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MICHIGAN'S OVERLAPPING PROPERTY TAX LIMITATIONS CREATE AN UNSUSTAINABLE MUNICIPAL FINANCE SYSTEM

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MICHIGAN'S OVERLAPPING PROPERTY TAX LIMITATIONS CREATE AN UNSUSTAINABLE MUNICIPAL FINANCE SYSTEM

Executive Summary

Key Takeaways

- States generally limit growth of property tax burdens in one of three ways – rate limit, assessment limit, or levy limit. Michigan uses all three, making it among the strictest property tax limitations of the states. Statutory tax rate limits, the Headlee Amendment's assessment limit, and the taxable value system created by Proposal A all work to limit the growth of tax burdens and constrain year-to-year changes.
- The Great Recession and its impact on property values led to the overlapping tax limits having a mitigating affect, keeping the tax base from declining further than it could have. Since the Great Recession, which was a unique event, tax bases have been growing at relatively slow rates.
- The property tax system is not sustainable. Local government tax revenues are constrained in their growth unless they add new development to their tax bases or increase tax rates. Land is finite and cannot continue to be developed. Tax rates are statutorily limited. Local governments need revenue that can grow with their economies.

Overview of Property Tax Limitations

Michigan law places a heavy burden on the property tax to fund all forms of local government. As this burden grew over the years, taxpayers pushed back with limitations to lessen the impact on their wallets and to stifle the changes in year-to-year growth that made annual tax levies unpredictable.

States generally limit property taxes paid by one of three different ways:

1. A *rate limit* puts an upper boundary on the rate that a jurisdiction can levy.
2. An *assessment limit* provides a ceiling on the amount of annual assessment increases; that is, it limits how much a taxpayer's property value can increase year-to-year.
3. A *levy limit* restricts how much tax revenue a jurisdiction can take in year-over-year.

Michigan employs all three limitations in its property tax system.

Rate Limits

Michigan's first attempts to limit property tax burdens addressed tax rates. Laws authorizing the organization of cities and villages capped the rates they could levy. In 1932, the Michigan Constitution was amended to impose limits on the aggregate rate of property taxation. Those limits were carried forward into the 1963 Michigan Constitution, which provides for a 15-mill property tax limitation or an alternative "local option" of up to 18 mills, either of which may be increased by voters to a maximum of 50 mills for up to 20 years at any one time.¹ These rate limits would appear to provide some real constraints on property taxes, but court rulings have limited their application to certain local governments and to property taxes supporting general operations.

Headlee Amendment

Among other changes, the Headlee Amendment of 1978 added Article IX, Section 31 to the Michigan Constitution, limiting local property taxes in two ways. First, it requires voter approval to adopt a new tax and

to increase the rate of an existing tax above what was authorized in 1978. Second, it limits total property tax revenue growth on a jurisdiction-wide basis (e.g., county, city, township, village, school district) to the rate of inflation. It does this by requiring local governments to downwardly adjust – rollback – the maximum authorized rate if the tax base increases by a larger percentage than the cost of living (i.e., inflation), as measured by the Consumer Price Index (CPI). New construction is excluded from the year-over-year tax base growth calculations.

The millage reduction fraction (MRF) was created to determine when changes to the tax rates are necessary. This fraction, which is applied to the previous year's maximum authorized rate, is the ratio between tax base growth and the growth in the price level, adjusted to exclude new construction.

Millage Reduction Fraction =

$$\frac{((\text{last year's total property value} - \text{losses}) * \text{CPI})}{(\text{current year's total property value} - \text{additions})}$$

Since the rollback mechanism applies to the average increase across all classes of property in the entire unit's jurisdiction, it was possible for substantial increases in residential assessments to offset decreases or modest increases in other classes of property. If increases in some property tax bills are offset by decreases in others, then the millage rate will not be rolled back (or at least not be rolled back as much).

Proposal A of 1994

While the Headlee Amendment created a check on the growth of property tax collections at the jurisdiction level, it failed to protect individual property owners from excessive increases in their tax bills. A law enacted in August 1993 repealed property taxes as the primary funding source for K-12 education. In response, a new funding approach was placed on the ballot for voter approval. Voters had the

option of adopting the constitutional amendment titled Proposal A and increasing the sales tax rate or allowing a statutory plan with an increased income tax rate to take effect. In March 1994, Proposal A was adopted with 69 percent of the vote.²

In addition to the school finance reforms, Proposal A layered a new tax limitation onto the general property tax. It created a modified acquisition value system for determining the taxable value (TV) of a property and differential taxation of business and homestead residential property beginning with calendar year 1995. Unlike state equalized value (SEV), which is linked to market value, TV increases for each parcel of property are constitutionally limited to five percent or the rate of inflation in the previous year, whichever is less, excluding the value of new construction.^a When a property is sold, the tax base reverts to SEV and annual changes to TV are then capped once again with the new owner.

The state legislature passed a law that eliminated local property taxes as the main funding source for the school finance system; this necessitated the adoption of Proposal A or some other way to fund public schools. The legislation also ended statutorily the ability for local governments to recoup taxing authority if the tax base grows slower than the rate of inflation by eliminating Headlee tax rate rollups.

Adoption of TV as the property tax base altered, but did not eliminate, the mechanism for reigning in jurisdiction-wide growth in property tax revenues. Instead of jurisdictions calculating growth of the tax base using SEV, they now use growth in TV. Because the appreciation of value for properties not transferred to new ownership is limited to inflation, tax rate rollbacks are triggered only by the change of value ("pop up") of the properties that did change ownership.

^a Inflation has been less than five percent every year since Proposal A was adopted in 1994.

Tax Limitation Analysis Model

At the most basic level, Michigan's two primary property tax limitations work to control taxes by very different means. The Headlee Amendment goes about this by limiting the unit-wide growth of the amount of taxes collected on existing property to the rate of inflation. Proposal A takes a different approach by limiting the growth in the value of individual parcels of property to the rate of inflation. Proposal A was layered on top of the Headlee Amendment rather than replace it. For many local government finance practitioners and analysts, a key question being asked now that both limitations have been in effect for many years is: Is the combination of the two limitations together more restrictive to property tax revenue growth compared to the limits imposed by each one individually?

Our report uses the benefit of 25 years of actual property value and tax data for various communities in six counties – Chippewa, Jackson, Leelanau, Lenawee, Oakland, and Ottawa – to better understand the interaction of the two tax limitations and their individual and combined effects on property tax bases and tax rates. It models how the tax limitations interacted retrospectively, holding constant important policy preferences, such as changes to the authorized tax rates in each community. In real life, the tax rates levied by many local governments have changed with voter approval of new property taxes, Headlee Amendment millage reduction overrides, or expiring millages that were not renewed.

Model of the Study

For this study, 41 local governments in six counties were sorted into one of five categories – counties, urban communities, suburbs, exurbs, and rural communities. While these cannot begin to represent all 1,856 general-purpose local governments in Michigan, there are sufficient commonalities in their characteristics and the findings to generalize beyond those studied. In the analysis, each unit's 1993 authorized property tax millage rate is applied to actual SEVs and TVs to quantify how the two tax limitations operate under three different scenarios:

1. **No tax limitations scenario** shows a property tax scenario based on market value (SEV) and the 1993 millage rate if neither the Headlee Amendment nor Proposal A would have been adopted. This scenario provides an upper bound for the model to show how much property tax revenue would be collected with no limitations to moderate the growth.
2. **Headlee Amendment scenario** shows how the Headlee limitations alone impact property taxes based on the 1993 millage rate and a yearly millage reduction fraction (MRF) as calculated based on SEV. This scenario examines what would have happened if Proposal A of 1994 had not included the creation of TV alongside the school finance reforms.
3. **Headlee Amendment and Proposal A scenario** reflects current law (using the 1993 millage rate) with levy and assessment limits that restrain property value growth and impact tax growth with a yearly MRF as calculated based on TV.

To focus on the affect Michigan's tax limitations have on existing property, additions (primarily new construction) and losses (properties taken off the tax rolls) are segregated from the appreciation of existing property values. Calculation of the MRF is based on the appreciation or depreciation of existing property values.

Farmington Hills

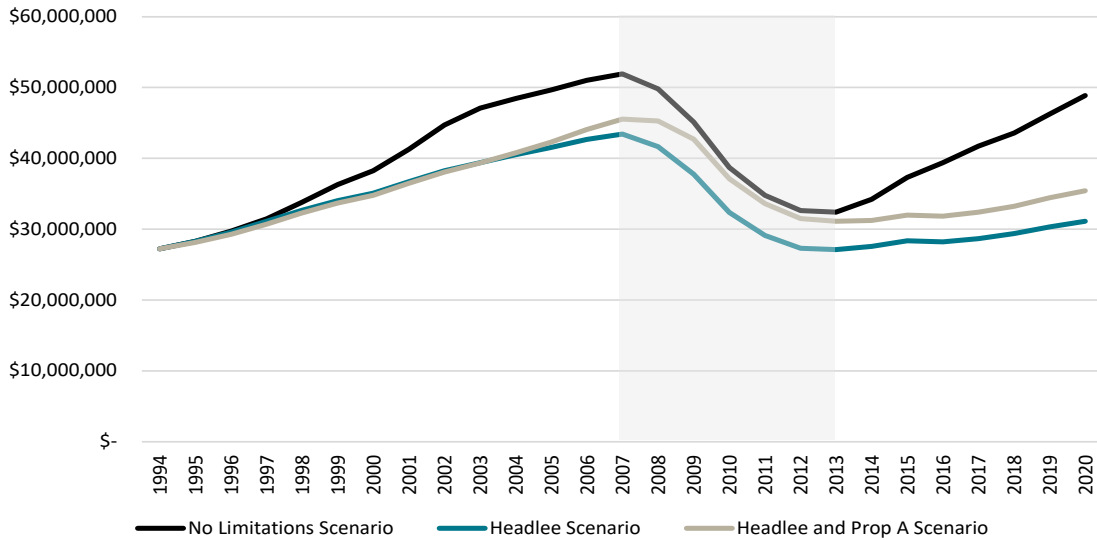
The analyses conducted for each county and municipality provide illustrative scenarios of how Section 31 of the Headlee Amendment and the use of TV created by Proposal A interact to impact the collection of property tax revenue. While these scenarios are based on actual property tax base and rate data from each community, they are hypothetical and do not reflect actual tax revenue collections.

Chart A highlights the tax limitation scenarios in Farmington Hills, which is a suburban community in Oakland County.

Chart A, along with other charts in the full report, shows how the property tax limitations restrict tax revenue growth and keep revenues well below what they would be if they were based on market growth with no limitations. Revenues in both scenarios with limitations are similar up until the Great

Chart A

Property Tax Scenarios in Farmington Hills (Oakland County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Recession when the tan line (Headlee Amendment and Proposal A) surpasses the teal line (Headlee Amendment). This suggests that having Proposal A served to lessen the impact of the Great Recession and allowed TVs to keep increasing when market values were declining. The shaded gray area is the period when property revenues were declining in the scenario with both tax limitations. It is important to note that in Farmington Hills, revenues from a tax without limitations would have recovered to close to pre-Great Recession levels by 2020; the revenues in the tax limitation scenarios will not return to pre-Great Recession levels for many more years.

Instead of a compounding effect, **Chart A** suggests that Proposal A had a mitigating effect and lessened tax revenue decline after the Great Recession. Not only were property values kept lower due to the use of TV, but tax rates were kept higher because the MRF was calculated based on the TV, which grew slower than SEV. Once property values started declining during the Great Recession for TV and SEV, the scenario using both tax limitations could levy higher tax rates than the scenario using only the Headlee Amendment values. In Farmington Hills, for example, when the MRF is calculated based on SEV, the tax rate was rolled back 36.3 percent. When it

was calculated based on TV, it was rolled back only 6.0 percent.

For more detailed revenue data and charts related to all the categories of government in the study, see the full report.

Criteria for Evaluating Effective Tax Policy

The effectiveness of property tax rates, limits, and revenues may be judged differently by taxpayers than by local government officials trying to fund services in their communities. The key to good tax policy is that it meets the needs of both taxpayers and government.

In general, effective tax policy for local government provides:

1. Revenues that can grow with the local economy;
2. Revenues that are stable and predictable; and
3. The ability to minimize the downside risk associated with declining property values.

Effective tax policy for taxpayers provides:

1. Limits on growth in tax burden;
2. Predictability in year-to-year tax bills;
3. Easily understandable process to determine property value and what taxes are owed; and
4. Equity with other taxpayers.

It is no easy feat to find a scenario where tax limitations work to constrain growth in the tax burden for taxpayers while also providing revenues that reflect the local economy. If tax revenues are not growing (or are even declining as they did during the Great Recession), local government budgets cannot be immediately decreased to reflect lower revenue levels. During times of fiscal hardship, less

property tax burden is good for taxpayers, but it can be difficult for local government budgets to adjust quickly to declining revenues.

In general, tax limitations provide more predictability for local governments and taxpayers as revenues are not just responding to the market. However, if limitations restrain taxes too much, then they may not provide stability or adequacy. Michigan's tax limitations increased the difficulty in understanding the property tax system by instituting a modified acquisition value system with an assessment limit on top of a system that already has a levy limit. The tax limitation instituted with Proposal A has also impacted equity as it treats taxpayers in similar properties differently based on how long they have owned their properties.

Key Observations from Models

As is their intent, the tax limitations yield less revenue than no tax limitations. While the scenarios with both tax limitations sometimes grew at rates slower than the Headlee Amendment scenarios in the pre-recession years, the modified acquisition value system creates reservoirs of TV that lessened the impact of the lost property values during the Great Recession. This is most evident in rural communities where the Great Recession had little effect and TV growth never declined to reflect declining SEV.

In almost all cases, the scenario with the combination of the Headlee Amendment and Proposal A tax limitations yields more revenue in recent years than the scenario with just the Headlee Amendment.^b With the length and depth of the Great Recession, the lessened tax rate rollbacks and reservoir of TV enable the additional tax limitation to have a mitigating effect

on the Headlee Amendment limitation instead of a compounding effect.

For those local governments whose property values were adversely affected by the Great Recession, the annual growth rate for the scenario with both tax limitations in the post-recession period is slower than what was experienced in the pre-recession period. Those post-recession revenues are not keeping pace with the rate of inflation. The relationship between the appreciation of property values and tax revenues is diminishing.

The diminished relationship between property values and the tax base under the scenario with both tax limitations is most pronounced for rural communities. Ownership of agricultural property changes much less frequently than for residential, commercial, or industrial property, which is leading the TV of those properties to pop up to SEV less frequently. Local governments with more changes in ownership experience pop-ups for those properties causing tax rate rollbacks and less than inflationary growth from their existing tax bases.

Great Recession Was a Turning Point

Without the Great Recession and the property value declines that occurred during it, the numbers might look very different. In most scenarios, the projected property tax revenues are very similar no matter

^b The City of Sault Ste. Marie in Chippewa County in the Upper Peninsula had years when having both tax limitations led to more revenue collections, but most years, including 2014-2020, the Headlee Amendment line led to more revenue collections, and it led to more revenue collected over the entire period (by three percent). Pulaski Township (Jackson County) collected more revenue every year under the Headlee Amendment scenario than under the scenario with both limitations (collecting 18 percent more over the entire period with just Headlee Amendment limitations).

the limitation (Headlee Amendment, Proposal A, or both) before the Great Recession. This varied by community, but the Great Recession and its precipitous drop in property values led to the Headlee Amendment limitations being particularly severe. This is because property was growing so much before the recession causing millage rates to be rolled back; once property values fell, the millage rate was already rolled back so that local governments were collecting tax revenues at much lower rates. Within this system, the end of tax rate rollups enacted in 1993 had the strongest influence on limiting taxes.

The Great Recession was a unique situation. It was the only period in recent history that saw severe property value declines.³ But for these rare circumstances, not experienced at any other time in recent history, then the combination of declining property values and Headlee Amendment tax rate rollbacks might not have been as severe. Even though the Great Recession could not have been predicted at the time that Proposal A was passed, Proposal A served to mitigate some of the effects of the recession on property values and tax revenues. That being said, Michigan should not base future tax policy on a once-in-a-century event like the Great Recession.

Growth is Defined as New Development

The limitations restrict local governments from increasing revenues beyond inflation for any reason except for new development. This has been evidenced by the fact that communities with land to develop and additions (i.e., new development) – largely the exurb and rural communities – have done the best and seen the most revenue growth over the last 25 years. This system is not sustainable because land is a limited commodity. Large portions of Southeast Michigan are built out with no new land for development. West Michigan is growing in population and witnessing new development, but it will reach the same point as Southeast Michigan eventually.

Many urban and suburban communities are largely built out, but they have redeveloped land and revitalized neighborhoods and downtowns to invest in their communities. The problem is that they do not see tax revenue growth from this type of investment because Proposal A restricts tax revenue growth

to additions and sales; increases from investment in property cannot increase TV beyond inflation. When property is sold and it is reverted to SEV, the Headlee Amendment treats that pop-up as revenue growth and requires the millage rate to be rolled back. This is preventing communities with turnover in their properties from benefitting from those sales and increases in property values.

The overall point is that the system is not sustainable if the growth of property tax revenues relies on new development. This system leaves no room for revitalization and redevelopment and encourages urban sprawl. Vibrant communities depend on tax systems that allow the communities to benefit from their own revitalization while also protecting taxpayers from unlimited growth and unpredictability in their property taxes.

Tax Base Limitations Create Pressure on Tax Rates

The tax limitations have served their purpose of restraining the tax base and creating more stability and predictability for both taxpayers and local governments. Because tax revenues are generated by applying a tax rate to a tax base, it is possible that local governments have responded to restrained tax bases by requesting voter approval to increase tax rates or levy more property taxes. This study purposefully leaves the changing tax rate out of the equation to show what changes in the tax base do to revenues with a stable tax rate.

Over 80 percent of local units in Oakland County have increased their overall tax rate since 2007.⁴ Furthermore, a 2019 Research Council report found that 731 cities, villages, and townships in Michigan levied dedicated property tax millages in support of roads.⁵ In the May 2021 general election, 79 percent of the more than 140 local tax-raising proposals passed.⁶ In Farmington Hills, the number of dedicated millages grew from three in 1996 to eight in 2020 and the actual tax rate grew from 9.8 mills to 17.0 mills in the same period. It appears, at least anecdotally, that suppression of the tax base has led to voters being asked more often to approve local tax rate increase proposals, including Headlee overrides and dedicated millages.

Constraining the tax base puts more pressure on the tax rate.

Property Tax Limitations and Policy Options

There are policy options that could ease Michigan's tax restrictions to allow local governments to see at least inflationary year-to-year growth in property tax revenues. It is important to remember, though, that property taxes are not the answer to all of Michigan's local governments' revenue problems and what local governments may need is more tax options to supplement property taxes, not greater growth in property tax revenues.

It is critical to evaluate what types of limitations and local government taxes would be the best tax policy for both taxpayers and local governments moving forward. This analysis has shown what happens to tax revenues with a stable tax rate and these different tax limitations. Analysis of the data can be helpful to provide some policy options:

1. Diversify local revenue sources and regionalize service provision
2. Eliminate Headlee Amendment limitation on tax revenue growth
3. Reinstate Headlee rollups
4. Change the method for measuring inflation for tax limitations

Diversify Local Revenue Sources and Regionalize Service Provision

One of the problems with the current system is that local governments are overly dependent on property taxes and no changes to the limitations are going to fix that.

An ideal tax structure produces revenue sufficient to provide services, with components that respond to economic growth and components that are stable through the economic fluctuations. It does not create administrative burdens and does not disrupt economic choices. Many other states afford their local units of government several tax options – general and selective sales, income, transportation, various tourism, and others – to capture economic activity and to create diverse revenue streams.⁷ Providing local governments with more access to local-option taxes can be part of the solution to the problems inherent in the local government finance structure. A tax structure with options to add sales

and income taxes would better achieve a more ideal tax structure. Each can raise significant revenues on its own. Diversity would allow for growth and stability.

The peril of a diversified tax structure is that the smaller the taxing jurisdiction, the greater the economic competition. Thus, state policymakers should consider reforming the state's revenue sharing program as a remedy to the woes of the property tax system.⁸ Revenue sharing was originally adopted in place of local-option taxes. It served to provide local governments with revenues from diverse sources while centralizing the revenue raising function at the state level. This system works well when it is fully funded.

A diversified tax structure with or without state revenue sharing is not a panacea but could be combined with other reforms, like regionalizing service provision, to improve the local finance system.⁹ Building off the idea of regionalizing services, any new local revenues should be authorized at a regional level to promote regional governance and tax base sharing.

Eliminate Headlee Amendment Limitation on Tax Revenue Growth

Once Proposal A was adopted with its cap on TV growth, the need for Headlee tax rate rollbacks became less clear. Growth in TV comes from three different sources: 1) appreciation, 2) uncapping TV at the time of sale, and 3) new construction. The modified acquisition value system constrains appreciation to the rate of inflation. When ownership of property is transferred, TV is uncapped and allowed to pop up to SEV. The pop-ups trigger tax rate rollbacks across a jurisdiction's tax roll. New construction is the real indicator of how much revenue can grow more than inflation. If no new construction has occurred in a local government, property tax revenue may not increase by more than inflation, no matter how much TV increases year-to-year.¹⁰

If the Headlee Amendment levy limit was eliminated, then individual property owners would still have their yearly tax bill limited to inflation, but property tax millage rates would not be rolled back when property is sold and tax bases pop back up to SEV (market

value). Property tax data from the report shows that using TV without the Headlee Amendment always leads to more revenue collection than both limitations together, though the difference is small in some communities.

Eliminating the Headlee Amendment is easier said than done. First, there is not a lot of political will to alter or eliminate the Headlee Amendment. Second, it is a constitutional restriction on the property tax and would require a statewide vote of the people to change it.

Reinstate Headlee Rollups

According to a study by the Lincoln Institute of Land Policy, Michigan is unique in the strictness of its levy limit. In most states with levy limits, the state restricts annual increases in a jurisdiction's property tax collections with exclusions for new development and debt service. These levy limits are operationalized by requiring local governments to adjust their millage rates when the property tax base increases rapidly (i.e., similar to Headlee rollbacks). But if the property tax base grows slowly or declines, local governments in most other states can raise their millage rates as long as their total collections do not grow faster than allowed under the state's levy limit.¹¹ Michigan's levy limit requires reductions in millage rates when the property tax base grows rapidly but does not allow for increases in millage rates when the property tax base grows slowly or declines without a Headlee override vote of the people.

Property tax data show that allowing for Headlee rollups, especially during the property value declines experienced during the Great Recession, would have allowed for rates to increase up to their originally authorized millage and would have brought in more property tax revenues during this period.

While rollups in the millage rate allow for more revenue to be collected overall, the difference is small in most of the units studied (under four percent in every unit except Ottawa County and Cambridge Township in Lenawee County). This is somewhat surprising since rollups are viewed as something that would provide local governments with more access

to property tax revenue. The misconception may arise from the fact that when rollups were allowed before Proposal A and the use of TV, tax rates were levied on SEV, which varies with the market leading to greater growth and declines in property values over a period. So, when MRFs are based on SEV, they lead to both greater rollbacks during times of economic expansion and greater rollups during times of economic decline. The institution of Proposal A and TV have tempered the effect of both rollbacks and potential rollups.

Change Method of Measuring Taxpayers' Ability to Support Government

The idea to use a different measure of inflation to determine how much property tax revenues can increase year-to-year was introduced by the Lincoln Institute of Land Policy in their recent report on fiscally healthy local governments. According to the report, the CPI, which is the current measure of inflation, has grown slower than other measures, such as the cost of local governments' provision of public services and personal income.¹²

One option is to tie the levy limit to growth in state personal income. Tying tax limitations to the growth in state personal income may make sense for both taxpayers as it connects to taxpayers' ability to pay as well as local governments as it provides for growth in local revenues over time.

Another option is using the Bureau of Economic Analysis' implicit price deflator for state and local governments, which measures changes in the costs of goods and services purchased by state and local governments. This option would make more sense than CPI from a local government perspective, while CPI would make more sense from a taxpayer perspective.

Michigan can change the measure of inflation used and still maintain the five percent maximum increase to protect taxpayers during years of high inflation.¹³ However, the current CPI inflation limit is written into the state Constitution, which makes changing it difficult.

Endnotes

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MICHIGAN'S OVERLAPPING PROPERTY TAX LIMITATIONS CREATE AN UNSUSTAINABLE MUNICIPAL FINANCE SYSTEM

Introduction

Michigan law places a heavy burden on the property tax to fund all forms of local government. As this burden grew over the years, taxpayers pushed back with limitations to lessen the impact on their wallets and to create more predictability in annual tax levies.

