varies widely. Of the three major transit systems in Michigan, SMART currently levies the lowest millage. The Capital Area Transit Authority (CATA) levies 0.40 mills countywide in Ingham County and 1.3890 mills in the cities and townships that receive the greatest benefit through fixed-route bus service. Residents in the outskirts of Ingham County are served by demand-response (or Dial-a-Ride) services. The Interurban Transit Partnership (ITP), formerly known as the Grand Rapids Area Transit Authority (GRATA), levies 0.73 mills in the six cities that constitute the authority.

Other communities throughout the nation depend on different types of taxes to provide local funding for transit. Many cities, including Cleveland, Chicago, Los Angeles, Atlanta, and Seattle levy local sales taxes for transit. Cincinnati levies a local income tax for transit and Portland, Oregon levies a local payroll tax for transit. These taxes all are more productive than the property tax at raising local funds.

Property Tax Revenue Growth

Normally a stable, dependable source of revenue, SMART's property tax collections have suffered from several factors that have restricted year to year growth in revenue.

Table 1
Local Units of Government Dedicated Millages for Public Transit in 2001

| <u>Countywide</u> <u>Levies</u> | <u>Millage</u> | <u>Municipal</u> <u>Levies (County)</u> | <u>Millage</u> |
|------------------------------------|----------------|---|----------------|
| Bay | 0.7500 | Saugatuck (Allegan) | 0.5000 |
| Branch | 0.3431 | Holland (Allegan) | 0.2500 |
| Charlevoix | 0.2461 | Saugatuck (Allegan) | 0.5000 |
| Clare | 0.2713 | Alpena (Alpena) | 0.4500 |
| Crawford | 0.7250 | Buchanan (Berrien) | 0.5000 |
| Eaton | 0.2000 | Niles (Berrien) | 0.4971 |
| Genesee | 0.3996 | Marshall (Calhoun) | 0.4840 |
| Gladwin | 0.2400 | Dowagiac (Cass) | 0.4700 |
| Gogebic | 0.3320 | Niles (Cass) | 0.4971 |
| Grand Traverse | 0.1713 | East Lansing (Clinton) | 1.3890 |
| Huron | 0.1963 | Lansing (Eaton) | 1.3890 |
| Ingham | 0.4000 | Flint (Genesee) | 0.6000 |
| Iosco | 0.0995 | Alma (Gratiot) | 0.9638 |
| Isabella | 0.6500 | Capital Area Transit Authority communities (Delhi, Lansing, East Lansing (Ingham)) | 1.3890 |
| Kalkaska | 0.2500 | Meridian (Ingham) | 1.5878 |
| Leelanau | 0.1713 | Lansing (Ingham) | 1.3890 |
| <i>Macomb</i> | <i>0.3235</i> | Ionia (Ionia) | 0.7492 |
| Manistee | 0.3285 | Jackson (Jackson) | 0.9721 |
| Marquette | 0.4845 | Kalamazoo (Kalamazoo) | 0.4981 |
| Midland | 0.1500 | Kalamazoo (Kalamazoo) | 0.4981 |
| Ogemaw | 0.1810 | Interurban Transit Partnership communities (E Grand Rapids, Grand Rapids, Grandville, Kentwood, Walker, and Wyoming (Kent)) | 0.7300 |
| Ontonagon | 0.4984 | Pleasant Plains (Lake) | 0.1250 |
| Otsego | 0.2368 | Bois Blanc (Mackinac) | 0.9846 |
| | | Bruce (Macomb) | 0.2415 |
| | | Mount Clemens (Macomb) | 0.9644 |
| | | Ludington (Mason) | 0.7500 |
| | | Scottville (Mason) | 1.3116 |
| | | Bedford (Monroe) | 0.0975 |
| | | Frenchtown (Monroe) | 0.2370 |
| | | Monroe (Monroe) | 0.3151 |
| | | Greenville (Montcalm) | - |
| | | <i>Oakland County Public Transportation</i> <i>Authority communities</i> | <i>0.3207</i> |
| | | Grand Haven (Ottawa) | 0.3610 |
| | | Holland (Ottawa) | 0.2500 |
| | | Saginaw (Saginaw) | 3.0000 |
| | | Burtchville (Saint Clair) | 0.4775 |
| | | Fort Gratiot (Saint Clair) | 0.6386 |
| | | Port Huron (Saint Clair) | 0.7716 |
| | | Port Huron (Saint Clair) | 0.6386 |
| | | Almer (Tuscola) | 1.0000 |
| | | Indian Fields (Tuscola) | 1.0000 |
| | | Ann Arbor (Washtenaw) | 2.1275 |
| | | <i>Wayne County Transit Authority communities</i> | <i>0.3258</i> |

Source: State Tax Commission, Michigan Department of Treasury

Economic Development Efforts. A rarely noted external consequence of the economic development tools most frequently used by Michigan local governments is the loss of tax revenue for overlapping governmental units such as SMART. Tax abatements allow cities, villages, and townships to reduce by half the tax burden of industrial properties owners. While provision of these abatements most directly affects the city, village, or township millage, it also affects the millages of the county, school district, and any special authorities. In Wayne County alone, SMART's property tax levy was reduced by almost \$200,000 in FY00 because of tax abatements, equal to 2 percent of Wayne County's contribution to SMART.