The analysis shows that Michigan's tax limitations have protected taxpayers from rapid growth in tax burdens and unpredictable year-to-year changes in tax bills.

Achieving those goals has come at a cost for local governments. The relationship between the property tax base and real estate markets has been diminished. Local governments that are successful in providing quality services benefit very little from

the appreciation of real estate values. The primary benefits accrue from new development, but that is not sustainable. Anecdotally, it appears that local governments have reacted to limits on the tax base by seeking approval for new taxes and higher tax rates. That too is not sustainable.

This report uses the benefit of 25 years of actual property value data to evaluate the experience with the tax limitations on both local governments and taxpayers. It illustrates how different types of governments have been impacted by the limitations and explores policy options that could alleviate some of the pressure created by Michigan's strict limitations.

Property Taxes in Michigan

Property tax revenues play a critical role in funding public services across the United States. This is especially true for the financing of local governments. In 2018, property taxes were the largest own-source local government revenue stream (71.7 percent of all local tax collections) and accounted for the largest share (31.1 percent) of all public revenue collected by states and local governments.¹

Michigan local governments are heavily dependent on the property tax and the state levies a property tax as well. The Tax Foundation ranked Michigan as having the 13th highest property taxes across the states in 2020 with an effective property tax rate of 1.44 percent of a home's value (highest was New Jersey with a rate of 2.21 percent and lowest was Hawaii with a rate of 0.30 percent).³ Property taxes in Michigan are the main local-source revenue option for all types of local governments from cities and townships to counties, school districts, and special districts. Twenty-four cities levy income taxes and counties levy some minor taxes (e.g., real estate transfer and tourism-related), but for the rest of Michigan's local governments, property taxes are their sole source of tax revenue.

The state government tax structure is much more diversified than its local governments with more than 20 individual taxes. Michigan local governments generally have two main revenue sources – property taxes and state revenue sharing.

The property tax is also widely disparaged because it is the only tax where the amount due is not easily understood or controlled by the taxpayer. Taxpayers know what the tax rate will be on their income earned and on each purchase they make, but they cannot control the assessment process or how much their property will be valued for, which is what determines how much taxes are owed. This lack of predictability in property taxes owed helped lead to passage of a limitation on the growth in yearly assessments.⁵

The general dissatisfaction with the property tax is evidenced by the fact that Michigan taxpayers have voted to limit property taxes on several occasions. This heavy dependence on property tax revenues creates friction as local government officials view with disfavor any attempt to limit that revenue, at the same time taxpayers view the property tax as unduly burdensome.⁶

Overview of Michigan Property Tax Limitations

States generally limit property taxes paid by one of three different ways:

1. A *rate limit* puts an upper boundary on the rate that a jurisdiction can levy.
2. An *assessment limit* provides a ceiling to the amount of annual assessment increases; that is, it limits how much a taxpayer's property value can increase year-to-year.
3. A *levy limit* restricts how much tax revenue a jurisdiction can take in year-over-year.

Rate Limitations

Over time, Michigan has employed all three

limitations in its local property tax system, but its first attempts to limit property tax burdens addressed tax rates. Laws authorizing the organization of cities and villages capped the rates they could levy. The Home Rule City Act, Home Rule Village Act, General Law Village Act, Charter County Act, and Charter Township Act continue to limit the tax rates that may be authorized in city and village charters.

In 1932, the Michigan Constitution was amended to impose limits on the aggregate rate of property taxation. Those limits were carried forward into the 1963 Michigan Constitution, which provides for a 15-mill property tax limitation or an alternative "local

Glossary of Acronyms and Terms Used in this Report

This paper uses multiple acronyms and terms related to property taxes and local government finances in Michigan. For easy reference, they are listed below:

Additions: property assessing term used to account for new construction and improvements.

Consumer Price Index (CPI): an index of the variation in prices paid by typical household consumers for retail goods and other items; used as a measure of inflation.

Fiscal Year (FY): the year for taxing or accounting purposes; can be the same or different from a calendar year and varies by government unit.

General Property Tax Act: an act to provide for the assessment of rights and interests in property and the levy and collection of taxes on property.

Losses: property assessing term used to account for changes in existing property.

Mill: one one-thousandth of a dollar of assessed value, meaning that one mill is worth \$1 of tax per \$1,000 of assessed value.

Millage Reduction Fraction (MRF): the ratio between assessment growth and the growth in the price level, adjusted to exclude new construction; used to determine how property values have grown over the year and if millage rates need to be rolled back to limit property tax growth to inflation.

Modified Acquisition Value System: determines value of property by using purchase price adjusted annually by inflation, regardless of market value increase.

State Equalized Value (SEV): the assessed value of property that has been adjusted following county and state equalization. The Michigan Constitution says that SEV cannot exceed 50 percent of the true cash value of a property (i.e., market value).

Taxable Value (TV): the value on which property taxes are calculated; the lesser of assessed or capped value. Property value for tax purposes can only increase by the lesser of the rate of inflation or five percent unless property ownership is transferred, at which time it is reset to equal SEV; capped value is last year's property value times inflation with no regard to actual market value.

option” of up to 18 mills, either of which may be increased by voters to a maximum of 50 mills for up to 20 years at any one time.⁶ The millage levied within the 15-mill limitation is allocated among local governments on an annual basis by a tax allocation board in each county. Millages levied under the 18-mill local option are fixed by the local electorate.⁷ This would appear to provide some real constraints on property taxes, but these tax limitations only apply to certain local governments and to property taxes supporting general operations.

Exceptions to Rate Limitations

The 15, 18, and 50-mill rate limitation provisions were in the state Constitution for a short amount of time before local governments began seeking exceptions. Case law on constitutional property tax rate limitations provides exceptions for certain local governments, including cities, villages, charter counties, charter townships, and special authorities because rate limits for those types of local units are provided for in their charters or in general law. The fact that these tax limitations apply only to the operating millages levied by unchartered counties, general law townships, and school districts for current operating expenses helps to explain why aggregate property taxes levied on some parcels of property exceed 50 mills.

“Through and by means of an attritional series of judicial decisions the 15-mill amendment has been bruised, beaten and backed to the brink of sterile and forceless words. No intervening act of the electorate brought this about.” Justice Black in *Bacon v. Kent-Ottawa Authority* [354 Mich. 159]

Enforcement of Rate Limitations

Lax enforcement of these limitations is another reason that aggregate property taxes levied on some parcels might exceed 50 mills. County boards of commissioners are technically responsible for certifying all property taxes levied and enforcing these limitations on local governments, but this appears to be a pro forma function and examples of local units exceeding the limitations have been found over the years. It has generally been up to taxpayers to monitor their tax levies and file suit with the tax

tribunal or court system if they feel that limits have been exceeded.⁸

Recommendations have been made over the years for the state legislature to enact a statute clarifying enforcement responsibility and the way each county should certify compliance with the limit and a remedy for non-compliance. Further recommendations include requiring the Michigan Department of Treasury to determine which taxing authorities have limits established by charter or general law that allow them to constitutionally levy property taxes outside of the 50-mill limit and to require the department to publish such a determination for use by the counties in enforcing the 50-mill limit.⁹

The Headlee Amendment

General unhappiness with the 15, 18, and 50-mill tax limitations led to continuing efforts to limit property tax burdens. Michigan voters were asked on multiple occasions in the 1970s, as part of a nationwide tax revolt movement, to consider tax limitation proposals, and, ultimately, Proposal E of 1978 (commonly referred to as the Headlee Amendment) was adopted.^a

Impact on Local Taxation

Among other changes, the Headlee Amendment added Article IX, Section 31 to the Michigan Constitution, limiting local property taxes in two ways.^b First, it requires voter approval to adopt a new tax and to increase the rate of an existing tax above what was authorized in 1978 (the year the amendment was adopted). Second, it limits total property tax revenue growth on a jurisdiction-wide basis (e.g., city, township, village) to the rate of inflation. It does this by requiring local governments to downwardly adjust (“rollback”) the maximum authorized rate if the tax base increases by a larger percentage than the cost of living (i.e., inflation),

a The tax limitation amendment is named for Richard Headlee, an insurance company executive who helped author the proposal and worked for Taxpayers United for Tax Limitation (now simply called Taxpayers United), which was founded to organize and support the proposed tax limitations to the Michigan Constitution.

b See Appendix A for constitutional language.

as measured by the Consumer Price Index (CPI). Since the rollback affects the maximum rate, local governments already levying less than the full authorized rate may not be affected by this restriction. New construction is excluded from the year-over-year tax base growth calculations. The exclusion of new construction, created the need to set up an assessing system that tracks both the value of existing property and what causes any change in value. New terms were added to the locally-administered property assessment system; “additions” is used to describe new construction and improvements and “losses” is

used to describe changes in existing property.¹⁰

Since the rollback mechanism applies to the average increase across all classes of property in the entire unit’s jurisdiction, substantial increases in residential assessments may have been offset by decreases or modest increases in other classes of property. For example, a 10 percent growth in residential properties may be somewhat offset by an equal or larger decline in commercial properties. Or substantial increases in one neighborhood (e.g., say a 10 percent increase in a high-growth area of a city) may have been

Headlee Amendment Provisions

The Headlee Amendment amended or added multiple sections of the Michigan Constitution that did more than just limit increases in local government revenues. The other provisions endeavored to strike a balance between the fiscal affairs of the state government and its many local governments.

As originally implemented, the Amendment was less about starving government of the resources needed to operate and more about establishing and maintaining a balance in the amount of resources drawn from the private sector to support the public sector. It limited both state and local revenue growth and kept the state from subverting its limits by passing cost burdens to local governments. This was addressed by placing constitutional barriers to keep state officials from passing along costs to local governments without state compensation or from decreasing state funds supporting local governments:

Local Property Tax Limit (Article IX, Section 6) imposes additional requirements that voters approve any exceptions to the 50-mill limitation.¹

State Revenue Limit (Article IX, Section 26) establishes a limit on the total amount of state taxes which may be imposed; this limit is a floating percentage of income (9.49 percent), which measures a current fiscal year’s tax receipts against the personal income for a period nearly two years before.²

State Mandates (Article IX, Section 29) prevents the state from circumventing its revenue limit by creating unfunded mandates and requires the state to pay in subsequent years at least the same proportion of costs for activities or services required of units of local government as it did in 1978. It also requires the state to fund new activities or services it requires local governments to provide.

State Spending to Local Governments (Article IX, Section 30) requires that the proportion of total state spending to all types of local governments not be reduced below that proportion in effect in fiscal year (FY)1979. Today, that equates to at least 48.97 percent of all state spending.

Enforcement Mechanism (Article IX, Section 32) gives any taxpayer standing to bring suit in the State Court of Appeals to enforce the Headlee Amendment.

¹ Citizens Research Council of Michigan. Report 295: “Local Property Tax Limitations in Michigan,” September 1989. Accessed March 25, 2021. <https://crcmich.org/publications/local-property-tax-limitations-in-michigan-2>

² Michigan Department of Management and Budget. “Statement of Revenue Subject to Constitutional Limitation – Legal Basis,” June 30, 2020. Accessed February 2, 2021. <https://www.senate.michigan.gov/sfa/Revenue/StateRevenueLimit.PDF>.

offset by a similar percentage decrease in one or more less desirable neighborhoods. If increases in some property tax bills were offset by decreases in others, then the millage rate was not rolled back (or at least not be rolled back as much). This created the potential for individual property owners to still experience increases in their property tax bills that were much greater than inflation.¹¹

While the Headlee Amendment created a check on the growth of property tax collections overall at the jurisdiction level, it failed to protect individual property owners from excessive increases in their tax bills.

Headlee Rollbacks, Rollups, and Overrides

Implementation of the Headlee Amendment involved amendments to the General Property Tax Act to require that a millage reduction fraction (MRF) be applied to the previous year's maximum authorized rate. This fraction is the ratio between assessment growth and the growth in the price level, adjusted to exclude new construction. It is calculated by subtracting losses from the previous year's property values and multiplying that by the CPI, then dividing that figure by the current year's property values minus additions:

Millage Reduction Fraction =

$$\frac{((\text{last year's SEV} - \text{losses}) * \text{CPI})}{(\text{current year's SEV} - \text{additions})}$$

When the Headlee Amendment was originally implemented, Headlee rollups existed as well. In years in which assessment growth lagged the inflation rate, the MRF could exceed one and therefore increase the rolled-back millage rate (it could never increase above the originally authorized rate). This practice was prohibited by the law that triggered the school finance reforms voted on as Proposal A of 1994.¹² According to some, the allowance of non-voted rollups in the maximum authorized rates of property taxation was questionable and possibly contrary to the Constitution though the issue was not adjudicated in the 15 years that Headlee rollups were allowed.¹²

When Headlee tax rate rollbacks occur, local

governments can ask voters to approve Headlee overrides and raise millage rates back to their original, authorized rates.¹³

Proposal A of 1994

Despite the passage of the Headlee Amendment, widespread dissatisfaction with property taxes continued. Eight property tax reform ballot proposals were offered and rejected by voters between 1972 and 1993. A law enacted in August 1993 repealed property taxes as the primary funding source for K-12 education. In response, a new funding approach was placed on the ballot for voter approval. Unlike previous attempts to reform the property tax or change school funding, voters were not able to keep the status quo this time. Voters had the option of adopting the constitutional amendment titled Proposal A and increasing the sales tax rate or allowing a statutory plan with an increased income tax rate to take effect. In March 1994, Proposal A was adopted with 69 percent of the vote.¹⁵

In addition to the school finance reforms, Proposal A layered a new tax limitation onto the general property tax. It created a modified acquisition value system for determining the taxable value (TV) of a property and differential taxation of business and homestead residential property.^c The impetus behind Proposal A included relief from high property taxes, which was still an issue after adoption of the Headlee Amendment, and changing the school funding system so that it was less reliant on local property taxes and provided more equal per-pupil funding across the state.¹⁶

Beginning with calendar year 1995, the market-value based system of assessing property was replaced with the modified acquisition value system as the property tax base. Unlike SEV, which is linked to market value, TV increases for each parcel of property are constitutionally limited to five percent or the rate of inflation in the previous year, whichever is less, excluding the value of new construction.^d When a property is sold, the tax base reverts to SEV and

c See Appendix A for Proposal A's constitutional language

d Inflation has been less than five percent every year since Proposal A was adopted in 1994.

annual changes to TV are then capped once again with the new owner.

Proposal A also led to property being classified as homestead (i.e., owner-occupied homes resided in for more than half the year) or non-homestead (all other property, including businesses, rental housing, and vacation homes). Non-homestead property, except for qualified agricultural property, can be assessed up to an additional 18 mills for local school operating taxes with voter approval.

Proposal A did not replace the Headlee Amendment; instead, it was layered on top of it. It began as a school finance reform issue and the TV component was added at the very end of the process. The political concern was that removing the Headlee property tax limitations would lessen Proposal A's chance of being adopted. The merits of adopting Proposal A's tax limitations on their own and removing the Headlee Amendment's tax limitations were not publicly considered or addressed. This is not to imply that the Headlee Amendment should have been revoked with the adoption of Proposal A, simply that it was not publicly discussed or considered.

Impact on Local Taxation

The adoption of Proposal A impacted both property tax rates and bases.

Tax Rate

For property owners, the most noticeable impact of Proposal A was the immediate reduction in millage rates; from 1993 to 1994, statewide average millage rates for local governments went from 56.64 to 38.19.^e

This average across all properties masks the differences felt by homestead versus non-homestead property.

- For homestead property, average millage rates went from 56.64 to 30.22 (a 46.7 percent decrease) because homeowners no

longer paid any property tax to local school districts for operating purposes.

- For non-homestead property, the average rate went from 56.64 to 48.17 (a 15.0 percent decrease).¹⁷

Tax Base

Proposal A revised the rollback calculation created by the Headlee Amendment because it replaced SEV (market value) with inflation-limited TV when calculating the MRF. The cap on changes to TV for each parcel of property effectively creates a growing gap in most years between state equalized and taxable values. At the statewide level, this gap is evident in **Chart 1** (on page 7). The gap grew quite large before the Great Recession from 2007 to 2009, with the spread between TV and SEV at over \$96 billion by 2006. As of 2020, the gap has grown again to over \$108 billion.

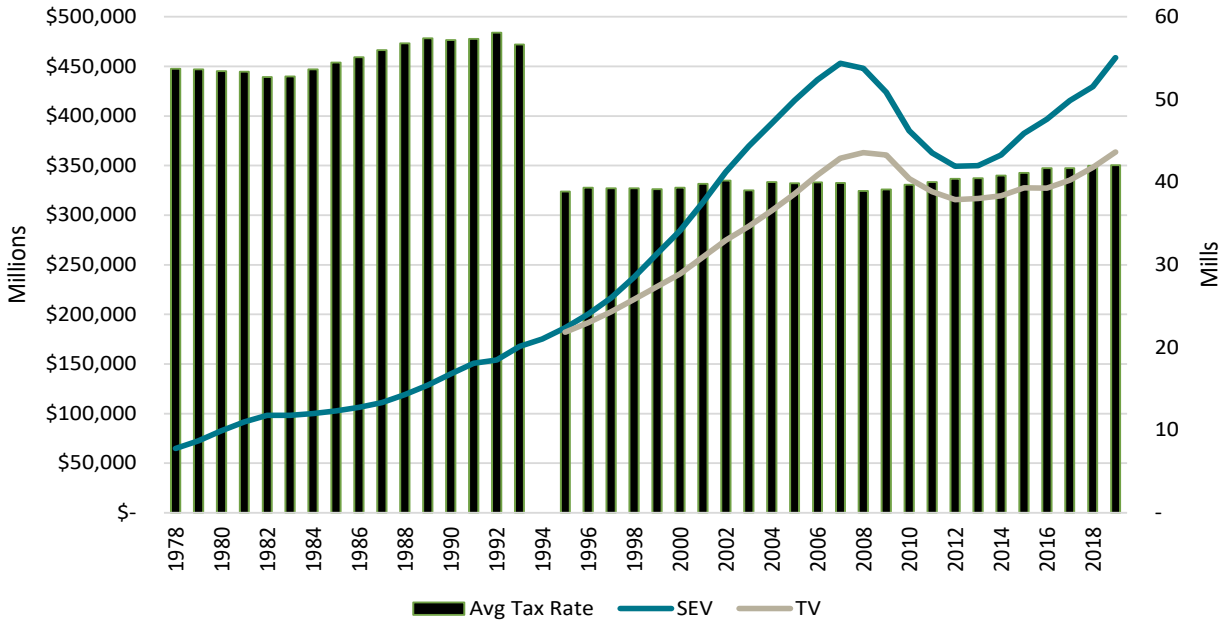
The modified acquisition value system implemented by Proposal A provides an element of certainty. Taxpayers know the maximum amount by which their assessments can increase each year, and therefore how much their tax burdens will change.¹⁸

The cap on TV changes also creates horizontal inequities, wherein owners of properties with similar market values are valued differently for purposes of taxation. This creates situations where a new property owner next door to another owner who has owned an identical property for many years could pay substantially higher property taxes than their neighbor. **Figure 1** (on page 7) highlights how the tax limitations function in response to length of property ownership. The owner of the first house on Fielding Street in Ferndale, who has owned the house since 1997, has a TV of only \$24,960 and pays \$1,254 in taxes. On the next street to the north, the owner of a similarly sized house on Northway Street purchased the house in 2020 and in 2021 has a TV of \$71,290 and is paying \$3,581 in taxes. The property owner on Northway Street does not receive any extra services for paying almost three times as much taxes as the owner of the Fielding Street property. Examples can be found throughout the state and at all property valuations of similarly situated properties in the same jurisdiction paying different tax amounts based on years of ownership.

^e Tax rates levied by counties, cities, villages, townships, and special authorities were not affected by Proposal A. A school millage reduction was enjoyed by every taxpayer in Michigan, but the magnitude of reduction varied according to the millage levied by each school district before and after 1994.

Chart 1

Change in State Equalized Value (SEV), Taxable Value (TV) and Average Tax Rates, 1978 to 2019



Source: Michigan Department of Treasury, Ad Valorem Property Tax Reports, https://www.michigan.gov/taxes/0,4676,7-238-43535_43925-540359--,00.html

Figure 1

Example of Similar Properties in Oakland County with Very Different Tax Burden



Property "A"
 Parcel capped since 1997
 Fielding St., Ferndale
 737 sq. ft., 1942 built
 Sold 4/25/1996 for \$28,000
 TV \$24,960 x mills (50.2377) = Taxes of \$1,254



Property "B"
 Parcel uncapped for 2021
 Northway St., Ferndale
 744 sq.ft., 1942 built
 Sold 3/13/2020 for \$140,500
 TV \$71,290 x mills (50.2377) = Taxes of \$3,581

Source: Used with permission from David Hieber, Oakland County Equalization Director, Oakland County Property Tax Overview and Outlook, Oakland Schools, February 26, 2021

These differences in taxes paid can decrease overall mobility and create a lock-in effect where homeowners who enjoy a substantial tax benefit become less likely to relocate because the cost of holding the property is lower and the tax benefits are lost once the property is sold.¹⁹

It also brings more predictability to revenue projections as local governments develop their budgets. While predictability is valuable, local government officials have lamented the lower upside to annual revenue growth.

Proposal A made the terms “additions” and “losses” even more important when assessing property, adding them to the new constitutional text. Prior to Proposal A, these terms were used only by assessors in their annual MRF calculations. Taxpayers had little reason to concern themselves with these terms before Proposal A but following the reform “additions” and “losses” directly impact the amounts of taxes owed by individual taxpayers.²⁰

The Great Recession

The Great Recession from 2007 to 2009, with its ties to the financial crisis surrounding real estate markets, led to a precipitous decline in property values in many parts of the state, which is unusual during a recession. In most recessions, property values remain stable because property is only reassessed once a year and recessions tend not to span multiple years.²¹ However, due to the Great Recession, statewide SEV fell from a high of \$453 billion in 2007 to \$349 billion in 2012 (22.9 percent decline); by 2020, SEV was up to \$487 billion (39.4 percent growth). At the same time, statewide TV fell from \$363 billion in 2008 to \$316 billion in 2012 (13.1 percent decline); by 2020, TV was up to \$378 billion (19.8 percent growth).²² While both statewide SEV and TV have recently recovered past their previous peaks, they have experienced very limited growth over the last decade (see **Chart 1**). SEV has grown 7.5 percent in 13 years (since its previous high point in 2007); TV has grown 4.2 percent in 12 years (since 2008).

Furthermore, these statewide totals mask variations across local units. Some local governments still had 2020 TVs below their peak before the Great Recession in actual dollars (not adjusted for inflation).²³ The City of Troy in Oakland County, for example, had a TV of \$5.6 billion in 2008; Troy's TV fell to \$4.3 billion by 2012 and was only back up to \$5.3 billion by 2020.²⁴

Interaction of the Headlee Amendment and Proposal A

At the most basic level, Michigan's two primary property tax limitations work to control taxes by very different means. The Headlee Amendment limits the unit-wide growth of the amount of taxes collected on existing property (i.e., excludes additions) to the rate of inflation. Proposal A takes a different approach by limiting the growth in the taxable value of individual parcels of property to the rate of inflation.

For many local government finance practitioners and analysts, a key question being asked now that both limitations have been in effect for many years is: Is the combination of the two limitations together more restrictive to property tax revenue growth compared to the limits imposed by each limitation individually (i.e., either a unit-wide tax levy limit or a limit on individual parcel assessment growth)? In other words, have taxpayers' goals been achieved or do overlapping tax limitations overshoot the target?

At first blush, a quick look at statewide values for SEV and TV over time shows a growing and very large gap between the two, leading many observers to conclude that the “untaxed” property value represents potential tax base that would have been available had Proposal A not passed.²⁵ However, it is important to analyze the data to test the accuracy of this. Proposal A impacts the tax base and the Headlee Amendment impacts the tax levy and rate, so it is important to see how these two limitations interact before jumping to conclusions about lost tax base.

This analysis examines how these property tax limitations work together and the implications for both local governments' budgets and taxpayers.

SEMCOG Study of Property Tax Limitations in Southeast Michigan

This is not the first effort to analyze the impact of Michigan's property tax limitations. The Southeast Michigan Council of Governments (SEMCOG) analyzed data to determine the impact of the tax limitations on tax revenue growth. The study used property tax data from 1994 to 2013 in the Southeast Michigan region to reconstruct the calculations that would have occurred in determining the millage reduction fraction (MRF) had Proposal A never been adopted.¹ It calculated potential tax revenues with just the Headlee Amendment restrictions and compared them to potential revenues with both the Headlee Amendment and Proposal A limitations.

The study found that due to the large growth in property values from 1994 to 2007, all of the communities reviewed would have seen substantial reductions in their authorized millage rates due to Headlee Amendment millage reductions had Proposal A not been in place. These reductions were substantially mitigated by Proposal A because the cap on TV kept SEV growth out of the Headlee Amendment calculations. The study found that, for select communities, total property tax revenues from 1994 to 2007 were slightly less than the amount that would have been collected without Proposal A.

The SEMCOG study assumed that Headlee rollups would not have been allowed, even without the passage of Proposal A, because it is not clear if allowing rollups would violate the state Constitution's requirement that increasing tax rates requires a vote of the people.

While the study initially found that the revenues collected with Proposal A did not vary too much from the revenues that would have been collected without it up until 2007 (due to the fact that the tax rate would have been rolled back in most jurisdictions without Proposal A), the numbers looked very different by 2013. The study found that each community collected substantially more money due to Proposal A in 2013 than it would have been collecting had it never passed. This is because property values declined during that period with SEV and TV coming close to equalizing, but Proposal A allowed the tax rate to remain higher rather than being rolled back when property values were increasing, which resulted in more property tax revenue in 2013.

These communities would have generated virtually identical amounts of revenue annually using the Proposal A rules as compared to what would have been collected absent Proposal A before the Great Recession. In most cases, the SEMCOG study found that the variances after a decade of Proposal A implementation were less than one percent. In some cases, Proposal A produced slightly more revenue and in others, the old Headlee Amendment calculations generated slightly more revenue. Proposal A did not create a greater restraint on revenues than the Headlee Amendment did by itself.

In fact, the SEMCOG study found that very strong housing value growth during this time period would have caused substantial Headlee rollbacks had Proposal A not passed. The majority of the SEV growth, which would have caused tax rate rollbacks without Proposal A, was instead retained in TV.

Once the Great Recession started and property values began dropping, without Proposal A, local property tax revenues would have started declining proportionately to the decline in property values because tax rates would still have been levied on SEV. The rate of SEV growth accelerates and decelerates more closely to the business cycle, but TV grows at a steadier rate because new developments and property transfers cause the value of properties to "pop up". For property owners whose TV was much lower than SEV before the recession, their TV could continue to grow by the rate of inflation even while SEV was declining. This allowed local government revenues to continue to grow in some instances while property values declined. In other words, the untaxed property value (i.e., the gap between SEV and TV) did not represent lost tax base as much as a reservoir of property value that could be accessed during economic downturns.

While most counties saw reductions in SEV from 2007 to 2013, 34 of 83 counties saw actual reductions in TV during this period suggesting, again, that the gap between SEV and TV kept many counties and communities from precipitous declines in both property values and tax revenues during and after the Great Recession.

According to SEMCOG's study, without the ability to roll-up tax rates, a world without Proposal A would have had much more dramatic impacts on local property tax revenues. The "cushion" of property taxes going up while property revenues were going down would not have happened. Within the SEMCOG region, property tax loss would typically be 10 to 15 percent greater than if Proposal A had not passed.

¹ Southeast Michigan Council of Governments. "By the Numbers: A Comparative Look at Michigan's Local Government Revenue and Expenditures," July 2017. Accessed March 26, 2021. <https://semcog.org/publications?category=government-finance>.

Tax Limitation Analysis Model

Building off the SEMCOG study in Southeast Michigan, this report analyzes property tax data in several counties, cities, and townships from across the state^f to better understand the interaction of the two tax limitations and their individual and combined effects on property tax bases and tax rates. It uses actual property tax data for various communities from 1994 to 2020 to model how the tax limitations interacted retrospectively, holding constant important policy preferences, such as changes to the authorized tax rates in each community.

Six counties – Chippewa, Jackson, Leelanau, Lenawee, Oakland, and Ottawa – have maintained historical records to allow for this analysis.^f Several cities and townships within these counties were selected to illustrate how the tax limitations have played out in different types of communities. The analysis includes 41 entities in total, and, while these cannot begin to represent all 1,856 general-purpose local governments in Michigan, there are sufficient commonalities in their characteristics and the findings to generalize beyond this sample size.

Model of the Study

To focus on the effect Michigan's tax limitations have on existing property, additions (primarily new construction) and losses (properties taken off the tax rolls) are segregated from the appreciation of existing property values. Calculation of the MRF is based on the appreciation or depreciation of existing property values.

The 1993 tax rate is used in every year (adjusted based on the MRF) to show how the tax limitations and different scenarios respond to the growth in property values over the period with a stable, unchanging tax rate. In real life, the tax rates levied by many local governments have changed with voter approval of new property taxes, Headlee Amendment millage reduction overrides, or expiring millages that were not renewed.

^f The study would ideally involve local governments from a wider selection of counties and geographic areas of the state, but it cannot be repeated across the entire state as all counties have not kept data records back to 1994.

For this study, each unit's 1993 authorized property tax millage rate is applied to actual SEVs and TVs to quantify how the two tax limitations operate under three different scenarios:

- 1. No tax limitations scenario** shows a property tax scenario based on market value (SEV) and the 1993 millage rate if neither the Headlee Amendment nor Proposal A would have been adopted. This scenario provides an upper bound for the model to show how much property tax revenue would be collected with no limitations to moderate the growth.
- 2. Headlee Amendment scenario** shows how the Headlee limitations alone impact property taxes based on the 1993 millage rate and a yearly MRF as calculated based on SEV. This scenario examines what would have happened if Proposal A of 1994 had not included the creation of TV alongside the school finance reforms.
- 3. Headlee Amendment and Proposal A scenario** reflects current law (using the 1993 millage rate) with levy and assessment limits that restrain property value growth and impact tax growth with a yearly MRF as calculated based on TV.

The analyses conducted for each county and municipality provide illustrative scenarios of how Section 31 of the Headlee Amendment and the use of TV created by Proposal A interact to impact the collection of property tax revenue. While these scenarios are based on actual property tax base and rate data from each community, the scenarios are hypothetical and do not reflect actual tax revenue collections.

Changed tax rates in many local governments not only would have affected tax revenues, but may have also affected real estate transactions. If tax rates potentially affected the attractiveness of property values in some jurisdictions, that could have affected the value of property used in the study as well.

Categories of Local Governments

For purposes of analysis, the governments were sorted into one of five categories – counties, urban communities, suburbs, exurbs, and rural communities.^g This sorting was based on:

- The type of local government
- The spatial distance of each unit from the core city
- The predominant use of land^h
- The changing demographics since 1990ⁱ

Counties

The six counties in the study vary drastically in their urban/rural makeup, size (both population and geographic), and demographics. Despite these differences, as counties they are more stable than cities and townships having less variability in property value changes over time. They are all composed of multiple constituent local governments, including both high and low property value local units.

Urban Communities

Eight cities range in size from Coopersville in Ottawa County with less than 5,000 residents to Pontiac in Oakland County with almost 60,000 residents. They are further categorized into growing and declining cities. Five of the eight cities experienced population decline, all with a population of more than 10,000.

^g See Appendix B for demographic information and analysis of how the composition of property in each individual unit changed over time.

^h The state classifies property according to its use for residential, agricultural, commercial, industrial, timber-cutover, developmental purposes, and the value of personal property separately. This study focuses on the value of real property used for residential, commercial/industrial, and agricultural purposes. This focus excludes personal property and the timber-cutover and developmental property classifications.

ⁱ Demographic changes include shifts in population, income, diversity, age, and poverty levels.

Suburban Communities

This category is based more on proximity to a major city than the type of government. It includes eight governments ranging from large cities like Farmington Hills, a suburb of Detroit, to small townships like Elmwood Township, a suburb of Traverse City.

Exurb Communities

This category includes units located outside of denser suburban areas with an economic and commuting connection to a central city. These tend to have low housing density and high rates of development and population growth.

Rural Communities

The rural communities include one small city and 12 townships that range in size from around 200 to over 2,700 residents.

Implications of Tax Limitation Data

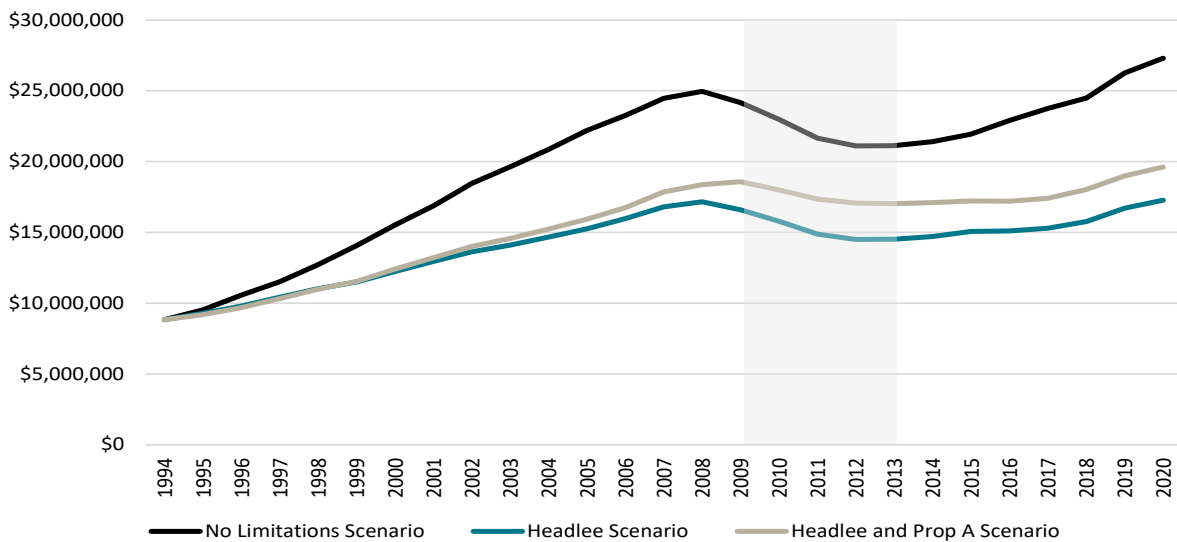
The goal of this analysis is to consider how the property tax limitations have affected both local governments that are dependent on the tax revenues and the property taxpayers that are footing the bill. For each category of local government, examples are provided to show how the different scenarios impact potential property tax revenues with a stable tax rate.

Counties

Three of the counties in the study are rural, each with less than 100,000 residents. The other three are urban with more than 100,000 residents.

Chart 2

Property Tax Scenarios in Lenawee County, 1994 to 2020

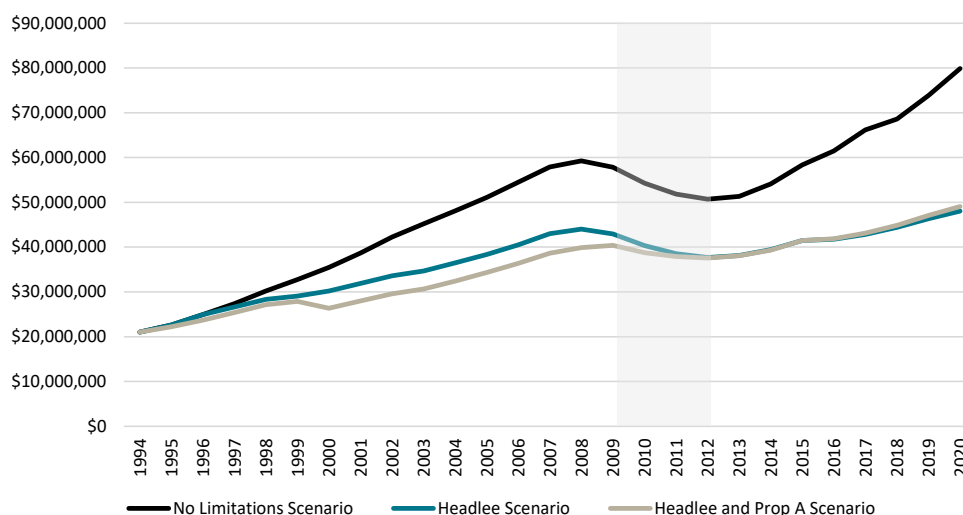


Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 2 shows Lenawee County as an example of how the tax limitations impacted a rural county. The no limitations scenario (black line) allows for the most revenue growth over the period with the tax limitations moderating both the growth and decline in revenues due to the Great Recession. The shaded gray area shows the period that revenues declined in the scenario with both the Headlee Amendment and Proposal A limitations (tan line).

To summarize the findings in the three rural counties:

- In the **no limitations scenario** revenues
 - peaked in 2008 and reached their lowest point in 2013
 - averaged 8.3 percent yearly growth from 1995 to 2008
 - averaged 2.6 percent yearly decline or 14.5 percent overall from 2009 to 2013
 - averaged 2.7 percent yearly growth from 2014 to 2020
 - averaged 4.7 percent annual growth (249.3 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2008 and reached their lowest point in 2013
 - averaged 4.3 percent yearly growth from 1995 to 2008
 - averaged 2.4 percent yearly decline or 13.7 percent overall from 2009 to 2013
 - averaged 1.8 percent yearly growth from 2014 to 2020
 - averaged 2.4 percent annual growth (87.8 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - peaked in 2009 and reached their lowest point in 2012
 - averaged 4.6 percent yearly growth from 1995 to 2009
 - averaged 0.7 percent yearly decline or 2.9 percent overall from 2010 to 2012
 - averaged 1.7 percent yearly growth from 2013 to 2020
 - averaged 3.2 percent annual growth (133.0 percent overall) over the period

Chart 3**Property Tax Scenarios in Ottawa County, 1994 to 2020**

Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 3 shows Ottawa County as an example of an urban county. To summarize the average for all three urban counties^k:

- In the **no limitations scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 6.9 percent yearly growth from 1995 to 2007
 - averaged 5.9 percent yearly decline or 30.8 overall from 2008 to 2012
 - averaged 5.1 percent yearly growth from 2013 to 2020
 - averaged 3.8 percent annual growth (175.8 percent overall) over the period
- In the **Headlee scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 4.8 percent yearly growth from 1995 to 2007
 - averaged 5.9 percent yearly decline or 30.8 percent overall from 2008 to 2012
 - averaged 2.3 percent yearly growth from 2013 to 2020
 - averaged 1.8 percent annual growth (63.0 percent overall) over the period
- In the **Headlee and Proposal A scenario** revenues
 - peaked in 2008 and reached their lowest point in 2012
 - averaged 4.6 percent yearly growth from 1995 to 2008
 - averaged 4.6 percent yearly decline or 21.1 percent overall from 2009 to 2012
 - averaged 2.4 percent yearly growth from 2013 to 2020
 - averaged 2.4 percent annual growth (90.7 percent overall) over the period

Charts 2 and 3 both show how the property tax limitations of the Headlee Amendment and Proposal A limit tax revenue growth and keep revenues well below what they would be if they were based on market growth with no limitations. Revenues in both scenarios are similar up until the Great Recession when the tan line (Headlee Amendment and Proposal A) surpasses the teal line (Headlee Amendment). This suggests that having Proposal A served to lessen the impact of the Great Recession and allowed TVs to keep increasing when market values were declining. The charts that follow show that the Great Recession had more of an impact in some communities than in others and that the timeline of revenue declines and increases varies across local governments with the recessionary declines hitting much earlier in some communities than in others.

^k Oakland, Ottawa, and Jackson counties

Table 1
Tax Rate Rollback Scenarios in Counties, 1994 to 2020

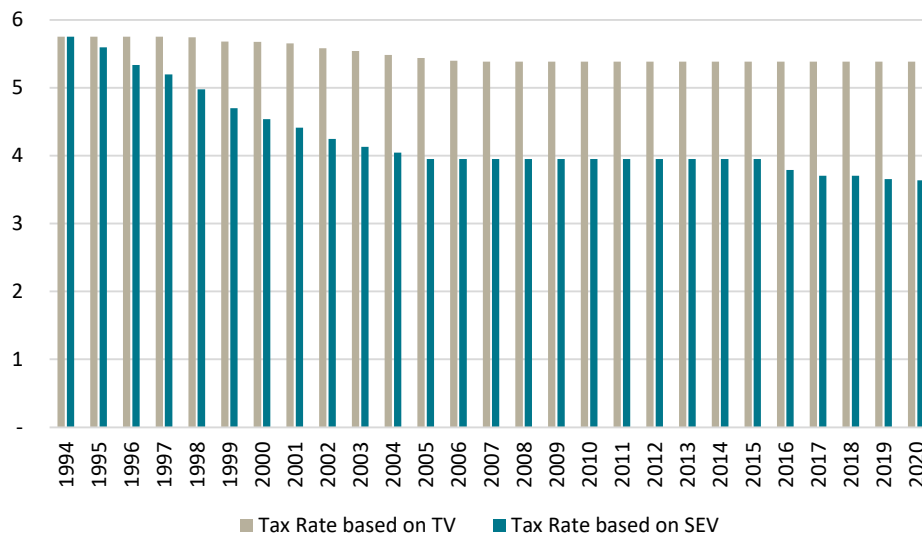
	<u>Headlee Scenario</u>		<u>Headlee and Proposal A</u>	
	<u>Millage Rollbacks</u>	<u>Percent</u>	<u>Millage Rollbacks</u>	<u>Percent</u>
Oakland	(2.322)	(42.1)	(0.532)	(9.7)
Ottawa	(1.968)	(39.8)	(1.008)	(20.4)
Jackson	(2.117)	(30.1)	(0.329)	(4.7)
Lenawee	(2.111)	(36.7)	(0.363)	(6.3)
Chippewa	(2.631)	(32.3)	(0.451)	(5.5)
Leelanau	(4.159)	(61.6)	(1.580)	(23.4)

Source: Michigan Department of Treasury data, Citizens Research Council calculations

Instead of a compounding effect, these charts suggest that Proposal A had a mitigating effect and lessened tax revenue decline during the Great Recession. Not only were property values kept lower due to the use of TV, but tax rates were kept higher because the MRF was calculated based on the TV, which grew slower than SEV. Once property values started declining during the Great Recession for TV and SEV, the scenario using both tax limitations could levy higher tax rates than the scenario using only the Headlee Amendment values. **Table 1** shows the impact of tax rate rollbacks on the different scenarios for each county. Adoption of TV led to much smaller millage rate reductions than just using SEV.

Chart 4 shows the difference in tax rate rollbacks when using TV (both limitations) versus SEV (Headlee Amendment) in one sample county. The tax rate is rolled back much more when it is based on SEV rather than TV and most of the rollback occurred prior to the Great Recession. By 2007, the tax rate based on SEV in Lenawee County would have caused a rollback of 1.8 mills (decline of 31.3 percent in total authorized rate) under the Headlee Amendment scenario. The tax rate based on TV would have been rolled back by only 0.4 mills by 2007 (6.3 percent decline) in the scenario with both tax limitations. Once property values started declining with the Great Recession for SEV and TV, the scenario using TV could levy higher tax rates ultimately leading to more revenue collection.¹

Chart 4
Hypothetical Tax Rate in Lenawee County based on 1993 Millage Rate and MRF Calculations, 1994 to 2020



Source: Michigan Department of Treasury data, Citizens Research Council calculations

The Headlee Amendment: To Rollup or Not to Rollup

As we ran this model to study the impacts of Proposal A and the Headlee Amendment, we were faced with the dilemma of whether we should allow for Headlee rollups. The point of the three different scenarios is to show what would potentially happen 1) without any tax limitations, 2) if Proposal A had not been adopted and the Headlee Amendment continued uninterrupted, and 3) with the current law of both Proposal A and Headlee Amendment tax limitations.

From the time the Headlee Amendment was implemented in 1979 to 1993, tax rate rollups were allowed. If unit-wide property values declined or increased slower than inflation, tax rates could be rolled up back to their previously authorized rates. Tax limitation advocates were dissatisfied with how the limitations on local government were working because of 1) their application on a unit-wide basis and 2) the fact that rollbacks were being undone by subsequent rollups. Thus, when Senate Bill 1 (the law that exempted property from school operating taxes to trigger what became Proposal A of 1994) was enacted in August of 1993, it included a provision to end tax rate rollups.

Some have questioned whether tax rate rollups were ever constitutionally legal. The MRF was instituted to rollback the millage rate as it is called the millage *reduction* fraction, not the millage change fraction.

Furthermore, the modified acquisition value system of valuing property was not part of the school finance reform package labeled Proposal A until the end of the process. The advocates for tax limitations were concerned that the shift to state taxes to fund schools would undo some of the property tax limitations in place. The assessment limit added into Proposal A was included as a means of gaining their support of the reform proposal.

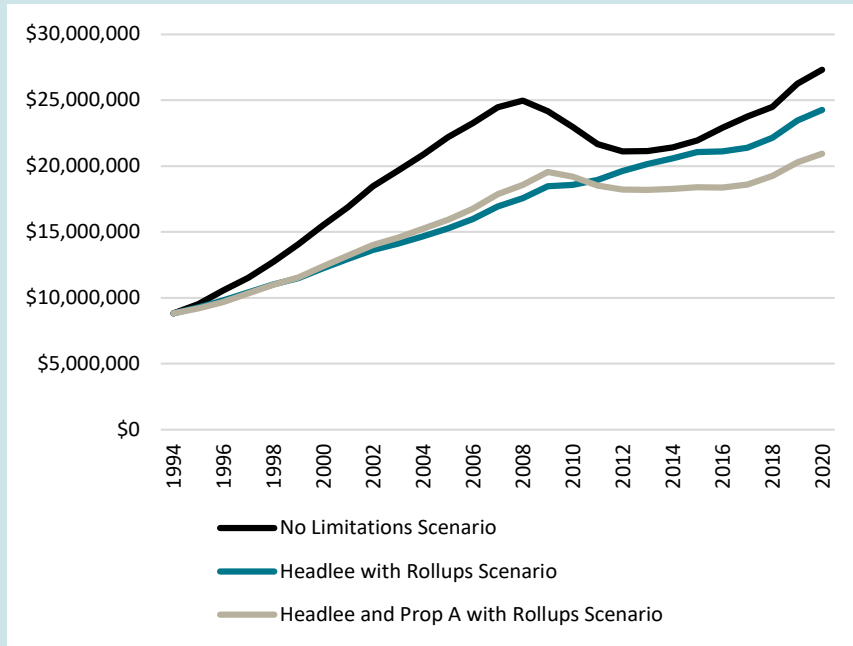
Since state law forbade Headlee Amendment tax rate rollups when Proposal A was adopted in March of 1994, we have kept tax rate rollups out of our Headlee Amendment calculations.

It is important to note, though, that if we had assumed that Headlee rollups would still be allowed, the addition of Proposal A becomes more restrictive. **Chart 5** shows the three scenarios in Lenawee County, first where Headlee rollups are not allowed in both tax limitation scenarios and second where they are allowed. As you can see, with rollups, the Headlee Amendment allows for greater revenue growth; without rollups, the Headlee Amendment and Proposal A together allow for slightly greater revenue growth. Allowing for Headlee rollups would increase revenues under both tax limitation scenarios, which will be discussed in more detail later in the report.