A second economic development tool with negative tax revenue consequences for SMART are tax increment finance districts. These districts allow cities, villages, and townships to "capture" increased tax revenue resulting from growth in property value time the TIF district established. A key benefit of these districts is the ability to capture growth not only in the city, village, or township taxes, but also county, school district, and special authority taxes. Communities in Macomb, Oakland, and Wayne counties have created more than 50 of these districts, capturing revenues that would otherwise go to SMART. In Wayne County alone, SMART's property tax levy was reduced by almost \$400,000 in FY00 because of TIF districts, equal to 4 percent of Wayne County's contribution to SMART.

Taxable Value v SEV. SMART also has experienced restricted revenue growth related to the enactment of its tax shortly after Proposal A of 1994 introduced a cap on property assessments. In 2001, the gap between the taxable

value of property subject to taxation by the three bodies that support SMART and the state equalized value of that property had grown to 16.7 percent, with foregone revenue totaling almost \$5 million.

State Funding

SMART has also experienced restricted growth in revenue from state grants.

Roads Versus Transit. The level of state funding for transit systems throughout the state has been a matter of contention between state officials and local transit providers and transit advocates for some time. The state uses money from two sources to subsidize local transit provision, 1) the motor fuel tax and motor vehicle registration tax revenues deposited in the Michigan Transportation Fund and 2) the state Sales Tax. In 1978, Michigan electors amended the state Constitution to require a minimum of 90 percent of all highway-user tax revenues be used for roads and bridges, with up to 10 percent available for mass transportation purposes.

While transit advocates wish to receive the full 10 percent allocable under the Constitution, it has been some time since this full amount has been available for distribution. As the condition of the roads and bridges deteriorated, policymakers judged that funding infrastructure was more important than transit. In 1997, when the Gas Tax was increased by 4 cents per gallon, all of the revenues from the increased tax rate were dedicated to road and bridge needs and the percentage of the funds available for distribution among transit agencies was further reduced.

The goal of the state formula for distributing state funds to local transit agencies is to reimburse rural transit

providers for 60 percent of their eligible operating expenses and urban transit providers for 50 percent of their eligible operating expenses. The state's ability to meet these goals is influenced by the rate at which local transit agency eligible operating expenses increase and how much funding is allocated for distribution to these agencies. Because state funds were not sufficient to fund at the targeted levels, all transit providers across the state were funded at lower percentages of their eligible operating expenses. The Michigan Department of Transportation reports that state distributions to local transit agencies in 2002 were equal to 38.7 percent of total statewide eligible operating expenses. SMART's projections for future revenues estimate that a continuation of this trend will result in state reimbursement of only 30 percent of eligible operating expenses.

Auto Leasing. Revenues from sales tax collections on motor vehicle related sales are one of the few revenue sources that have not experienced legislatively imposed growth restrictions. Unfortunately for transit providers, revenues from this source have experienced little growth due to changes in purchasing behavior of the driving public.

Only 3 percent of Sales Tax revenues are not constitutionally or statutorily dedicated to the School Aid Fund (73.3 percent) or state revenue sharing (23.7 percent). Of this 3 percent, transit receives a portion related to motor vehicle related purchases – mostly automobile sales, but also sales of gasoline, motor oil, and other auto parts. As more automobile users lease their vehicles instead of purchasing, sales tax revenues from motor-vehicle related sales has not grown at the pace experienced in earlier years, resulting in less money available to fund mass transit.

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Rising Costs for SMART

The major operating costs for a transit agency such as SMART are fuel and equipment, to run the buses, and labor, to drive and maintain the buses. In the four years since the last millage election, motor fuel costs have increased from 10 to 15 percent of the budget. Additionally, SMART reports a \$2.1 million increase in vehicle liability insurance.

At the same time, labor costs have increased because of rising health care

costs. Plenty of attention has been given to the effects increasing health care costs are having on large and small business alike. As is the case for business, health care costs have impacted the budgets of governmental units, such as cities and townships, and quasi-governmental units, such as transit authorities. SMART reports a \$1 million increase in fringe benefit costs due to 14 to 39 percent increases from their health care providers.

While businesses must balance supply and demand as it adjusts the prices of the services or goods produced to reflect increased costs, governmental and quasi-governmental entities such as SMART rely on tax revenues and intergovernmental grants for their revenues. The inability of SMART's revenues to grow at the pace of the increasing operating costs directly relates to the request for an increased millage.

Conclusion

Consideration of a millage question (Proposal S) before the electorate in Macomb, Oakland, and Wayne counties at the August 6 statewide primary essentially comes down to a question of how much regional transit services are valued in Southeast Michigan. SMART, like all transit agencies in the United States, is dependent on local tax dollars for a share of its operating revenue. For the past 7 years, SMART has benefited from the levy of a 0.33 mill property tax. Increasing costs and restricted

property tax revenues has caused the agency to place before voters in Macomb, Oakland, and Wayne counties an increase of the tax rate to 0.60 mills for 4 years.

SMART's finances have not been unlike those of many businesses throughout Michigan and the nation. The rising costs of many items – health insurance, fuel costs, liability insurance, etc. – make it more expensive to do the same things SMART has always done. How-

ever, unlike business finances, SMART is dependent on revenue sources that are primarily out of its control and these sources have not grown at the same pace as increasing costs. Thus, voters are asked to pay a higher property tax to keep the authority functioning. If the voters of either Oakland or Wayne county transit authorities or Macomb County fail to approve the levy of this tax, SMART bus service will cease in those areas and continue in the counties that did give approval.