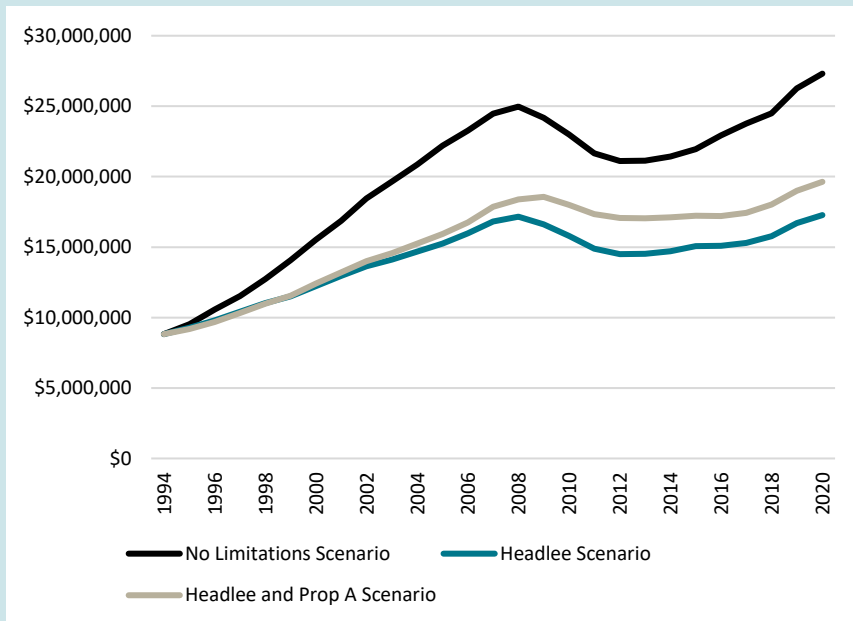
Chart 5

Property Tax Scenarios in Lenawee County with and without Headlee Rollups, 1994 to 2020

With Rollups



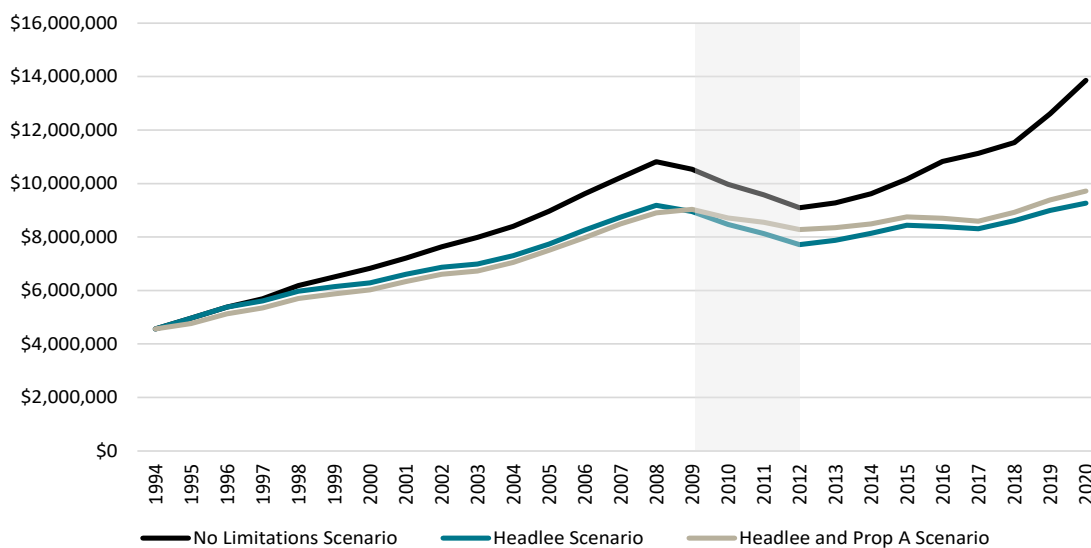
Without Rollups



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 6

Property Tax Scenarios in Grand Haven (Ottawa County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Urban Communities

Of the eight cities, five declined in population over the period studied while the other three grew.

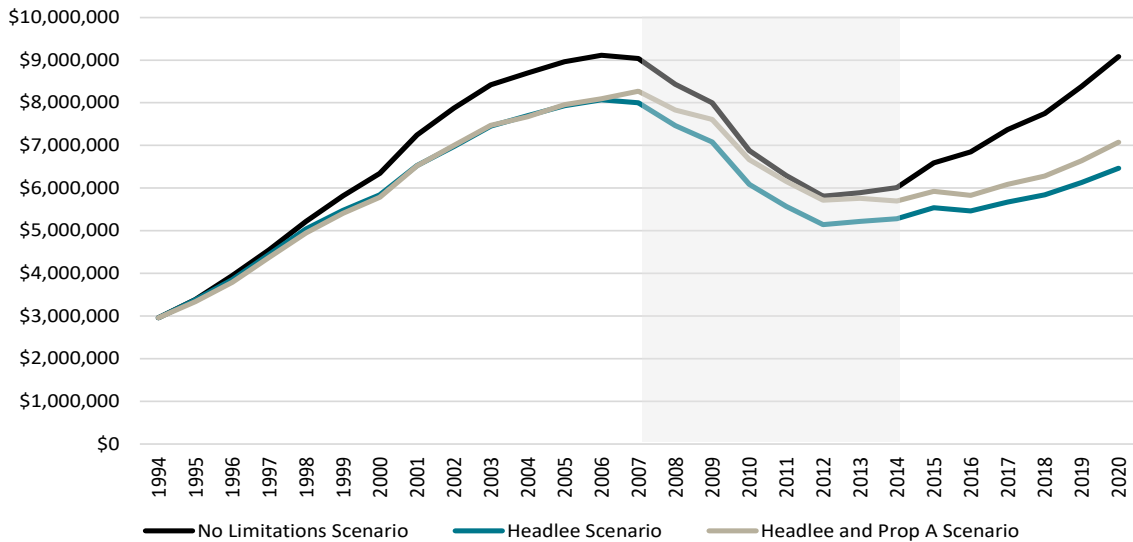
Chart 6 shows Grand Haven (Ottawa County) as an example of how the three different scenarios impact potential revenues in a city with a declining population. Below is a summary of the averages for all five cities^m with a declining population:

- In the **no limitations scenario** revenues
 - peaked in 2007 and reached their lowest point in 2013
 - averaged 6.4 percent yearly growth from 1995 to 2007
 - averaged 7.2 percent yearly decline or 40.9 percent overall from 2008 to 2013
 - averaged 3.5 percent yearly growth from 2014 to 2020
 - averaged 2.3 percent annual growth (86.9 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2007 and reached their lowest point in 2014
 - averaged 4.4 percent yearly growth from 1995 to 2007
 - averaged 5.8 percent yearly decline or 37.9 percent overall from 2008 to 2014
 - averaged 1.6 percent yearly growth from 2015 to 2020
 - averaged 0.9 percent annual growth (26.8 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - peaked in 2008 and reached their lowest point in 2014
 - averaged 4.1 percent yearly growth from 1995 to 2008
 - averaged 5.2 percent yearly decline or 31.1 percent overall from 2009 to 2014
 - averaged 1.7 percent yearly growth from 2015 to 2020
 - averaged 1.3 percent annual growth (41.3 percent overall) over the period

^m The cities of Pontiac, Jackson, Adrian, Sault Ste. Marie, and Grand Haven

Chart 7

Property Tax Scenarios in Wixom (Oakland County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 7 highlights the potential revenue patterns in a growing city. Note that revenues from a tax without limitations would have recovered to pre-Great Recession levels by 2020 in Wixom (Oakland County), but the revenues in the tax limitation scenarios will not return to pre-Great Recession levels for several more years.

To summarize the averages for all three growing citiesⁿ:

- In the **no limitations scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 7.2 percent yearly growth from 1995 to 2007
 - averaged 6.2 percent yearly decline or 31.8 percent overall from 2008 to 2012
 - averaged 4.7 percent yearly growth from 2013 to 2020
 - averaged 3.8 percent annual growth (175.4 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 5.9 percent yearly growth from 1995 to 2007
 - averaged 6.2 percent yearly decline or 32.0 percent overall from 2008 to 2012
 - averaged 2.5 percent yearly growth from 2013 to 2020
 - averaged 2.4 percent annual growth (90.2 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 6.2 percent yearly growth from 1995 to 2007
 - averaged 4.8 percent yearly decline or 25.7 percent overall from 2008 to 2012
 - averaged 2.3 percent yearly growth from 2013 to 2020
 - averaged 2.8 percent annual growth (111.6 percent overall) over the period

ⁿ The cities of Wixom, Tecumseh, and Coopersville

Again, these charts show more revenue collections with no property tax limitations and very similar lines (and revenue levels) with both the Headlee Amendment and Proposal A and just the Headlee Amendment. Up until the Great Recession, both tax limitation lines are largely equal; it is not until after the recession that having Proposal A layered on top of the Headlee Amendment helps to mitigate some of the tax revenue loss. This is only a slight mitigation as the two lines stay close during the entire period in urban communities. Even the black line with no tax limitations stays close to the other two lines until the end of the period when SEV growth starts outpacing TV growth more substantially.

Table 2 highlights how much greater tax rate rollbacks would be with the Headlee Amendment scenario than they would be with the Headlee Amendment and Proposal A scenario.

The urban communities, in general, are older, built-out cities with less land available for new development. They are also more predominantly located in Southeast Michigan, which experienced greater revenue fluctuations due to the recession.^o

Table 2

Tax Rate Rollback Scenarios in Urban Communities, 1994 to 2020

	<u>Headlee Scenario</u>		<u>Headlee and Proposal A Scenario</u>	
	<u>Millage Rollbacks</u>	<u>Percent</u>	<u>Millage Rollbacks</u>	<u>Percent</u>
Pontiac	(7.783)	(47.2)	(1.142)	(6.9)
Jackson	(2.196)	(24.4)	(0.144)	(1.6)
Grand Haven	(5.376)	(33.1)	(1.052)	(6.5)
Sault Ste. Marie	(2.639)	(13.2)	(0.050)	(0.2)
Adrian	(3.758)	(20.9)	(0.305)	(1.7)
Tecumseh	(6.110)	(33.9)	(1.545)	(8.6)
Coopersville	(6.287)	(31.4)	(0.792)	(4.0)
Wixom	(2.591)	(28.8)	(0.114)	(1.3)

Note: Sault Ste. Marie 1993 tax rate is from 1993 Ad Valorem Tax Levy Report and is total tax levied not total authorized rate

Source: Michigan Department of Treasury data, Citizens Research Council calculations

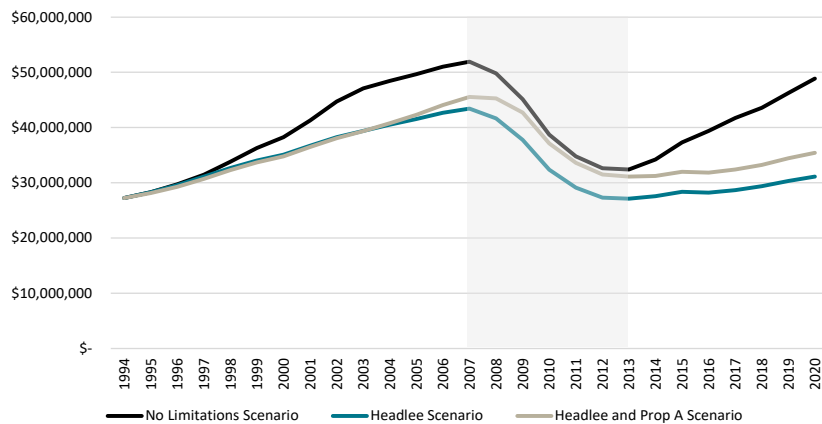
^o See Appendix D for more data on urban communities.

Suburban Communities

Every suburban community except the City of Royal Oak (Oakland County) grew over the period. The suburban communities are grouped based on how their revenue lines grew before the recession. The first group would have collected about the same revenue with either limitation scenario before the Great Recession; the second group would have collected more revenue with the Headlee Amendment scenario before the recession, but more with both limitations after the recession.

Chart 8

Property Tax Scenarios in Farmington Hills (Oakland County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 8 highlights the tax limitation scenarios in Farmington Hills (Oakland County), which starts with the two tax limitation lines virtually the same until the Great Recession when revenues become greater with the Headlee Amendment and Proposal A. Like in Wixom, revenues from a tax without limitations would have recovered to close to pre-Great Recession levels by 2020; the revenues in the tax limitation scenarios will not return to pre-Great Recession levels for many more years in Farmington Hills.

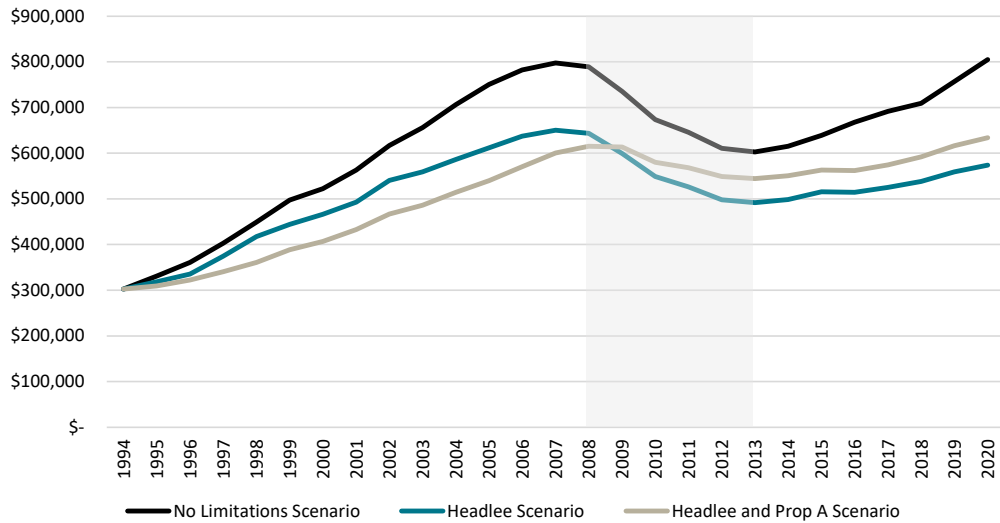
To summarize the average of the five suburban communities^p that follow a similar pattern to Farmington Hills:

- In the **no limitations scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 5.7 percent yearly growth from 1995 to 2007
 - averaged 5.8 percent yearly decline or 30.0 percent overall from 2008 to 2012
 - averaged 5.3 percent yearly growth from 2013 to 2020
 - averaged 3.3 percent annual growth (140.7 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 3.5 percent yearly growth from 1995 to 2007
 - averaged 5.9 percent yearly decline or 30.5 percent overall from 2008 to 2012
 - averaged 2.6 percent yearly growth from 2013 to 2020
 - averaged 1.3 percent annual growth (40.8 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - peaked in 2008 and reached their lowest point in 2012
 - averaged 3.8 percent yearly growth from 1995 to 2008
 - averaged 4.3 percent yearly decline or 19.6 percent overall from 2009 to 2012
 - averaged 2.5 percent yearly growth from 2013 to 2020
 - averaged 2.0 percent annual growth (69.6 percent overall) over the period

^p Farmington Hills (city), Royal Oak (city), Park Township, Zeeland (city), and Elmwood Township

Chart 9

Property Tax Scenarios in Summit Township (Jackson County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 9 illustrates Summit Township (Jackson County) as an example of the second group of suburban communities^q where revenues were greater with just the Headlee Amendment before the recession and greater with both the Headlee Amendment and Proposal A after the recession. To summarize the averages for those three communities:

- In the **no limitations scenario** revenues
 - peaked in 2007 and reached their lowest point in 2013
 - averaged 6.8 percent yearly growth from 1995 to 2007
 - averaged 3.8 percent yearly decline or 23.7 percent overall from 2008 to 2013
 - averaged 3.0 percent yearly growth from 2014 to 2020
 - averaged 3.4 percent annual growth (143.8 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2007 and reached their lowest point in 2013
 - averaged 5.1 percent yearly growth from 1995 to 2007
 - averaged 3.8 percent yearly decline or 23.6 percent overall from 2008 to 2013
 - averaged 1.4 percent yearly growth from 2014 to 2020
 - averaged 2.0 percent annual growth (71.9 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - peaked in 2009 and reached their lowest point in 2013
 - averaged 3.9 percent yearly growth from 1995 to 2009
 - averaged 2.2 percent yearly decline or 10.6 percent overall from 2010 to 2013
 - averaged 1.5 percent yearly growth from 2014 to 2020
 - averaged 2.3 percent annual growth (85.7 percent overall) over the period

In both groups, the declines associated with the Great Recession are much greater for Southeast Michigan communities and small (or even non-existent) in communities in the western and northern parts of the state. Both charts show how the decline in property values during the Great Recession changed how the scenarios impacted potential tax revenues with having both limitations leading to more revenue collection than having just the Headlee Amendment after the Great Recession.

^q Summit Township, Blackman Township, and Kinross Township

Table 3 shows how tax rate rollbacks vary in the two different tax limitation scenarios. Like with urban communities, suburban communities are largely built-out, older local governments with less available land for new development.^r

Table 3

Tax Rate Rollback Scenarios in Suburban Communities, 1994 to 2020

	Headlee Scenario		Headlee and Proposal A Scenario	
	Millage Rollbacks	Percent	Millage Rollbacks	Percent
Farmington Hills	(3.808)	(36.3)	(0.635)	(6.0)
Royal Oak	(9.446)	(47.3)	(3.315)	(16.6)
Summit Twp	(0.287)	(28.7)	(0.068)	(6.8)
Blackman Twp	(0.692)	(30.8)	(0.226)	(10.0)
Park Twp	(1.407)	(43.3)	(0.485)	(14.9)
Kinross Twp	(0.260)	(15.7)	(0.026)	(1.6)
Zeeland	(2.949)	(19.7)	(0.141)	(0.9)
Elmwood Twp	(0.981)	(49.1)	(0.328)	(16.4)

Source: Michigan Department of Treasury data, CRC calculations

Exurb Communities

The communities in the exurbs group all grew in population over the time period and have generally high median incomes. These communities have enjoyed population growth and new development, which has allowed for greater tax revenue growth in the different scenarios.

Chart 10 shows how the three tax scenarios reacted in one exurb community, Cambridge Township (Lenawee County). To summarize all six exurb communities^s:

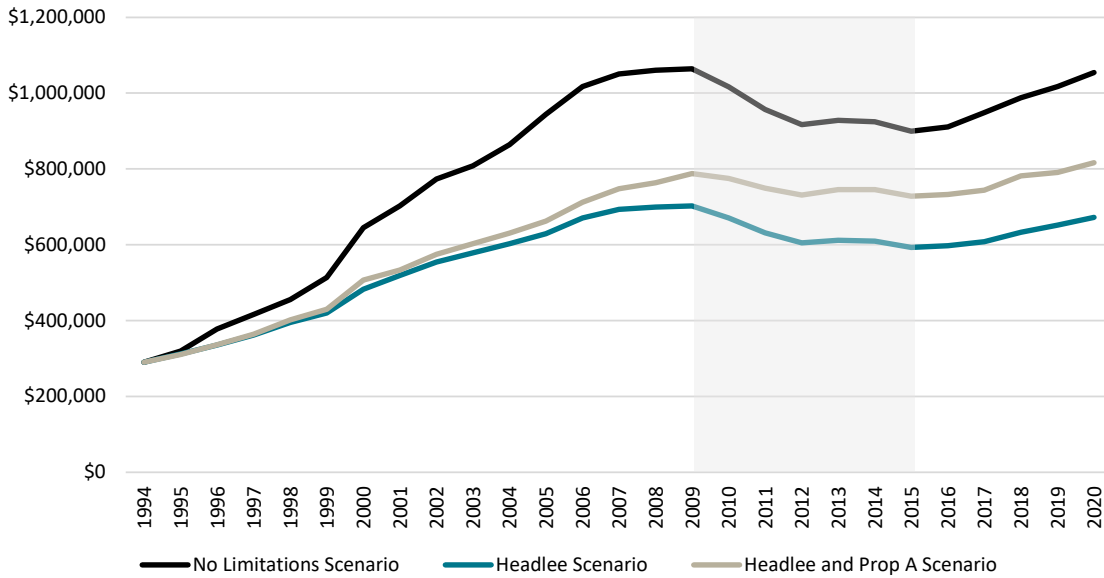
- In the **no limitations scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 9.4 percent yearly growth from 1995 to 2007
 - averaged 5.2 percent yearly decline or 27.6 percent overall from 2008 to 2012
 - averaged 5.9 percent yearly growth from 2013 to 2020
 - averaged 5.5 percent annual growth (329.6 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2007 and reached their lowest point in 2012
 - averaged 6.0 percent yearly growth from 1995 to 2007
 - averaged 5.3 percent yearly decline or 28.0 percent overall from 2008 to 2012
 - averaged 3.0 percent yearly growth from 2013 to 2020
 - averaged 2.8 percent annual growth (113.2 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - peaked in 2008 and reached their lowest point in 2012
 - averaged 6.5 percent yearly growth from 1995 to 2008
 - averaged 3.9 percent yearly decline or 18.2 percent overall from 2009 to 2012
 - averaged 3.5 percent yearly growth from 2013 to 2020
 - averaged 3.9 percent annual growth (184.2 percent overall) over the period

^r See Appendix E for more details on suburban community data.

^s Allendale Township, Oakland Township, Grass Lake Township, Brandon Township, Cambridge Township, and Highland Township

Chart 10

Property Tax Scenarios in Cambridge Township (Lenawee County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

After the Great Recession, the space between the two lines (Headlee Amendment and Proposal A versus Headlee Amendment) is larger in the exurb communities meaning that the revenue potential was significantly greater with both limitations than with just the Headlee Amendment. As in other types of governments, the pre-recession growth and recessionary decline were greater in Southeast Michigan communities. Allendale Township in West Michigan experienced almost no decline, just a flattening of the lines, in potential revenues due to the recession.

Table 4 highlights what would happen to the millage rate due to Headlee rollbacks with just the Headlee Amendment versus with both limitations.^t

Table 4

Tax Rate Rollback Scenarios in Exurb Communities, 1994 to 2020

	Headlee Scenario		Headlee and Proposal A Scenario	
	Millage Rollbacks	Percent	Millage Rollbacks	Percent
Allendale Twp	(3.289)	(54.8)	(1.095)	(18.3)
Oakland Twp	(2.108)	(50.1)	(0.886)	(21.1)
Grass Lake Twp	(0.816)	(40.8)	(0.257)	(12.9)
Brandon Twp	(5.288)	(50.8)	(1.692)	(16.3)
Cambridge Twp	(0.905)	(36.2)	(0.300)	(12.0)
Highland Twp	(2.458)	(50.1)	(0.664)	(13.5)

Source: Michigan Department of Treasury data, Citizens Research Council calculations

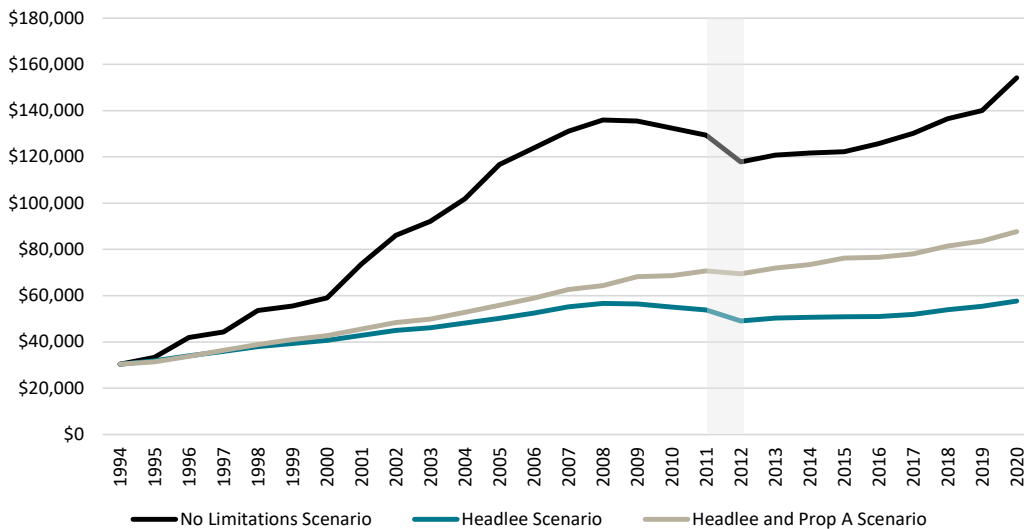
^t See Appendix F for more data on exurb communities.

Rural Communities

Like the suburbs, rural communities can be analyzed in two groups.

Chart 11

Property Tax Scenarios in Kasson Township (Leelanau County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

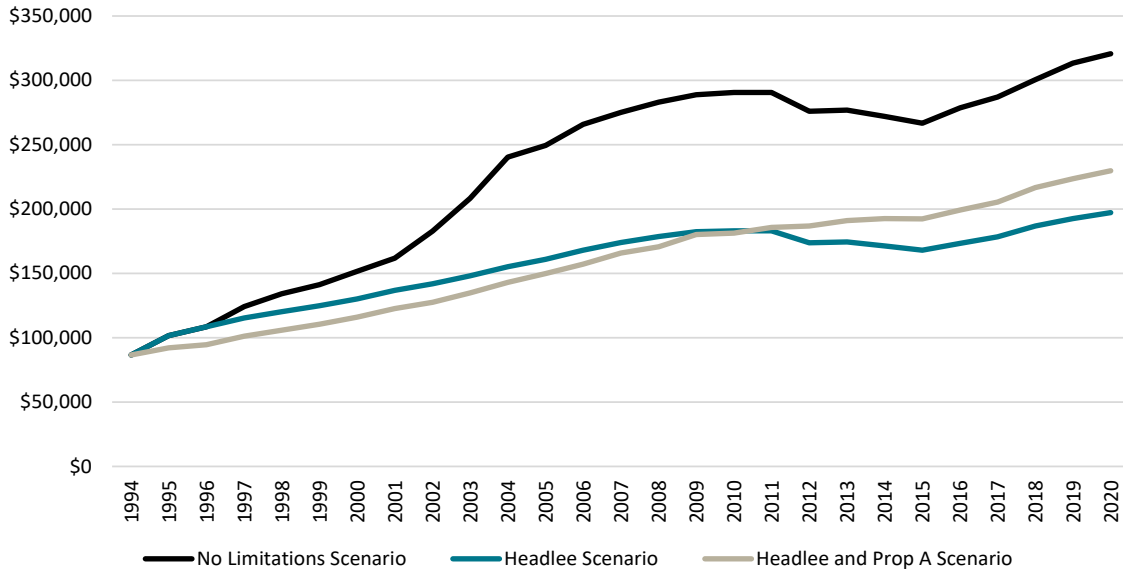
Chart 11 highlights the three property tax scenarios in Kasson Township (Leelanau County) where the revenue lines were virtually the same until the Great Recession when revenues would be greater with the Headlee Amendment and Proposal A than would be the case with just the Headlee Amendment. To summarize the eight rural communities^u that follow the same pattern as Kasson Township:

- In the **no limitations scenario** revenues
 - peaked in 2009 and reached their lowest point in 2013
 - averaged 8.0 percent yearly growth from 1995 to 2009
 - averaged 3.4 percent yearly decline or 16.0 percent overall from 2010 to 2013
 - averaged 3.3 percent yearly growth from 2014 to 2020
 - averaged 5.0 percent annual growth (273.9 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2009 and reached their lowest point in 2013
 - averaged 3.4 percent yearly growth from 1995 to 2009
 - averaged 4.1 percent yearly decline or 18.9 percent overall from 2010 to 2013
 - averaged 1.9 percent yearly growth from 2014 to 2020
 - averaged 1.8 percent annual growth (59.9 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - peaked in 2009 and reached their lowest point in 2013
 - averaged 4.3 percent yearly growth from 1995 to 2009
 - averaged 1.7 percent yearly decline or 8.2 percent overall from 2010 to 2013
 - averaged 2.6 percent yearly growth from 2014 to 2020
 - averaged 3.0 percent annual growth (122.8 percent overall) over the period

^u Centerville Township, Kasson Township, Leland Township, Chester Township, Morenci (city), Hudson Township, Chippewa Township, and Ogden Township

Chart 12

Property Tax Scenarios in Pickford Township (Chippewa County), 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 12 shows the revenue scenarios in Pickford Township (Chippewa County) as an example of a rural community where revenues were greater with just the Headlee Amendment before the recession and greater with both the Headlee Amendment and Proposal A after the recession. The graph does not have a shaded area because revenues never declined in the Headlee Amendment and Proposal A scenario (tan line).

To summarize the five communities^v included in this group:

- In the **no limitations scenario** revenues
 - peaked in 2005 and reached their lowest point in 2015
 - averaged 11.5 percent yearly growth from 1995 to 2005
 - averaged 0.8 percent yearly decline or 8.5 percent overall from 2006 to 2015
 - averaged 1.1 percent yearly growth from 2016 to 2020
 - averaged 4.8 percent annual growth (254.9 percent overall) over the period
- In the **Headlee Amendment scenario** revenues
 - peaked in 2005 and reached their lowest point in 2015
 - averaged 5.0 percent yearly growth from 1995 to 2005
 - averaged 0.9 percent yearly decline or 9.5 percent overall from 2006 to 2015
 - averaged 0.8 percent yearly growth from 2016 to 2020
 - averaged 2.0 percent annual growth (70.5 percent overall) over the period
- In the **Headlee Amendment and Proposal A scenario** revenues
 - grew the entire period with no declines
 - averaged 3.1 percent annual growth (126.1 percent overall) over the period

^v Drummond Island Township, Pulaski Township, Parma Township, Pickford Township, and Whitefish Township

The rural communities are out-state rather than in Southeast Michigan, so it is no surprise that the Great Recession was not as impactful. In both the charts above, the Headlee Amendment and Proposal A lines (tan) see no real drop in potential revenues associated with the recession and the other two lines see minimal drops. This is evidenced in other rural communities as well. However, **Table 5** shows that even with less of a recessionary impact, Proposal A still mitigated the effect of tax rate rollbacks in rural communities. Tax rates would be rolled back much more with just the Headlee Amendment than they would be with both tax limitations in effect.

Table 5
Tax Rate Rollback Scenarios in Rural Communities, 1994 to 2020

	<u>Headlee Scenario</u>		<u>Headlee and Proposal A Scenario</u>	
	<u>Millages</u>	<u>Percent</u>	<u>Millages</u>	<u>Percent</u>
Centerville Twp	(0.667)	(66.7)	(0.270)	(27.0)
Kasson Twp	(0.626)	(62.6)	(0.215)	(21.5)
Drummond Island Twp	(2.848)	(58.1)	(0.933)	(19.0)
Pulaski Twp	(0.451)	(45.1)	(0.168)	(16.8)
Parma Twp	(0.389)	(38.9)	(0.085)	(8.5)
Pickford Twp	(1.791)	(38.5)	(0.618)	(13.3)
Leland Twp	(1.304)	(72.5)	(0.565)	(31.4)
Chester Twp	(3.686)	(48.8)	(0.435)	(5.8)
Morenci	(6.125)	(40.8)	(1.728)	(11.5)
Whitefish Twp	(1.311)	(61.0)	(0.478)	(22.2)
Hudson Twp	(1.672)	(55.7)	(0.413)	(13.8)
Ogden Twp	(1.715)	(57.2)	(0.218)	(7.3)
Chippewa Twp	(0.733)	(44.5)	(0.176)	(10.7)

Source: Michigan Department of Treasury data, Citizens Research Council calculations

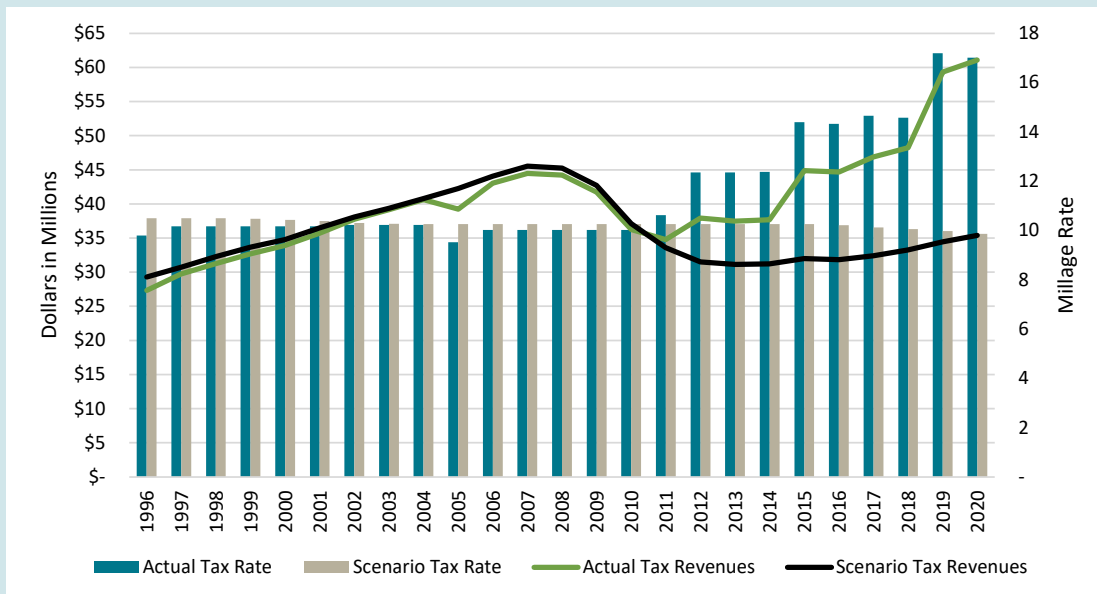
Property Tax Rates and Revenues in Farmington Hills from 1996 to 2020

While the property tax data in the charts above are based on actual SEV and TV values in each community, they are not actual revenue data because they do not reflect the policy choices county, city, and township officials took to deal with constrained tax bases. They do not consider how the overall authorized tax rates and the rates levied changed year-to-year.

In Farmington Hills, TV declined some years from 1996 to 2020, but grew 29 percent overall (1.2 percent annually). Over the same period, **Chart 13** shows how the actual tax rate levied by the city grew from 9.8 mills in 1996 to 17 mills in 2020; the scenario tax rate declined from 10.5 to 9.9 mills due to tax rate rollbacks. The increased tax rate led revenues to increase by 124 percent from \$27.3 million in 1996 to \$61 million in 2020. In the scenario, revenues were much lower and increased only 21 percent over the entire period (growing more slowly than TV overall).

Chart 13

Actual Tax Rates and Revenues versus Headlee Amendment and Proposal A Scenario Tax Rates and Revenues in Farmington Hills, 1996 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

The chart not only illustrates how our model differs from reality, but it also demonstrates the pressure put on the tax rate when the tax base is constrained through tax limitations. **Table 6** shows actual taxes levied by Farmington Hills from 1996 to 2020. In 1996, Farmington Hills levied a charter-authorized operating tax and two voter-authorized dedicated millages for parks and public safety. By 2020, the city was levying a charter-authorized operating tax and seven dedicated millages. It was still levying the millages to support parks and public safety and voters had approved additional millages to support refuse collection, public information, public safety (again), and two separate road millages.

Farmington Hills provides a clear example of what can happen to the tax rate in a community where the tax base is constrained.

Table 6
Millage Rates in Farmington Hills, 1996 to 2020

	<u>Voter Authorized</u>	<u>Actual Levied</u>	<u>Notes</u>
1994	11.500	9.794	Study period begins with city authorized to levy 11.5 mills, including a 0.5 mill parks millage passed 5/7/91 and a 1 mill public safety millage passed 11/7/95, but levying only 9.794 because of Headlee tax rate rollbacks.
1995	11.500	9.794	
1996	11.500	9.794	
1997	14.500	10.165	3 mill refuse collection millage added pursuant to PA 298 of 1917
1998	14.500	10.165	
1999	14.500	10.165	Parks millage renewed 11/4/97
2000	14.500	10.165	
2001	14.500	10.165	
2002	14.500	10.222	
2003	14.500	10.222	
2004	14.500	10.222	
2005	14.500	9.522	
2006	14.978	10.022	Public safety millage increased to 1.5 mills at 11/4/03 election
2007	14.978	10.022	
2008	14.978	10.022	
2009	14.978	10.022	Parks millage renewed 8/5/08
2010	14.978	10.022	
2011	18.978	10.618	4 mill public information millage passed 6/2011
2012	20.678	12.351	New 1.7 mill public safety millage passed 11/8/11
2013	20.678	12.354	
2014	20.678	12.381	
2015	22.678	14.391	2 mill road millage passed 11/4/14
2016	22.676	14.327	Public safety millage renewed 11/3/15
2017	22.676	14.657	
2018	22.676	14.579	
2019	25.405	17.191	Parks millage renewed 8/7/18; road millage renewed 11/6/18
2020	25.405	17.012	

Notes: Actual levied is below authorized amount due to Headlee rollbacks and to governments choosing to levy less than millage allows
 The Home Rule City Act puts a taxing limit of 20 mills on cities, but some dedicated millages are not subject to that limit
 Source: Oakland County Equalization Department, Form L-4029 for years 1996 to 2020

Future Data: What to Expect Moving Forward

Since the Headlee Amendment tax limitations present a policy that bases tax revenue growth on new development, it is helpful to model what future tax revenue growth might look like with the current tax limitations. This estimation assumes that inflation will continue to be around two percent per year and uses the average of the past eight years (2013 to 2020) additions and losses to estimate scenarios out to 2030.

Chart 14 provides an example of estimated growth in revenues in Ottawa County with no limitations and with both tax limitations based on these assumptions. In this estimation, TV would grow 3.2 percent per year from 2020 to 2030 and SEV would grow 5.2 percent annually. This leads to revenue growing 5.2 percent per year with no tax limitations and 2.8 percent per year with both tax limitations.

If Ottawa County continues its current growth patterns, the tax base is increasingly divorced from property value as TV growth is restrained. Minus policy changes to change tax rates, revenues will be limited moving forward. It is important to note that, though Ottawa County is a fast-growing county, its growth is still more restrained than growth will be in

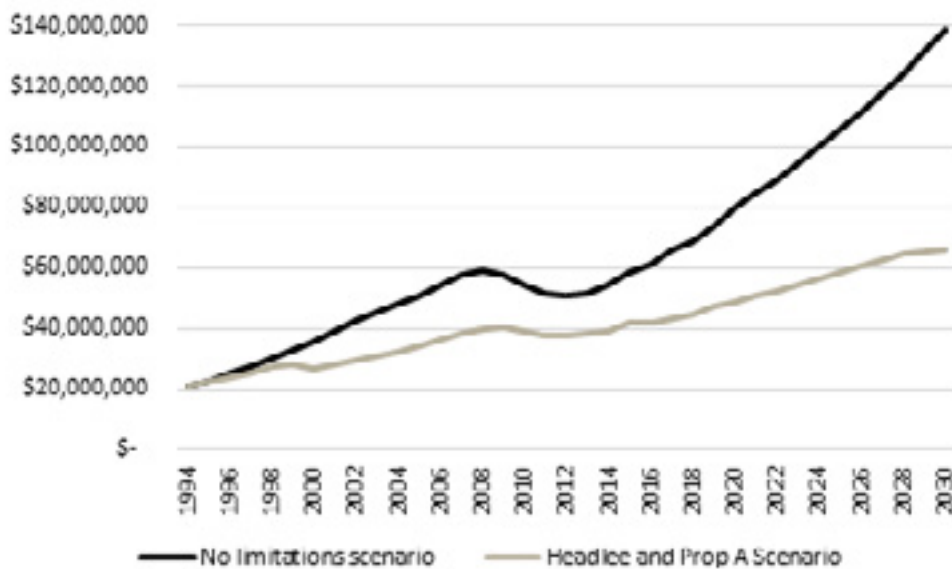
some of its fastest-growing local governments.

Chart 15 illustrates those same assumptions and estimations in the City of Pontiac (Oakland County), which represents a built-out urban city with a declining population. In this estimation, TV would grow 1.7 percent annually from 2020 to 2030 and SEV would grow 4.4 percent yearly. This leads to revenue growth of 4.4 percent with no limitations, but only 1.7 percent with both limitations. It is interesting to note that with the assumptions made about inflation and growth, no scenario has recovered to its peak level by 2030.

Finally, **Chart 16** shows how estimated revenues might grow in Oakland Township (Oakland County), which is a growing exurb community in Southeast Michigan. This estimation shows growing tax revenues in the scenario with limitations, though they grow considerably more slowly than the no limitations scenario. This helps to enforce the point that the tax limitations are not as restrictive in communities that have land to develop and room for new growth. In this estimation, Oakland Township sees growth of 4.3 and 5.9 percent yearly in TV and SEV respectively from 2020 to 2030. With these growth patterns, revenues with no limitations would grow 5.9 percent annually and revenues with both limitations would be expected to grow 3.5 percent yearly.

Chart 14

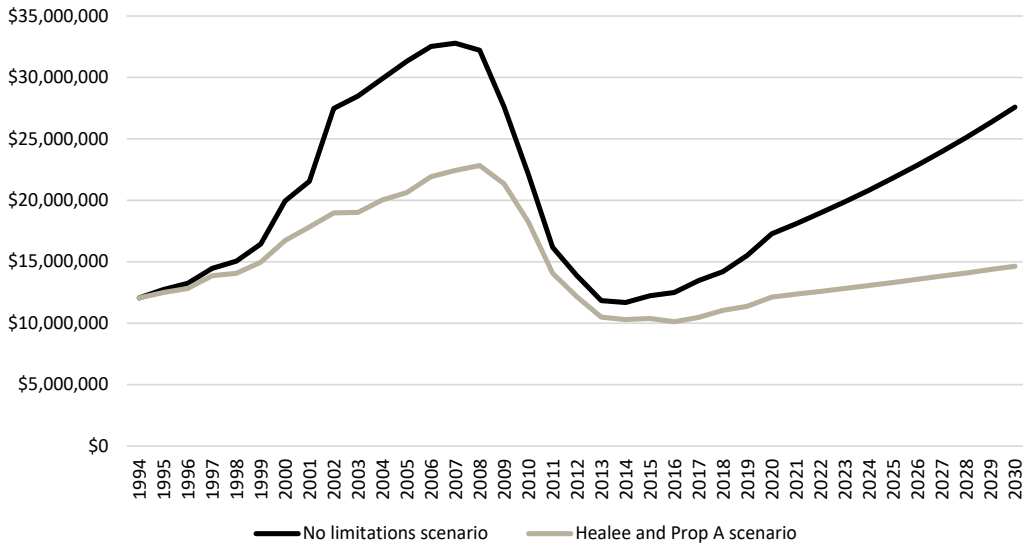
Estimated Growth in Scenario Revenues in Ottawa County to 2030



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 15

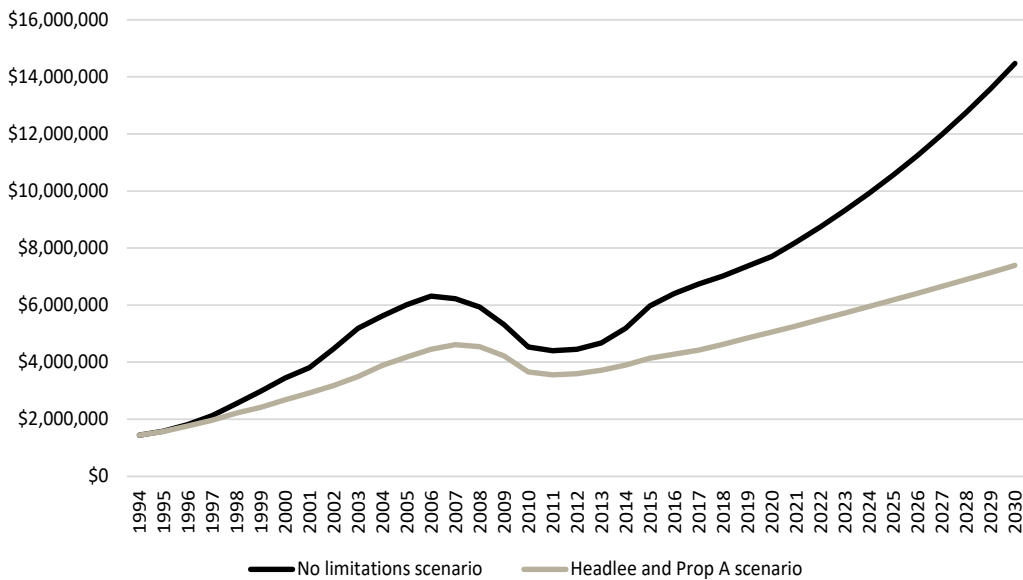
Estimated Growth in Scenario Revenues in Pontiac (Oakland County) to 2030



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 16

Estimated Growth in Scenario Revenues in Oakland Township to 2030



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Also, they are done with a model that uses an unchanging tax rate, so they do not reflect reality in the past or into the future. But it is important to see that the tax limitations restrain growth the most in the urban area and lead to significantly less revenue growth in all communities than the scenarios with no limitations.

Criteria for Evaluating Effective Tax Policy

The need and efficacy of limits on property tax revenues will no doubt be judged differently by taxpayers than by local government officials trying to fund services in their communities. The key to good tax policy is that it meets the needs of both taxpayers and government.

In general, effective tax policy for local government provides:

1. Revenues that can grow with the local economy and are adequate to support desired public services;
2. Revenues that are stable and predictable; and
3. The ability to minimize the downside risk associated with declining property values.

Effective tax policy for taxpayers provides:

1. Limits on growth in tax burden;
2. Predictability in year-to-year tax bills;
3. Easily understandable process to determine property value and what taxes are owed; and
4. Equity with other taxpayers.

It is no easy feat to find a scenario where tax limitations work to constrain growth in the tax burden for taxpayers while also providing revenues that align with the local economy. If tax revenues are not growing (or are even declining as they did during the Great Recession), it is difficult to adjust local government budgets immediately to reflect lower revenue levels. During times of fiscal hardship, less property tax burden is good for taxpayers, but it can be difficult for local government budgets to adjust quickly to declining revenues.

In general, tax limitations provide more predictability for local governments and taxpayers as revenues are not just responding to the market. However, if limitations restrain taxes too much, then they may not provide stability or adequacy. Michigan's tax limitations increased the difficulty in understanding the property tax system by instituting a modified

acquisition value system with an assessment limit on top of a system that already has a levy limit. The tax limitation instituted with Proposal A has also impacted equity as it treats taxpayers in similar properties differently based on how long they have owned their properties.

Local Government Criteria

The first thing local governments need from their tax policy is revenues that can grow with the local economy and are adequate to meet funding needs. Adequacy is subjective and depends on the level of services desired by a community (e.g., urban communities may demand more services than their rural counterparts). Tax revenues reflect both the tax base and the tax rate. Local government officials' subjective sense of the inadequacy of the tax base caused by slow annual growth rates may be reflected in the frequency with which they have sought to increase tax rates to compensate in many communities.

Revenues that are stable and predictable are another criterion of effective tax policy for local governments. Looking at the charts above, the scenario with no limitations would provide much more revenue overall, but less stability as it responds to the market. The scenarios with tax limitations provide stability and predictability as the limits help local governments to know what their revenues will be with more certainty.

The scenario with both the Headlee Amendment and Proposal A (tan lines) best minimizes the downside risk because it provides local governments with a reservoir of untapped revenue that can continue to grow even if property values start declining like they did during the Great Recession. This helps to explain why the Great Recession did not have as much of an impact outside of Southeast Michigan; communities had enough of a gap between TV and SEV that revenues could keep growing and protect local governments from the large drops experienced in SEV. The depth by which the recession depressed property values in Southeast Michigan was so great as to erase the gap and push down TV.

Without the Great Recession, the Headlee Amendment and Proposal A scenario (tan line) and the Headlee Amendment scenario (teal line) would probably have led to similar levels of revenues with just the Headlee Amendment scenario leading to slightly more revenues in some communities and both tax limitations leading to slightly more revenues in other communities. The Great Recession and large property value declines that accompanied it, made the line with both tax limitations (tan) lead to more revenues by the end of the period than the Headlee Amendment line (teal) for just about every community included in the model.

Taxpayer Criteria

Michigan's tax limitations have served their purpose of limiting growth in the tax burden for taxpayers. The data shows the scenario with no tax limitations leads to unrestricted property tax growth in many communities and would lead to large yearly tax increases for many taxpayers. It would also have led to larger declines in taxes owed during the Great Recession, but overall would have led to significantly higher amounts paid in property taxes.

Tax limitations have also increased the predictability of tax base growth; this is especially true for the scenario with Proposal A as it provides taxpayers with the guarantee that their taxes will not increase faster than inflation. In the Headlee Amendment scenario, individual taxpayers could see their taxes increase more than inflation, but without millage override votes, this line is restrained by the substantial decrease in the authorized millage rate over the period.

The tax limitations have diminished control for non-residential and non-agricultural property owners. As discussed in more detail below, many local government officials have reacted to the diminished tax base with little growth potential by seeking tax rate increases. Businesses do not have a vote in those millage rate elections.

As far as understandability, the tax limitations can serve to confuse taxpayers, especially since they are layered on top of each other and limit both property tax levies and assessments. It is easy to understand the no limitations scenario – property assessed based on market value with the tax rate applied to that value, but that can lead to a fast-growing tax burden, which taxpayers do not want. It is also easy to understand a scenario with Proposal A if a homeowner stays in their property; the difficulty happens when property is sold and transferred. Any scenario with the Headlee Amendment can increase confusion because you need an understanding of additions, losses, and MRFs.

Equity also has been impacted by the tax limitations. Proposal A has affected individual taxpayers differently depending on how long they have owned their properties increasing inequity with taxpayers in similarly valued homes having very different property tax burdens. It also has created incentives to retain ownership, because property owners may experience substantial increases in their tax burdens due to the pop-ups, even when downsizing to smaller, lower valued properties.

Key Observations from Models

As is their intent, the tax limitation scenarios yield less revenue than the scenario with no tax limitations in all cases. The revenue growth rate in the scenario with no tax limitations always significantly outpaced the growth rate in both scenarios with limitations. While the scenarios with both tax limitations sometimes grew at rates slower than the Headlee Amendment scenarios in the pre-recession years, the modified acquisition value system creates reservoirs of TV that lessened the impact of lost property values during the Great Recession. This is seen most clearly in the rural communities where TV growth never declined to reflect declining SEV.

In almost all cases, the scenario with the combination of the Headlee Amendment and Proposal A tax limitations yields more revenue in recent years than the scenario with just the Headlee Amendment.^w With the length and depth of the Great Recession, the lessened tax rate rollbacks and reservoir of TV enable the additional tax limitation to have a mitigating effect on the Headlee Amendment limitation instead of a compounding effect.

For those local governments whose property values were adversely affected by the Great Recession, the annual growth rate for the scenario with both tax limitations in the post-recession period is slower than what was experienced in the pre-recession period. Those post-recession revenues are not keeping pace with the rate of inflation. The relationship between the appreciation of property values and tax revenues is diminishing.

The diminished relationship between property values and the tax base under the scenario with both tax

limitations is most pronounced for rural communities. Ownership of agricultural property changes less often than for residential, commercial, or industrial property, which is leading the TV of those properties to pop-up to SEV less frequently. Local governments with more changes in ownership experience pop-ups for those properties causing tax rate rollbacks and less than inflationary growth from their existing tax bases.

Great Recession Was a Turning Point

Without the Great Recession and the property value declines that occurred during it, the numbers might look very different. In most scenarios, the projected property tax revenues are very similar no matter the limitation (Headlee Amendment, Proposal A, or both) before the Great Recession. This varied by community, but the Great Recession and its precipitous drop in property values led to the Headlee Amendment limitations being particularly severe. This is because property values were growing significantly before the recession causing millage rates to be rolled back; once property values fell, the millage rate was already rolled back so that local governments were collecting tax revenues at much lower rates. Within this system, the end of tax rate rollups enacted in 1993 had the strongest influence on limiting taxes.

The Great Recession was a unique situation. It was the only period in recent history that saw severe property value declines.²⁶ During most recessions, property values and tax revenues stabilized, but did not decline. As it happened, the downturn was relatively long and was driven in part by the bursting of the real estate bubble with high rates of foreclosure that affected property values beyond the duration of the Great Recession as measured by economists. But for these rare circumstances, not experienced at any other time in recent history, then the combination of declining property values and Headlee Amendment tax rate rollbacks might not have been as severe.

SEMCOG's study on property tax limitations found that the effects of the Headlee Amendment accelerated a hundred-fold during the Great Recession; the historic loss in property value reset

^w The City of Sault Ste. Marie in Chippewa County in the Upper Peninsula had years when having both tax limitations led to more revenue collections, but most years, including 2014-2020, the Headlee Amendment line led to more revenue collections, and it led to more revenue collected over the entire period (by three percent). Pulaski Township (Jackson County) collected more revenue every year under the Headlee Amendment scenario than under the scenario with both limitations (collecting 18 percent more over the entire period with Headlee Amendment limitations).

the Headlee Amendment baseline at a much lower level and created a new normal for local government operations. Once the national and state economies started improving, Michigan local governments were prohibited from benefiting from the recovery.²⁷

Even though the Great Recession could not have been predicted at the time that Proposal A was passed, Proposal A served to mitigate some of the effects of the recession on property values and tax revenues. That being said, Michigan should not base future tax policy on a once-in-a-century event like the Great Recession.

Growth is Defined as New Development

The limitations restrict local governments from increasing revenues beyond inflation for any reason except for new development. This has been evidenced by the fact that communities with land to develop and additions (i.e., new development) – largely the exurb and rural communities – have done the best and seen the most revenue growth over the last 25 years. This system is not sustainable because land is a limited commodity. Large portions of Southeast Michigan are built out with no new land for development. West Michigan is growing in population and witnessing new development, but it will reach the same point as Southeast Michigan eventually.

Many urban and suburban communities are largely built out, but they have redeveloped land and revitalized neighborhoods and downtowns to invest in their communities. The problem is that they do not see tax revenue growth from this type of investment because Proposal A restricts tax revenue growth to additions and sales; increases from investment in property cannot increase TV beyond inflation. When property is sold and its assessed value is reverted to SEV, the Headlee Amendment treats that pop-up as revenue growth and requires the millage rate to be rolled back. This is preventing communities with turnover in their properties from benefitting from those sales and increases in property values.

The overall point is that the system is not sustainable if the growth of property tax revenues relies on new development. This system leaves no room for revitalization and redevelopment and encourages urban sprawl. If local governments do not see the

revenue benefits from investing in their community, it is hard to maintain that investment. This is especially problematic in Michigan's urban areas and inner-ring suburbs with little undeveloped land suitable for development. It is a problem that will reach all communities eventually.

Vibrant communities depend on tax systems that allows the communities to benefit from their own revitalization while also protecting taxpayers from unlimited growth and unpredictability in their property taxes.

Tax Base Limitations Create Pressure on Tax Rates

The tax limitations have served their purpose of restraining the tax base and creating more stability and predictability for both taxpayers and local governments. Because tax revenues are generated by applying a tax rate to a tax base, it is possible that local governments have responded to restrained tax bases by requesting voter approval to increase tax rates or levy more property taxes. This study purposefully leaves the changing tax rate out of the equation to show what changes in the tax base do to revenues with a stable tax rate.

Table 7 (on page 36) shows the total levied millage rate and the number of dedicated millages levied in selected units in 1993 and 2020. In the 12 selected units, the number of millages levied increased in eight local governments; they stayed the same in three local units; and they decreased in one local government. The total in levied millages increased in nine local units and decreased in three. The 12 selected governments went from levying 75.7 mills in 35 separate millages in 1993 to 89.1 mills in 53 separate millages in 2020.

Over 80 percent of local units in Oakland County have increased their overall tax rate since 2007.²⁸ Furthermore, a 2019 Research Council report found that 731 cities, villages, and townships in Michigan levied dedicated property tax millages in support of roads.²⁹ In the May 2021 general election, 79 percent of the more than 140 local tax-raising proposals passed.³⁰ It appears, at least anecdotally, that suppression of the tax base has led to voters being asked more often to approve local tax rate increase proposals, including Headlee overrides and dedicated millages. One specific example is

Farmington Hills (box on page 27-29) where the number of dedicated millages grew substantially from 1996 to 2020.

These dedicated millages do not include ad valorem special assessments, which have grown over the

years and in 2019 were levied by 11 percent of all local governments and brought those governments \$195.2 million in revenue.³¹

Constraining the tax base puts more pressure on

Table 7
1993 and 2020 Tax Rates in Selected Units

		<u>1993</u>	<u>2020</u>
Oakland County:			
Oakland Township	Sum levied	3.271	5.721
	# of millages	6	12
Royal Oak City	Sum levied	12.536	16.631
	# of millages	4	7
Ottawa County:			
Ottawa County	Sum levied	4.501	5.432
	# of millages	2	5
Park Township	Sum levied	2.758	2.761
	# of millages	5	6
Jackson County:			
Grass Lake Township	Sum levied	1.741	1.878
	# of millages	2	2
Jackson City	Sum levied	8.730	8.635
	# of millages	2	2
Leelanau County:			
Leelanau County	Sum levied	4.954	4.400
	# of millages	3	4
Leland Township	Sum levied	1.002	3.483
	# of millages	2	5
Lenawee County:			
Ogden Township	Sum levied	2.987	3.750
	# of millages	2	3
Tecumseh City	Sum levied	11.050	14.270
	# of millages	1	1
Chippewa County:			
Drummond Island Township	Sum levied	3.953	4.606
	# of millages	3	4
Sault Ste. Marie City	Sum levied	18.177	17.466
	# of millages	3	2
Totals:			
	Sum levied	75.661	89.130
		35	53

Note: excludes debt and pension millages

Property Tax Limitations and Policy Options

the tax rate.

Michigan tax limitations are unique and particularly restrictive. States generally use one of three different types of property tax limits – rate limit, assessment limit, levy limit – but Michigan uses all three. Additionally, Michigan's assessment and levy limits both restrict annual increases to the rate of inflation, which is lower than some other states' restrictions.

This section discusses some policy options aimed at easing these restrictions to allow local governments to see at least inflationary year-to-year growth in property tax revenues while maintaining the goals for taxpayers. It is important to remember, though, that property taxes are not the answer to all of Michigan's local governments' revenue problems and what local governments may need is more tax options to supplement property taxes, not greater growth in property tax revenues.

Diversify Local Revenue Sources and Regionalize Service Provision

One of the problems with the current system is that local governments are overly dependent on property taxes and no changes to the current limitations are going to fix that.

An ideal tax structure produces revenue sufficient to provide services, with components that respond to economic growth and components that are stable through the economic fluctuations. It does not create administrative burdens and does not disrupt economic choices. Property taxes provide a stable revenue source, especially in Michigan with the modified acquisition value system, but they are burdensome because they are the primary revenue source for all types of local governments and they are restrained from responding to economic growth by Michigan's tax limitations.

Many other states afford their local units of government several tax options – general and selective sales, income, transportation, various tourism, and others – to capture economic activity and to create diverse revenue streams.³³ Michigan allows cities

to levy a local income tax and allows Detroit and some counties to levy certain other local taxes, but otherwise restricts local governments from levying a diverse set of taxes.

Providing local governments with more access to local-option taxes can be part of the solution to the problems inherent in the local government finance structure. A tax structure with options to add sales and income taxes would better achieve a more ideal tax structure. Each can raise significant revenues on its own. Diversity would allow for growth and stability.

Sales (and use) taxes capture the economic activity that defines many regions. Northern counties would benefit from tourism activity and urban counties from the retail trade.

Income taxes capture the economic strength of each county. It rewards successful business attraction and community development.

The peril of a diversified tax structure is that the smaller the taxing jurisdiction, the greater the economic competition and administrative cost. Few local governments would want to be the first to levy a sales or income tax lest it cause an outmigration of business and/or cause changes in purchasing habits. Michigan's constitutional requirements for voter approval of new taxes make this a gambit few elected officials are eager to engage in and precludes the state from mandating a tax be levied by all cities, townships, or counties.

Thus, state policymakers should consider reforming the state's revenue sharing program as a remedy to the woes of the property tax system.³⁴ Revenue sharing was originally adopted in place of allowing for local-option taxes. It served to provide local governments with revenues from diverse sources while centralizing the revenue raising function at the state level. This system works well when it is fully funded. The problems arise when the state faces budget shortfalls, as it has done repeatedly since 2000, and cuts funding to local governments to meet its own funding needs. The state has cut the statutory portion of the revenue sharing program so much over

Property Tax Limitations in Other States

Michigan is not the only state that limits growth in property tax revenues. **Table 8** highlights what states have property tax limitations as of 2019. Michigan is one of only seven states that have adopted all three types of property tax limitations.

Table 8
Property Tax Limitations across the States, 2019

	Rate Limit	Levy Limit	Assessment Limit		Rate Limit	Levy Limit	Assessment Limit
Alabama	x	x		Montana	x	x	
Alaska	x	x		Nebraska	x	x	
Arizona	x	x	x	Nevada	x	x	
Arkansas	x	x	x	New Hampshire			
California	x		x	New Jersey		x	
Colorado	x	x	x	New Mexico	x	x	x
Connecticut		x	x	New York		x	x
Delaware	x	x		North Carolina	x		
District of Columbia	x	x	x	North Dakota	x	x	
Florida	x		x	Ohio	x	x	
Georgia	x		x	Oklahoma	x		x
Hawaii			x	Oregon	x		x
Idaho	x	x		Pennsylvania	x	x	
Illinois	x	x		Rhode Island		x	
Indiana	x	x		South Carolina	x		x
Iowa	x		x	South Dakota	x	x	
Kansas		x		Tennessee			
Kentucky	x	x		Texas	x	x	x
Louisiana	x	x		Utah	x	x	
Maine		x		Vermont			
Maryland			x	Virginia		x	
Massachusetts	x	x		Washington	x	x	
Michigan	x	x	x	West Virginia	x	x	
Minnesota		x		Wisconsin		x	
Mississippi		x	x	Wyoming		x	
Missouri	x	x		Total	19	20	13

Source: Lincoln Institute of Land Policy, Property Tax Database: Tax Limits, <https://www.lincolninst.edu/research-data/data-toolkits/significant-features-property-tax/access-property-tax-database/property-tax-limits>

the years that many governments no longer receive any statutory revenue sharing dollars and the funds that governments do receive have more to do with the level of funding received in prior years than any measure of current needs.

A diversified tax structure with or without state revenue sharing is not a panacea but could be combined with other reforms, like regionalizing service provision, to improve the local finance system.³⁵ Building off the idea of regionalizing services, any new local revenues should be authorized at a regional level to promote regional governance and tax base sharing.

None of these options alone – providing access to more local-option taxes, providing more services at the regional level, reforming statutory revenue sharing – will fix Michigan’s broken municipal finance system. Taken together, they may provide a foundation for a more stable finance system that provides services efficiently and effectively and allows local governments to access revenues connected to their economy. These options can also be combined with changes to limitations in the current property tax system.

Eliminate Headlee Amendment Limitation

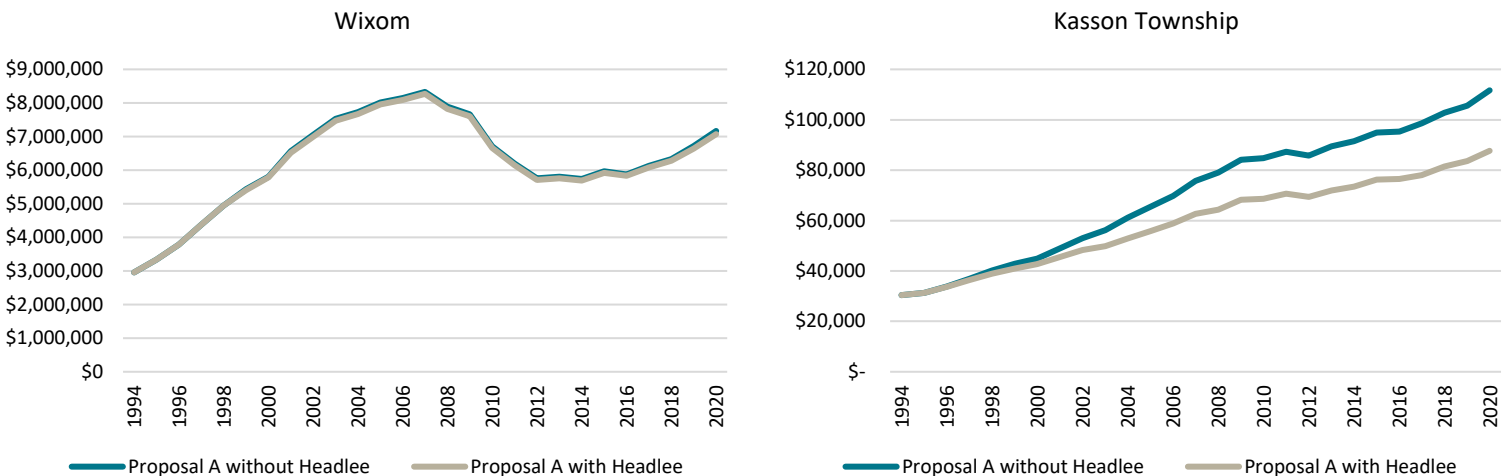
Eliminating the Headlee Amendment limitation on

jurisdiction-wide tax revenue growth was never considered as a public option when Proposal A passed in 1994. The tax limitation aspect of Proposal A was added almost as an after-thought and the idea of replacing the Headlee Amendment levy limitation with this new assessment limitation was never brought up in public discussions.

Once Proposal A was adopted with its cap on TV growth, the need for Headlee tax rate rollbacks became less clear. Growth in TV comes from three different sources: 1) appreciation, 2) uncapping TV at the time of sale, and 3) new construction. The modified acquisition value system constrains appreciation to the rate of inflation. When ownership of property is transferred, TV is uncapped and allowed to pop up to SEV. The pop-ups trigger tax rate rollbacks across a jurisdiction’s tax roll so the net result is an inflationary growth in tax revenues. New construction is the real indicator of how much revenue can grow more than inflation. If no new construction has occurred in a local government, property tax revenue may not increase by more than inflation, no matter how much TV increases year-to-year.³⁶ If the Headlee Amendment levy limit was eliminated, then individual property owners would still have their yearly tax bill limited to inflation, but property tax millage rates would not be rolled back when property

Chart 17

Proposal A Scenario Data with and without Headlee Amendment, 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Table 9

Proposal A Scenario Data with and without Headlee Amendment Limitations, Selected Governments and Years 1994 to 2020

(Dollars in Thousands)

	<u>Taxable Value</u>	<u>Tax Rate (with Headlee)</u>	<u>Tax Rate (w/o Headlee)</u>	<u>Tax Revenue (with Headlee)</u>	<u>Tax Revenue (w/o Headlee)</u>
<i>Ottawa County:</i>					
1994	\$ 4,250,839.6	4.940	4.940	\$ 20,999.1	\$ 20,999.1
2000	\$ 5,387,465.3	4.892	4.940	\$ 26,355.7	\$ 26,614.7
2005	\$ 8,503,786.1	4.034	4.940	\$ 34,308.0	\$ 42,008.7
2010	\$ 9,609,215.7	4.031	4.940	\$ 38,730.6	\$ 47,469.5
2015	\$10,293,514.7	4.031	4.940	\$ 41,488.7	\$ 50,850.0
2020	\$12,472,360.4	3.932	4.940	\$ 49,037.8	\$ 61,613.5
Total (1994-2020)				\$ 942,830.0	\$1,117,959.0
<i>Lenawee County:</i>					
1994	\$ 1,536,017.7	5.750	5.750	\$ 8,832.1	\$ 8,832.1
2000	\$ 2,186,858.8	5.674	5.750	\$ 12,407.9	\$ 12,574.4
2005	\$ 2,930,158.2	5.437	5.750	\$ 15,932.2	\$ 16,848.4
2010	\$ 3,340,339.3	5.387	5.750	\$ 17,992.8	\$ 19,207.0
2015	\$ 3,197,604.5	5.387	5.750	\$ 17,224.0	\$ 18,386.2
2020	\$ 3,643,542.8	5.387	5.750	\$ 19,626.0	\$ 20,950.4
Total (1994-2020)				\$ 412,544.9	\$ 433,662.1
<i>Grand Haven (Ottawa County):</i>					
1994	\$ 280,878.6	16.250	16.250	\$ 4,564.3	\$ 4,564.3
2000	\$ 373,159.2	16.130	16.250	\$ 6,019.0	\$ 6,063.8
2005	\$ 473,082.4	15.863	16.250	\$ 7,504.6	\$ 7,687.6
2010	\$ 550,086.5	15.844	16.250	\$ 8,715.6	\$ 8,938.9
2015	\$ 552,384.3	15.844	16.250	\$ 8,752.0	\$ 8,976.2
2020	\$ 639,235.9	15.198	16.250	\$ 9,715.3	\$ 10,387.6
Total (1994-2020)				\$ 202,484.6	\$ 207,385.8
<i>Wixom (Oakland County):</i>					
1994	\$ 328,722.3	9.000	9.000	\$ 2,958.5	\$ 2,958.5
2000	\$ 645,537.8	8.958	9.000	\$ 5,782.9	\$ 5,809.8
2005	\$ 890,957.4	8.933	9.000	\$ 7,958.5	\$ 8,018.6
2010	\$ 746,155.0	8.933	9.000	\$ 6,665.0	\$ 6,715.4
2015	\$ 663,244.7	8.933	9.000	\$ 5,924.4	\$ 5,969.2
2020	\$ 796,073.3	8.886	9.000	\$ 7,073.7	\$ 7,164.7
Total (1994-2020)				\$ 166,857.3	\$ 168,004.6

Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

MICHIGAN'S OVERLAPPING PROPERTY TAX LIMITATIONS

Table 9
Continued

	Taxable Value	Tax Rate (with Headlee)	Tax Rate (w/o Headlee)	Tax Revenue (with Headlee)	Tax Revenue (w/o Headlee)
<i>Farmington Hills (Oakland County):</i>					
1994	\$ 2,593,603.2	10.500	10.500	\$ 27,232.8	\$ 27,232.8
2000	\$ 3,336,712.5	10.426	10.500	\$ 34,789.8	\$ 35.0
2005	\$ 4,120,595.6	10.261	10.500	\$ 42,280.0	\$ 43.3
2010	\$ 3,617,671.0	10.261	10.500	\$ 37,119.6	\$ 38.0
2015	\$ 3,118,115.3	10.261	10.500	\$ 31,993.9	\$ 32.7
2020	\$ 3,589,428.2	9.865	10.500	\$ 35,409.0	\$ 37.7
Total (1994-2020)				\$ 954,585.8	\$ 975.2
<i>Summit Township (Jackson County):</i>					
1994	\$ 302,431.9	1.000	1.000	\$ 302.4	\$ 302.4
2000	\$ 412,340.4	0.987	1.000	\$ 406.8	\$ 412.3
2005	\$ 568,553.4	0.950	1.000	\$ 539.8	\$ 568.5
2010	\$ 612,233.2	0.947	1.000	\$ 579.9	\$ 612.2
2015	\$ 594,294.7	0.947	1.000	\$ 562.9	\$ 594.3
2020	\$ 679,811.0	0.932	1.000	\$ 633.7	\$ 679.8
Total (1994-2020)				\$ 13,603.7	\$ 14,216.3
<i>Cambridge Township (Lenawee County):</i>					
1994	\$ 115,953.8	2.500	2.500	\$ 289.9	\$ 289.9
2000	\$ 216,660.3	2.340	2.500	\$ 507.0	\$ 541.7
2005	\$ 297,374.4	2.227	2.500	\$ 662.3	\$ 743.4
2010	\$ 351,465.0	2.204	2.500	\$ 774.7	\$ 878.7
2015	\$ 330,168.4	2.204	2.500	\$ 727.7	\$ 825.4
2020	\$ 371,249.3	2.200	2.500	\$ 816.6	\$ 928.1
Total (1994-2020)				\$ 16,992.6	\$ 18,854.2
<i>Kasson Township (Leelanau County):</i>					
1994	\$ 30,374.0	1.000	1.000	\$ 30.4	\$ 30.4
2000	\$ 44,954.0	0.950	1.000	\$ 42.7	\$ 45.0
2005	\$ 65,429.9	0.854	1.000	\$ 55.9	\$ 65.4
2010	\$ 84,772.8	0.810	1.000	\$ 68.7	\$ 84.8
2015	\$ 94,971.9	0.803	1.000	\$ 76.3	\$ 95.0
2020	\$ 111,667.3	0.785	1.000	\$ 87.7	\$ 111.7
Total (1994-2020)				\$ 1,598.9	\$ 1,902.0
<i>Pickford Township (Chippewa County):</i>					
1994	\$ 18,633.3	4.650	4.650	\$ 86.6	\$ 86.6
2000	\$ 25,749.1	4.507	4.650	\$ 116.0	\$ 119.7
2005	\$ 36,175.9	4.144	4.650	\$ 149.9	\$ 168.2
2010	\$ 44,930.1	4.036	4.650	\$ 181.3	\$ 208.9
2015	\$ 47,676.8	4.036	4.650	\$ 192.4	\$ 221.7
2020	\$ 56,951.0	4.032	4.650	\$ 229.7	\$ 264.8
Total (1994-2020)				\$ 4,263.6	\$ 4,759.2

is sold and tax bases pop back up to SEV (market value).

Table 9 (on page 39-40) compares two revenue scenarios in selected local governments. First it shows what the tax rate and revenue would be with both Proposal A and the Headlee Amendment limitations. The second scenario used TV, but without the Headlee Amendment to rollback the tax rates. Like the scenarios above, all tax rates are kept stable at the 1993 authorized millage rate with the only change in rate being due to MRFs.

Using TV without the Headlee Amendment always leads to more revenue collection than both limitations together, though the difference is small in some communities. **Chart 17** (on page 38) includes two charts to show the variance of the effect of eliminating the Headlee Amendment rollbacks. In Wixom (Oakland County), eliminating the Headlee Amendment only leads to 0.7 percent more revenue being collected over the entire 26-year period and the lines are almost identical. Wixom was a fast-growing community over the period of the study; the fact that eliminating the Headlee Amendment limitation does not have a large impact confirms the fact that the tax limitations work well in communities that are growing in population and new development. In Kasson Township (Leelanau County), eliminating the Headlee Amendment leads to 19 percent more revenue collected over the period.

Eliminating the Headlee Amendment is easier said than done. First, there is not a lot of political will to alter or eliminate the Headlee Amendment. Second, it is a constitutional restriction on the property tax and would require changing the Constitution. Constitutional amendments can only be brought before voters in one of two ways: 1) legislatively referred with two-thirds support from the state legislature (can be introduced in either house) or 2) citizens initiative with valid signatures equal to at least 10 percent of the votes cast in the last gubernatorial election. If either of those things happen, then it would be voted on by all registered voters.

Reinstate Headlee Rollups

According to a study by the Lincoln Institute of Land Policy, Michigan is unique in the strictness of its levy

limit. In most states with levy limits, the state restricts annual increases in a jurisdiction's property tax collections with exclusions for new development and debt service. These levy limits are operationalized by requiring local governments to adjust their millage rates when the property tax base increases rapidly (i.e., similar to Headlee rollbacks). But if the property tax base grows slowly or declines, local governments in most other states can raise their millage rates as long as their total collections do not grow faster than allowed under the state's levy limit.³⁷ Michigan's levy limit requires reductions in millage rates when the property tax base grows rapidly but does not allow for increases in millage rates when the property tax base grows slowly or declines without a Headlee override vote of the people.

Statewide real per capita property tax revenues declined nearly 20 percent from 2007 to 2014 in Michigan, and values were still 18 percent below their 2007 peak in 2017; in contrast, real per capita property tax revenues fell only 6.7 percent nationally from their 2009 peak and had fully recovered by 2017.³⁸ **Table 10** (on pages 42-43) shows that allowing for Headlee rollups, especially during the property value declines experienced during the Great Recession, would have allowed for rates to increase up to their originally authorized millage and would have brought in more property tax revenues during this period.

Prior to 1993, there was no cap on the MRF. When property values were declining (or even just not rising as fast as inflation), the MRF could be greater than one and millage rates could be rolled up. These millage rate rollups would allow local governments to recover some of their lost millage rate and were never allowed to increase the rate above the originally authorized millage rate.

Table 10 (on pages 42-43) shows data from selected local governments under the scenario that reflects current law with both property tax limitations in place. Again, all tax rate data reflects the 1993 authorized millage rate and does not account for any changes in the millage rate outside of Headlee rollbacks or rollups. It shows the MRFs, which were calculated based on year-to-year changes in property values and additions and losses in each county, and how

MICHIGAN'S OVERLAPPING PROPERTY TAX LIMITATIONS

Table 10

Tax Data with and without Cap on Millage Reduction Fraction, Selected Governments and Years 1994 to 2020
(Dollars in Thousands)

	Taxable Value	Millage Reduction Fraction		Tax Rate		Tax Revenue	
		(cap)	(no cap)	(cap)	(no cap)	(cap)	(no cap)
<i>Ottawa County:</i>							
1994	\$ 4,250,839.6			4.940	4.940	\$ 20,999.1	\$ 20,999.1
2000	\$ 5,387,465.3	1.000	1.109	4.892	4.940	\$ 26,355.7	\$ 26,614.1
2005	\$ 8,503,786.1	0.998	0.998	4.034	4.074	\$ 34,308.0	\$ 34,644.3
2010	\$ 9,609,215.7	1.000	1.047	4.031	4.539	\$ 38,730.6	\$ 43,618.8
2015	\$10,293,514.7	1.000	1.001	4.031	4.940	\$ 41,488.7	\$ 50,850.0
2020	\$12,472,360.4	0.992	0.992	3.932	4.849	\$ 49,037.8	\$ 60,484.0
Total (1994-2020)						\$ 942,830.0	\$1,048,858.8
<i>Lenawee County:</i>							
1994	\$ 1,536,017.7			5.750	5.750	\$ 8,832.1	\$ 8,832.1
2000	\$ 2,186,858.8	0.999	0.999	5.674	5.674	\$ 12,407.9	\$ 12,407.9
2005	\$ 2,930,158.2	0.992	0.992	5.437	5.437	\$ 15,932.2	\$ 15,932.2
2010	\$ 3,340,339.3	1.000	1.040	5.387	5.750	\$ 17,992.8	\$ 19,207.0
2015	\$ 3,197,604.5	1.000	1.019	5.387	5.750	\$ 17,224.0	\$ 18,386.2
2020	\$ 3,643,542.8	1.000	1.006	5.387	5.750	\$ 19,626.0	\$ 20,950.4
Total (1994-2020)						\$ 412,544.9	\$ 426,899.8
<i>Grand Haven (Ottawa County):</i>							
1994	\$ 280,878.6			16.250	16.250	\$ 4,564.3	\$ 4,564.3
2000	\$ 373,159.2	0.997	0.997	16.130	16.130	\$ 6,019.0	\$ 6,019.0
2005	\$ 473,082.4	1.000	1.002	15.863	15.894	\$ 7,504.6	\$ 7,519.0
2010	\$ 550,086.5	1.000	1.040	15.844	16.250	\$ 8,715.6	\$ 8,938.9
2015	\$ 552,384.3	1.000	1.010	15.844	16.250	\$ 8,752.0	\$ 8,976.2
2020	\$ 639,235.9	0.980	0.980	15.198	15.587	\$ 9,715.3	\$ 9,964.0
Total (1994-2020)						\$ 202,484.6	\$ 205,563.4
<i>Wixom (Oakland County):</i>							
1994	\$ 328,722.3			9.000	9.000	\$ 2,958.5	\$ 2,958.5
2000	\$ 645,537.8	1.000	1.002	8.958	8.974	\$ 5,782.9	\$ 5,793.2
2005	\$ 890,957.4	1.000	1.024	8.933	9.000	\$ 7,958.5	\$ 8,018.6
2010	\$ 746,155.0	1.000	1.144	8.933	9.000	\$ 6,665.0	\$ 6,715.4
2015	\$ 663,244.7	1.000	1.014	8.933	9.000	\$ 5,924.4	\$ 5,969.2
2020	\$ 796,073.3	0.999	0.999	8.886	8.953	\$ 7,073.7	\$ 7,127.1
Total (1994-2020)						\$ 166,857.3	\$ 167,819.2

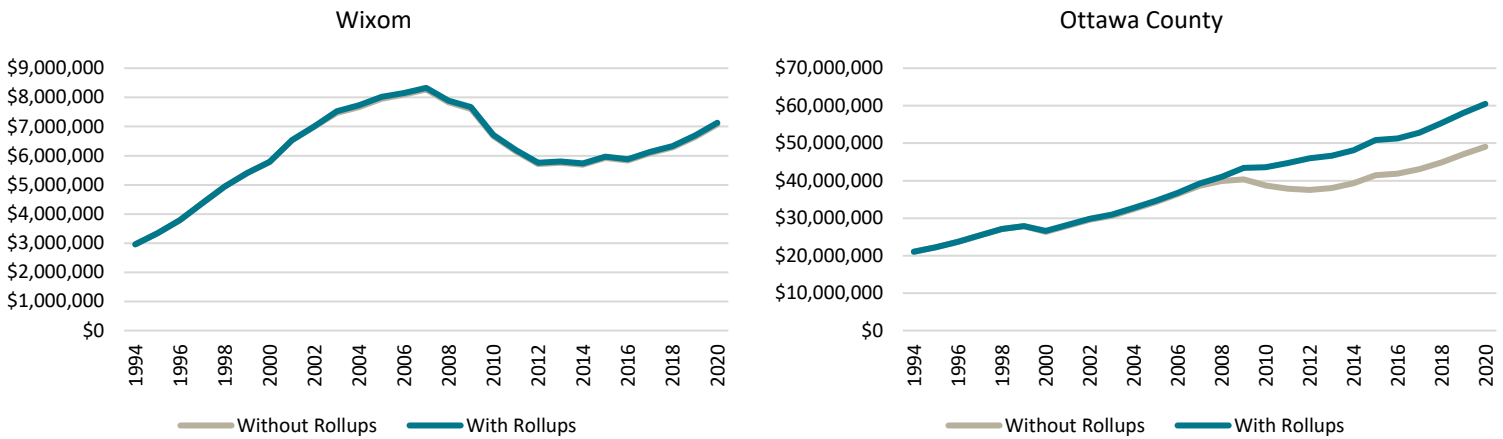
Table 10 Continued

	Taxable Value	Millage Reduction Fraction		Tax Rate		Tax Revenue	
		(cap)	(no cap)	(cap)	(no cap)	(cap)	(no cap)
<i>Farmington Hills (Oakland County):</i>							
1994	\$ 2,593,603.2			10.500	10.500	\$ 27,232.8	\$ 27,232.8
2000	\$ 3,336,712.5	0.996	0.996	10.426	10.426	\$ 34,789.8	\$ 34,789.7
2005	\$ 4,120,595.6	1.000	1.003	10.261	10.296	\$ 42,280.0	\$ 42,423.8
2010	\$ 3,617,671.0	1.000	1.149	10.261	10.500	\$ 37,119.6	\$ 37,985.5
2015	\$ 3,118,115.3	1.000	1.006	10.261	10.500	\$ 31,993.9	\$ 32,740.2
2020	\$ 3,589,428.2	0.989	0.989	9.865	10.095	\$ 35,409.0	\$ 36,235.0
Total (1994-2020)						\$ 954,585.8	\$ 966,409.9
<i>Summit Township (Jackson County):</i>							
1994	\$ 302,431.9			1.000	1.000	\$ 302.4	\$ 302.4
2000	\$ 412,340.4	1.000	1.000	0.987	0.987	\$ 406.8	\$ 406.8
2005	\$ 568,533.4	0.990	0.990	0.950	0.950	\$ 539.8	\$ 539.8
2010	\$ 612,233.2	1.000	1.054	0.947	1.000	\$ 579.9	\$ 612.2
2015	\$ 594,294.7	1.000	1.012	0.947	1.000	\$ 562.9	\$ 594.3
2020	\$ 679,811.0	0.995	0.995	0.932	0.984	\$ 633.7	\$ 669.1
Total (1994-2020)						\$ 13,603.7	\$ 14,007.6
<i>Cambridge Township (Lenawee County):</i>							
1994	\$ 115,953.8			2.500	2.500	\$ 289.9	\$ 289.9
2000	\$ 216,660.3	0.956	0.956	2.340	2.342	\$ 507.0	\$ 507.5
2005	\$ 297,374.4	0.989	0.989	2.227	2.302	\$ 662.3	\$ 684.6
2010	\$ 351,464.9	1.000	1.025	2.204	2.404	\$ 774.7	\$ 844.7
2015	\$ 330,168.4	1.000	1.049	2.204	2.500	\$ 727.8	\$ 825.4
2020	\$ 371,249.3	0.998	0.998	2.200	2.495	\$ 816.6	\$ 926.2
Total (1994-2020)						\$ 16,992.6	\$ 18,315.2
<i>Kasson Township (Leelanau County):</i>							
1994	\$ 30,374.0			1.000	1.000	\$ 30.4	\$ 30.4
2000	\$ 44,954.0	0.993	0.993	0.950	0.950	\$ 42.7	\$ 42.7
2005	\$ 65,429.9	0.988	0.988	0.854	0.854	\$ 55.9	\$ 55.9
2010	\$ 84,772.8	1.000	1.001	0.810	0.811	\$ 68.7	\$ 68.8
2015	\$ 94,971.9	1.000	1.004	0.803	0.857	\$ 76.3	\$ 81.3
2020	\$ 111,667.3	0.992	0.992	0.785	0.846	\$ 87.7	\$ 94.4
Total (1994-2020)						\$ 1,598.9	\$ 1,646.8
<i>Pickford Township (Chippewa County):</i>							
1994	\$ 18,633.3			4.650	4.650	\$ 86.6	\$ 86.6
2000	\$ 25,749.1	0.994	0.994	4.507	4.507	\$ 116.0	\$ 116.0
2005	\$ 36,175.9	0.977	0.977	4.144	4.144	\$ 149.9	\$ 149.9
2010	\$ 44,930.1	0.998	0.998	4.036	4.036	\$ 181.3	\$ 181.3
2015	\$ 47,676.8	1.000	1.015	4.036	4.341	\$ 192.4	\$ 207.0
2020	\$ 56,951.0	0.999	0.999	4.032	4.367	\$ 229.7	\$ 248.7
Total (1994-2020)						\$ 4,263.6	\$ 4,392.7

Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

Chart 18

Headlee Amendment and Proposal A Scenario Revenue Data with and without Millage Rate Rollups, 1994 to 2020



Source: Michigan Department of Treasury, SEV and TV data from reports L-4028 and L-4029 and Ad Valorem Tax Levy Reports

they can lead to millage rate rollbacks or millage rate rollups. It shows the differences in tax rates and revenues if MRFs are capped and not allowed to exceed one (which is the current law) and if there is no cap (which was the law and practice prior to 1993). Note that this option does not allow tax rates to increase above the level authorized by voters (for the sake of simplicity, we assumed that the 1993 millage rate was the voter approved rate).

While the differences in total revenue collected between the column that allowed for rollups and the one that did not allow for rollups was not large for most of these units, it is important to note that in all these governments, allowing for Headlee rollups led to higher millage rates being levied at the end of the period and to more tax revenues overall for the local governments. **Chart 18** shows the tax data with and without rollups in two communities – the City of Wixom where allowing for rollups would only increase potential tax revenues in the scenario by 0.6 percent (the lines are virtually indistinguishable) and Ottawa County where it would increase potential tax revenues by 11.2 percent. The other local governments fall somewhere between these two extremes.

While rollups in the millage rate clearly allow for more revenue to be collected overall, the difference is small in most of the units studied (under four percent in every unit except Ottawa County and Cambridge Township). This is somewhat surprising since rollups are viewed as something that would provide local governments with more access to property tax revenue. The misconception may arise from the fact that when rollups were allowed, tax rates were levied on SEV because this was pre-Proposal A and pre-TV. SEV varies with the market leading to greater growth and declines in property values over a period. So, when MRFs are based on SEV, they lead to both greater rollbacks during times of economic expansion and greater rollups during times of economic decline. If we run the same data as in the table above, but use SEV rather than TV, rollups lead to the same local governments collecting between 7.8 to 17.5 percent more revenue than they would have collected without rollups. The institution of Proposal A and TV have tempered the effect of both rollbacks and potential rollups.

Constitutionality of Tax Rate Rollups

Prior to 1993, the MRF could be greater than one, which would allow for a tax rate rollup when the property tax base was declining or growing more

slowly than inflation. The legislation enacted to trigger Proposal A led to the elimination of Headlee rollups. If the only barrier to reinstating Headlee rollups is undoing this legislation, then it can be statutorily changed to reinstate rollups.

If Headlee rollups are disallowed by the state Constitution, then it would require a vote of the people to change the Constitution and allow for tax rate increases back to their original authorized rate when property values are not growing. This is much harder to accomplish than simply amending the implementing legislation.

Section 31 of Article IX of the Michigan Constitution states in relevant part that:

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 qualified electors of that unit of Local Government voting thereon. ... 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.* (emphasis added)

It does not make any mention of raising the tax rate back to its originally authorized rate if the assessed valuation decreases or increases slower than inflation. The Constitution is clear that local governments cannot increase the tax rate above the rate authorized without a vote of the people.

Change the Method of Measuring Taxpayers' Ability to Support Government

The drafters of the Headlee Amendment recognized

that the limitations on state and local government should not be static. The economy evolves and with it, the ability of taxpayers to contribute to the cost of government should be adjusted. The Headlee Amendment allows the revenue of state government to adjust based on growth of the state's personal income. It pegged growth of local government property tax revenues to the Consumer Price Index (CPI) measure of inflation.

The idea to cease using CPI to determine how much property tax revenues can increase year-to-year was introduced by the Lincoln Institute of Land Policy in their recent report on fiscally healthy local governments. According to the report, CPI has grown more slowly than other measures, such as the cost of local governments' provision of public services and personal income. The cost of a typical bundle of goods and services purchased by state and local governments has increased 376 percent since 1980 whereas the cost of a typical bundle purchased by consumers has increased only 305 percent.³⁹

One option is to tie the levy limit to growth in state personal income. This approach, which is used for in Indiana, would allow local governments to grow their revenues slowly over time as the state economy grows without increasing residents' tax burden relative to earnings. As **Chart 19** shows, the statewide property tax burden has been stable around 1.3 to 1.5 percent of personal income since 1978 with increases during recessionary periods when personal income grew more slowly or even declined as it did during the Great Recession. The years following the adoption of Proposal A in 1994 saw no real change in tax burden relative to income.

This graph shows that the property tax burden trends around the same percentage of personal income regardless of tax limitations. This is likely due to local governments increasing tax rates in response to increased pressure on the tax base (see box on Farmington Hills on pages 27-28). If personal income was used as the growth measure for taxable value, then that might put less pressure on local governments and voters to continue increasing tax rates.

Another option is to use the Bureau of Economic Analysis' implicit price deflator for state and local

governments which measures changes in the costs of goods and services purchased by state and local governments. Unlike the CPI, which is measured based on a specific basket of goods (e.g., housing, transportation, food, and beverages), the implicit price deflator measures the changes in prices for all the goods and services produced in an economy. New Mexico uses this measure of inflation for its levy limit.

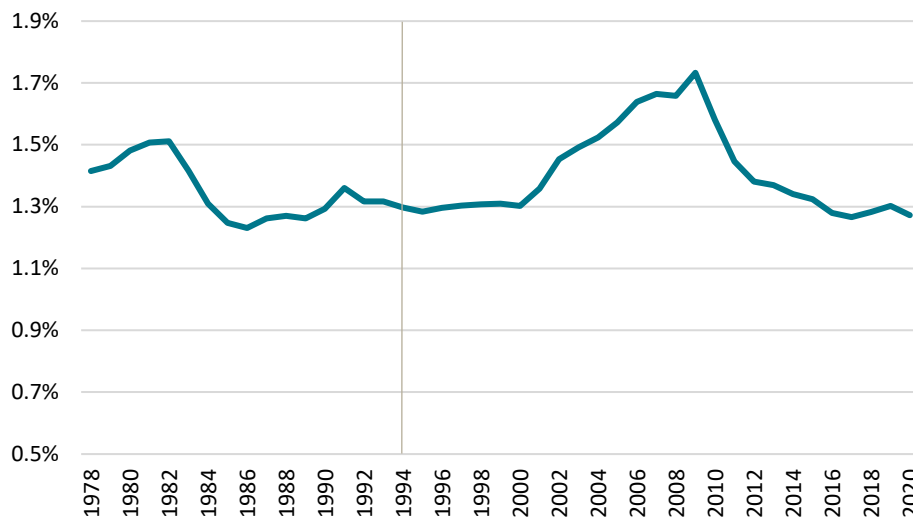
It is important to think about how best to measure inflation from the perspective of both local governments and taxpayers. From a local government perspective, CPI does not make as much sense as using the implicit price deflator for state and local governments as this better reflects the costs faced

by governments. For taxpayers, using CPI makes more sense as this reflects the cost increases they face year-to-year. Tying tax limitations to the growth in state personal income may make sense for both groups as it connects to taxpayers' ability to pay as well as providing for growth in local revenues over time. Michigan can change the measure of inflation used and still maintain the five percent maximum increase to protect taxpayers during years of high inflation.⁴²

The current CPI inflation limit is written into the state Constitution, which makes changing it difficult. It would require the political will to bring this vote to the people, and then a statewide vote of the people to change the inflation measure.

Chart 19

Local Government Property Tax Levy as Percent of Statewide Personal Income, 1978 to 2020



Source: U.S. Bureau of Economic Analysis, Regional Data, GDP and Personal Income <https://apps.bea.gov/iTable/iTable.cfm?reqid=70&step=1&acrdn=2>
 Michigan Department of Treasury, Ad Valorem Tax Levy Reports https://www.michigan.gov/taxes/0,4676,7-238-43535_43925-540359--,00.html

Conclusion

The current property tax limitations serve their intended purposes of minimizing the tax burden and increasing the predictability of taxes owed for local taxpayers. They also serve the purpose of providing stability and predictability for local governments. It can be argued that due to the Great Recession, the two limitations together have worked in tandem to minimize the downside risk and mitigate the impact of property value declines by creating a reservoir of untapped revenue during downturns. While this can be seen as a positive thing that helped many local governments stay afloat in the years following the Great Recession, it is not prudent to base policy on an unusual event that is unlikely to be repeated anytime soon. Most recessions have a very limited impact on property values.

Notwithstanding the benefits of the overlapping tax limitations to minimize the negative impact of the Great Recession, the data show that the overlapping tax limitations have reduced tax revenue growth and set many local governments on a path for very modest rates of growth. **Chart 20** shows statewide taxable value as a percent of statewide personal income and while it averaged around 80 percent prior to the Great Recession (with exceptions of recessionary periods when personal income fell), the average in recent years has fallen to around 70 to 75 percent of personal income. That decline can be partially explained by the slow growth in TV since the Great Recession. Local governments cannot grow their tax base

without new development. This has led to a system where governments compete to chase new development and/or continuously increase their tax rates, neither of these are sustainable in the long term. Land is finite and statutory tax rate limits constrain the ability to benefit from these actions.

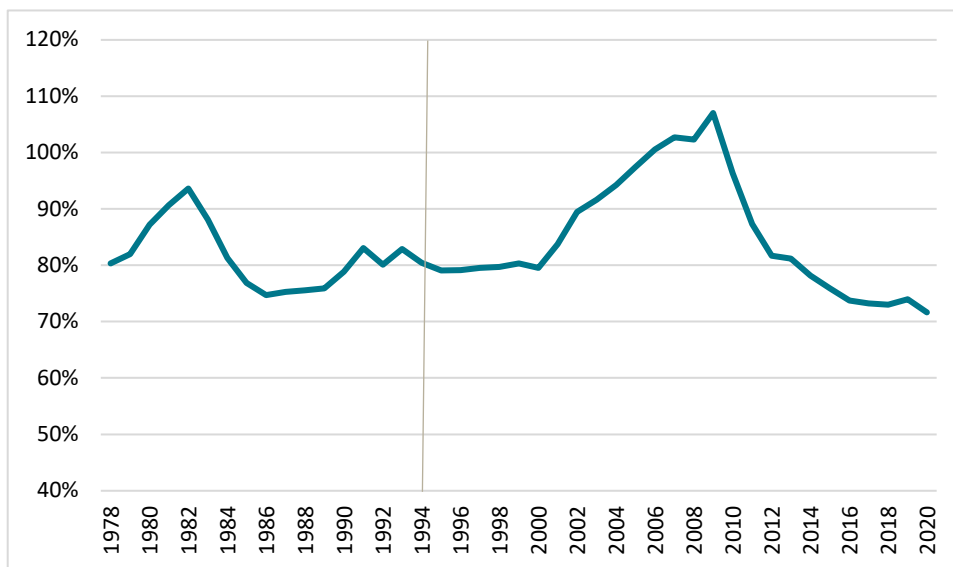
Therefore, it is important to evaluate what types of limitations and local government taxes would be the best tax policy for both taxpayers and local governments moving forward. This analysis has shown us what happens to tax revenues with a stable tax rate and these different tax limitations. We have analyzed the data and provided some policy options to consider:

1. Diversify local revenue sources and regionalize service provision
2. Eliminate Headlee Amendment limitation on tax revenue growth
3. Reinstate Headlee rollups
4. Change the method for measuring taxpayers' ability to support government

Three of these options directly impact the current property tax limitations. The first option, which is probably necessary with or without changes to the property tax limitations, addresses the bigger municipal finance system as a whole and ways to improve how municipal finances function overall.

Chart 20

Statewide TV as a Percent of Statewide Personal Income, 1978 to 2020



Source: U.S. Bureau of Economic Analysis, Regional Data, GDP and Personal Income <https://apps.bea.gov/iTable/iTable.cfm?reqid=70&step=1&acrdn=2>

Michigan Department of Treasury, Ad Valorem Tax Levy Reports https://www.michigan.gov/taxes/0,4676,7-238-43535_43925-540359--,00.html

Appendix A

Headlee Amendment and Proposal A Constitutional Language

This appendix shows the actual language instituting property tax limitations that was inserted into the Michigan Constitution by the adoption of the Headlee Amendment in 1978 and Proposal A of 1994.

The Headlee Amendment

Article IX, Section 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.

Proposal A of 1994

Article IX, Section 3:

... 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. ...

Appendix B Demographic and Property Data

This section includes details on the demographic and property data of each category of local government included in the analysis.

Counties

All of the counties gained population over the time period with growth ranging from six percent to over 50 percent (see **Table B-1**). The median household income increased in every county from 1990, but adjusted for inflation, four counties saw a decrease in real median household income. The U.S. average median household income for 2019 was \$68,703 and only Oakland and Ottawa counties exceeded that average. Each county saw an increase in diversity over the time period and an increase in median age. Every county except Leelanau saw an increase in poverty over the time period as well.

Table B-1
County Demographic Data, 1990 to 2019

	<u>2019 Population</u>	<u>% Change from 1990</u>	<u>2019 Median Household Income</u>	<u>Change since 1990*</u>	<u>2019 White Population</u>	<u>% Point Change from 1990</u>	<u>2019 Median Age</u>	<u>Change from 1990</u>	<u>2019 Poverty Rate</u>	<u>% Point Change from 1990</u>
Oakland	1,253,185	15.7%	\$ 79,698	(7.1%)	75.0%	(14.6)	40.9	21.0%	8.2%	2.2
Ottawa	286,558	52.6%	\$ 69,314	(3.9%)	89.6%	(6.1)	35.2	16.2%	8.5%	2.5
Jackson	158,636	5.9%	\$ 53,658	(6.9%)	87.3%	(3.2)	41.2	23.4%	13.8%	1.8
Lenawee	98,381	7.5%	\$ 55,450	(9.5%)	93.1%	(1.3)	41.9	28.5%	11.4%	1.0
Chippewa	37,629	8.7%	\$ 46,486	9.7%	70.7%	(11.2)	40.5	26.2%	18.4%	1.3
Leelanau	21,652	31.0%	\$ 65,249	15.5%	92.9%	(3.7)	54.1	48.2%	6.1%	(2.9)

* Dollars adjusted for inflation

Source: U.S. Census Bureau, American Community Survey data and 1990 Michigan Census Books, Citizens Research Council calculations

Table B-2 highlights how the division of property changed in each county over the period. Except for Lenawee County, which saw an increase in the role of agricultural property, all the counties saw an increase in the role of residential property and a decrease in the role of commercial/industrial property with agricultural property being slightly steadier.

Table B-2
County Property by Class, 1994 to 2020

	Percent Residential Property			Percent Commercial/ Industrial Property			Percent Agricultural Property		
	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>
Oakland	73.0%	79.9%	6.9	26.0%	20.0%	(6.1)	0.7%	0.1%	(0.6)
Ottawa	71.1%	77.4%	6.4	24.1%	17.8%	(6.3)	4.7%	4.7%	0.1
Jackson	73.6%	75.5%	1.8	18.5%	16.4%	(2.1)	7.8%	8.1%	0.4
Lenawee	66.8%	65.7%	(1.1)	15.2%	12.3%	(3.0)	17.5%	22.1%	4.5
Chippewa	72.9%	80.5%	7.5	21.8%	16.0%	(5.8)	4.8%	3.5%	(1.2)
Leelanau	84.0%	90.6%	6.6	7.8%	5.1%	(2.6)	8.2%	4.3%	(3.9)

Source: Michigan Department of Treasury, Citizens Research Council calculations

Urban Communities

The smaller urban communities in this group all grew over the period; Wixom, which has a population well above 10,000 now was much smaller in 1990 and has experienced the most rapid growth of all these communities.

The urban communities on average had a lower median household income than the counties and none of these communities reached the U.S. average median income. Apart from Grand Haven, they all lost income when adjusted for inflation. The urban communities as a group are younger than the counties, but they all increased their median age over the time period. And, except for Grand Haven and Wixom, they all increased their poverty rate.

Table B-3
Urban Community Demographic Data, 1990 to 2019

Urban Community (County)	<u>2019 Population</u>	<u>Percent Change from 1990</u>	<u>2019 Median Household Income</u>	<u>Percent Change since 1990*</u>	<u>2019 White Population</u>	<u>% Point Change from 1990</u>	<u>2019 Median Age</u>	<u>Percent Change from 1990</u>	<u>2019 Poverty Rate</u>	<u>% Point Change from 1990</u>
Pontiac (Oakland)	59,955	(15.8%)	\$ 33,568	(22.6%)	43.1%	(8.2)	31.8	12.4%	30.7%	4.0
Jackson (Jackson)	32,673	(12.7%)	\$35,464	(13.8%)	71.3%	(8.9)	33.8	10.5%	28.7%	4.0
Grand Haven (Ottawa)	10,994	(8.0%)	\$ 58,307	1.8%	96.9%	(0.7)	47.4	30.6%	8.2%	(1.4)
Sault Ste. Marie (Chippewa)	13,591	(7.5%)	\$ 38,341	(8.3%)	76.1%	(8.6)	33.4	9.9%	22.2%	3.3
Adrian (Lenawee)	20,572	(6.9%)	\$ 36,236	(26.0%)	89.0%	2.2	34.6	15.7%	23.0%	2.3
Tecumseh (Lenawee)	8,356	12.0%	\$ 58,428	(16.8%)	96.3%	(0.6)	42.9	27.7%	7.7%	1.9
Coopersville (Ottawa)	4,396	28.5%	\$ 56,594	(12.4%)	92.8%	(5.5)	30.5	6.3%	8.4%	(0.6)
Wixom (Oakland)	13,902	62.6%	\$ 53,259	(15.1%)	74.0%	(24.1)	37.1	29.7%	8.7%	5.2

* Dollars adjusted for inflation

Source: U.S. Census Bureau, American Community Survey data and 1990 Michigan Census Books, Citizens Research Council calculations

Table B-4 shows how the property value by class changed in the urban communities. None of the communities had much agricultural property to begin with and there was little change there. Most of the communities increased their residential property and decreased their commercial/industrial property except for Jackson and Adrian, which did the opposite.

Table B-4

Urban Community Property by Class, 1994 to 2020

Urban Community (County)	Percent Residential Property			Percent Commercial/ Industrial Property			Percent Agricultural Property		
	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>
Pontiac (Oakland)	54.2%	59.2%	5.0	45.8%	47.9%	2.1	0.0%	0.0%	0.0
Jackson (Jackson)	62.8%	57.7%	(5.1)	37.2%	42.3%	5.1	0.0%	0.0%	0.0
Grand Haven (Ottawa)	68.5%	70.6%	2.1	31.5%	29.4%	(2.1)	0.1%	0.0%	(0.1)
Sault Ste. Marie (Chippewa)	55.6%	57.8%	2.2	44.4%	42.2%	(2.2)	0.0%	0.0%	0.0
Adrian (Lenawee)	65.3%	62.2%	(3.1)	34.7%	37.8%	3.1	0.0%	0.0%	0.0
Tecumseh (Lenawee)	76.0%	77.6%	1.6	23.7%	22.4%	(1.3)	0.0%	0.0%	0.0
Coopersville (Ottawa)	56.0%	60.5%	4.5	41.4%	36.5%	(4.9)	2.6%	3.0%	0.4
Wixom (Oakland)	42.5%	50.3%	7.9	56.2%	48.8%	(7.4)	0.0%	0.0%	0.0

Source: Michigan Department of Treasury, Citizens Research Council calculations

Suburban Communities

Unlike the urban grouping, the suburbs experienced population growth over the period (with the exception of the City of Royal Oak). The suburbs, as a group, also have higher average median household incomes than the urban communities or the counties, though every local government, again except for Royal Oak, experienced a real decline in income when adjusted for inflation. They all became older and more diverse over the time period, and every unit except for Elmwood Township in Leelanau County saw their poverty rate increase.

Table B-5
Suburb Demographic Data, 1990 to 2019

City/Twp (County)	2019 Population	Percent Change from 1990	2019 Median Household Income	Percent Change since 1990*	2019 White Population	% Point Change from 1990	2019 Median Age	Percent Change from 1990	2019 Poverty Rate	% Point Change from 1990
City of Farmington Hills (Oakland)	81,214	8.8%	\$ 83,268	-18.9%	64.5%	(29.4)	42.9	22.6%	6.8%	3.8
City of Royal Oak (Oakland)	59,195	(9.5%)	\$ 81,665	12.2%	91.6%	(6.3)	35.8	3.5%	6.6%	2.0
Summit Twp (Jackson)	22,474	6.4%	\$ 60,810	(12.4%)	90.0%	(4.6)	45.6	26.3%	11.2%	4.6
Blackman Twp (Jackson)	23,471	14.5%	\$ 46,449	(16.3%)	77.0%	(1.1)	38.4	11.6%	14.5%	6.6
Park Twp (Ottawa)	18,752	38.5%	\$ 90,871	(2.6%)	93.3%	(3.3)	44.6	39.4%	4.1%	2.1
Kinross Twp (Chippewa)	7,435	13.2%	\$ 40,156	(17.9%)	52.9%	(8.8)	36.6	23.6%	35.2%	20.6
City of Zeeland (Ottawa)	5,572	2.9%	\$ 51,549	(20.6%)	94.0%	(1.6)	39.2	19.9%	7.9%	1.2%
Elmwood Twp (Leelanau)	4,497	31.2%	\$ 59,260	(10.3%)	95.1%	(2.9)	51.4	46.4%	3.1%	(6.0%)

* Dollars adjusted for inflation

Source: U.S. Census Bureau, American Community Survey data and 1990 Michigan Census Books, Citizens Research Council calculations

Table B-6 shows the distribution of property and how that changed in the suburbs. Like the urban communities, the suburbs have little agricultural property, and what little they had largely declined. The role of residential property grew as a proportion of total property in all governments except Blackman Township and the City of Zeeland, both of which saw increases in the role commercial/industrial property plays over the period.

Table B-6
Suburb Property by Class, 1994 to 2020

City/Twp (County)	Percent Residential Property			Percent Commercial/ Industrial Property			Percent Agricultural Property		
	1994	2020	% Point Change	1994	2020	% Point Change	1994	2020	% Point Change
City of Farmington Hills (Oakland)	68.9%	73.7%	4.8	31.1%	25.6%	(5.5)	0.0%	0.0%	0.0
City of Royal Oak (Oakland)	78.1%	80.9%	2.8	21.9%	19.4%	(2.6)	0.0%	0.0%	0.0
Summit Twp (Jackson)	87.6%	88.4%	0.8	11.4%	11.1%	(0.2)	0.6%	0.5%	(0.1)
Blackman Twp (Jackson)	53.8%	50.0%	(3.8)	44.1%	48.5%	4.4	1.9%	1.5%	(0.4)
Park Twp (Ottawa)	92.6%	96.7%	4.1	6.5%	2.6%	(3.9)	0.9%	0.8%	(0.2)
Kinross Twp (Chippewa)	79.0%	81.5%	2.5	18.4%	16.9%	(1.5)	2.6%	1.6%	(0.9)
City of Zeeland (Ottawa)	60.6%	51.5%	(9.1)	38.1%	48.2%	10.1	0.1%	0.3%	0.2
Elmwood Twp (Leelanau)	82.5%	89.3%	6.8	12.3%	7.8%	(4.5)	5.2%	2.9%	(2.3)

Source: Michigan Department of Treasury, Citizens Research Council calculations

Exurb Communities

The exurbs have the highest average median household income, well above the U.S. average of \$68,703. It is the only category where most of the units saw a real increase in their median income over the period. The exurbs remain largely white with all having 89 percent or more of their population identify as white, but they all increased their diversity levels.

Allendale Township (home to Grand Valley State University) is an outlier in several ways. It experienced explosive growth over the period, going from a rural community to an exurb, but it has the youngest population by a large amount and is the only government in the group to have its median income be below the U.S. average. It is also the only exurb to have a high poverty rate, which has grown substantially with the population growth in Allendale Township.

Table B-7

Exurb Townships Demographic Data, 1990 to 2019

Township (County)	2019 Population	Percent Change from 1990	2019 Median Household Income	Percent Change since 1990*	2019 White Population	% Point Change from 1990	2019 Median Age	Percent Change from 1990	2019 Poverty Rate	% Point Change from 1990
Allendale (Ottawa)	25,481	217.6	\$ 55,646	(8.4%)	88.9%	(6.4)	21.3	(1.4%)	28.8%	16.4
Oakland (Oakland)	19,115	132.3%	\$ 146,228	15.9%	88.9%	(9.7)	42.8	19.2%	2.2%	(0.8)
Grass Lake (Jackson)	5,983	58.5%	\$ 80,878	13.4%	97.0%	(1.5)	44.7	29.6%	2.2%	(2.5)
Brandon (Oakland)	15,898	31.9%	\$ 89,541	1.2%	95.8%	(2.9)	42.9	39.7%	6.7%	1.7
Cambridge (Lenawee)	5,652	27.6%	\$ 67,051	(11.8%)	91.8%	(6.8)	51.6	49.1%	6.8%	0.6
Highland (Oakland)	20,031	11.6%	\$ 87,011	4.5%	96.9%	(2.0)	47.0	52.1%	4.9%	(0.1)

* Dollars adjusted for inflation

Source: U.S. Census Bureau, American Community Survey data and 1990 Michigan Census Books, Citizens Research Council calculations

Table B-8 shows that most exurbs increased their proportion of residential property while commercial/industrial and agricultural either declined their roles slightly or stayed stable. This is expected as exurbs tend to be former rural areas that are growing residential communities.

Again, Allendale Township is an outlier. While its population exploded, it decreased its proportion of residential property. Its rural property decreased slightly, which is expected, and its commercial/industrial property grew as it became more populated. This is likely because Allendale had a population of 8,000 in 1990 and was quite rural, so it is likely that a lot of rural property (some agricultural, but not all) was divided up into suburbs and smaller lots for new housing leading to increased residents and housing in the community, but not an increase in the proportion of residential property.

Table B-8

Exurbs Property by Class, 1994 to 2020

Township (County)	Percent Residential Property			Percent Commercial/Industrial Property			Percent Agricultural Property		
	1994	2020	% Point Change	1994	2020	% Point Change	1994	2020	% Point Change
Allendale (Ottawa)	76.3%	65.4%	(10.9)	15.2%	29.8%	14.5	7.7%	4.8%	(2.8)
Oakland (Oakland)	87.4%	96.8%	9.3	3.3%	3.2%	0.0	1.0%	1.0%	0.0
Grass Lake (Jackson)	79.0%	81.7%	2.6	6.6%	8.0%	1.4	13.7%	10.4%	(3.3)
Brandon (Oakland)	90.2%	93.0%	2.8	7.9%	6.5%	(1.3)	1.9%	1.9%	0.0
Cambridge (Lenawee)	83.9%	84.2%	0.3	10.7%	10.8%	0.1	4.8%	5.0%	0.3
Highland (Oakland)	85.2%	91.1%	5.9	9.6%	9.2%	(0.4)	4.9%	4.9%	0.1

Source: Michigan Department of Treasury, Citizens Research Council calculations

Rural Communities

These communities also vary in their growth patterns with about half experiencing population growth over the period and the others experiencing a decline. They have a lower average median household income than any group other than urban communities; all but two of the local governments in the group have median household incomes below the national average. Most of the rural governments are predominantly white, but many have experienced some increase in diversity. They have an older population, and poverty rates range drastically from under three percent to over 25 percent. (Table B-9 has less data than the others because it is more difficult to find historical data for local governments with small populations.)

Table B-9
Demographics of Rural Communities, 1990 to 2019

City/Twp (County)	2019 Population	% Change from 1990	2019 Median Household Income	2019 White Population	% Point Change from 1990	2019 Median Age	% Change from 1990	2019 Poverty Rate
Centerville Twp (Leelanau)	1,449	73.3%	\$ 71,477	98.7%		48.0		5.2%
Kasson Twp (Leelanau)	1,457	28.4%	\$ 54,097	96.5%	(2.6)	48.0	45.9%	6.8%
Drummond Island Twp (Chippewa)	1,051	25.9%	\$ 46,528	90.9%		58.2		5.1%
Pulaski Twp (Jackson)	2,087	14.9%	\$ 59,038	97.9%	(1.2)	47.3	44.2%	6.5%
Parma Twp (Jackson)	2,705	8.6%	\$ 64,476	93.4%	(1.2)	45.9	42.1%	9.9%
Pickford Twp (Chippewa)	1,460	7.4%	\$ 55,875	91.6%	(6.3)	47.6	36.4%	13.7%
Leland Twp (Leelanau)	1,756	6.9%	\$ 74,559	96.8%	(1.6)	55.9	40.5%	2.7%
Chester Twp (Ottawa)	2,126	(0.3%)	\$ 66,950	97.3%	(0.7)	40.2	38.6%	2.3%
City of Morenci (Lenawee)	2,298	(1.9%)	\$ 39,250	94.0%	(4.7)	36.7	12.9%	26.6%
Whitefish Twp (Chippewa)	492	(4.8%)	\$ 39,063	87.6%		55.5		25.8%
Hudson Twp (Lenawee)	1,399	(5.5%)	\$ 52,563	96.1%	(3.0)	54.1	55.9%	6.2%
Ogden Twp (Lenawee)	900	(21.5%)	\$ 58,889	98.3%	0.5	44.3	38.0%	10.9%
Chippewa Twp (Chippewa)	206	(26.2%)	\$ 48,333	90.3%		42.5		18.9%

Source: U.S. Census Bureau, American Community Survey data and 1990 Michigan Census Books, Citizens Research Council calculations

Table B-10 shows that even in rural communities, residential property grew while commercial/industrial and agricultural property largely declined. The two exceptions are the City of Morenci, which saw a decrease in residential property and a corresponding increase in commercial/industrial property, and Hudson Township (Lenawee County), which saw a decrease in residential property with an increase in agricultural property.

Table B-10
Rural Communities Property by Class, 1994 to 2020

City/Twp (County)	Percent Residential Property			Percent Commercial/ Industrial Property			Percent Agricultural Property		
	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>	<u>1994</u>	<u>2020</u>	<u>% Point Change</u>
Centerville Twp (Leelanau)	69.7%	81.1%	11.4	5.3%	2.8%	(2.5)	25.1%	16.2%	(8.9%)
Kasson Twp (Leelanau)	78.2%	84.3%	6.0	4.5%	7.3%	2.7	16.6%	8.5%	(8.1)
Drummond Island Twp (Chippewa)	84.0%	92.7%	8.7	11.0%	7.3%	(3.6)	5.0%	0.0%	(5.0)
Pulaski Twp (Jackson)	48.5%	50.1%	1.6	3.6%	3.0%	(0.6)	47.9%	46.9%	(1.0)
Parma Twp (Jackson)	56.3%	65.6%	9.3	7.9%	7.4%	(0.5)	35.8%	27.0%	(8.8)
Pickford Twp (Chippewa)	72.7%	80.9%	8.2	6.8%	4.9%	(1.9)	20.5%	14.2%	(6.3)
Leland Twp (Leelanau)	88.4%	94.1%	5.7	5.7%	3.0%	(2.7)	5.8%	2.9%	(2.9)
Chester Twp (Ottawa)	45.0%	45.5%	0.6	4.8%	2.9%	(1.9)	50.2%	51.6%	1.4
City of Morenci (Lenawee)	80.5%	69.5%	(11.1)	18.0%	28.3%	10.3	1.3%	2.2%	1.0
Whitefish Twp (Chippewa)	76.9%	95.9%	19.0	9.4%	4.1%	(5.2)	9.9%	0.0%	(9.9)
Hudson Twp (Lenawee)	54.5%	48.2%	(6.3)	4.4%	3.5%	(0.9)	41.1%	48.3%	7.2
Ogden Twp (Lenawee)	20.4%	20.2%	(0.2)	0.3%	0.1%	(0.2)	79.3%	79.7%	0.4
Chippewa Twp (Chippewa)	82.2%	89.6%	7.4	17.6%	10.4%	(7.1)	0.2%	0.0%	(0.2)

Source: Michigan Department of Treasury, Citizens Research Council calculations

Appendix C

Tax Data in Counties

Property Tax Rate Scenarios, 1994 to 2020

Chart C-1
Oakland County

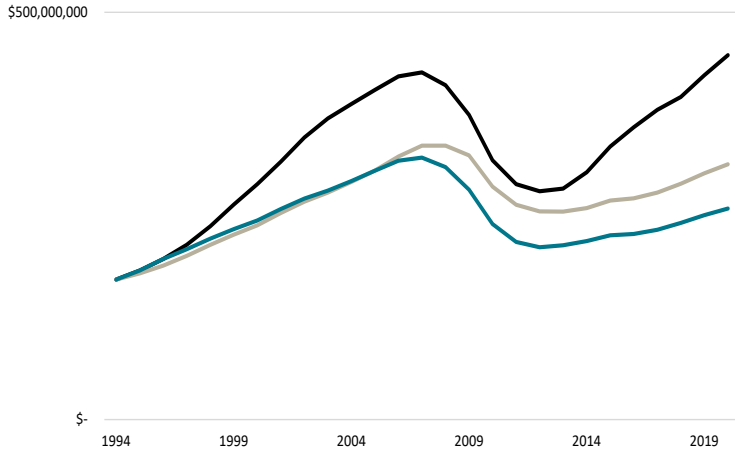
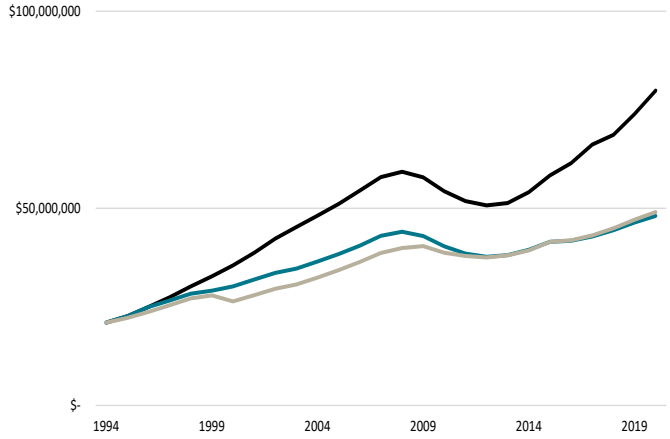


Chart C-3
Ottawa County



Hypothetical Tax Rate Scenarios, 1994 to 2020

Chart C-2
Oakland County

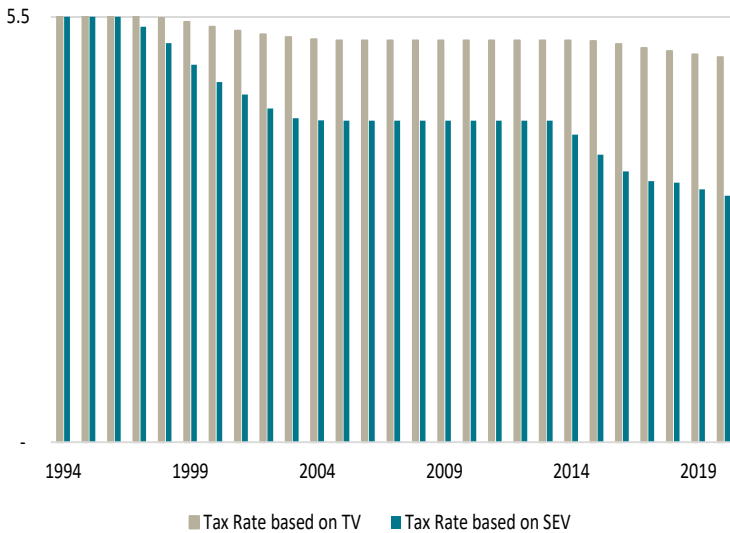
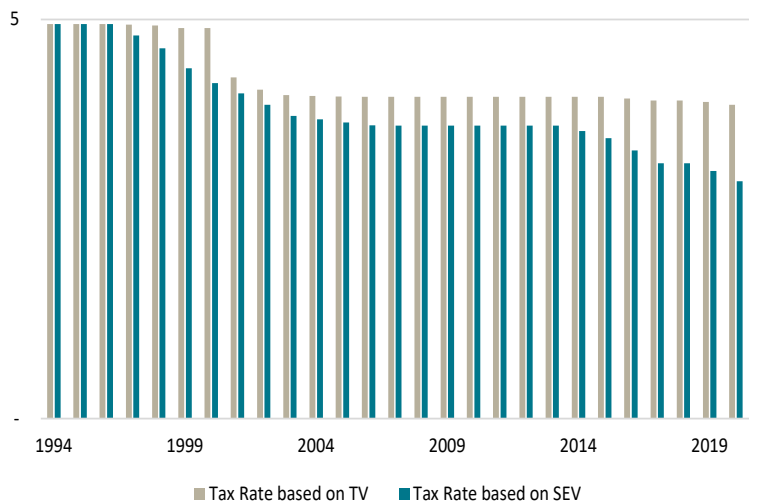


Chart C-4
Ottawa County



Note: Oakland County millage rate based on 1996 authorized rate because it was earliest available

Note: Ottawa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1)

Property Tax Rate Scenarios, 1994 to 2020

Chart C-5
Jackson County

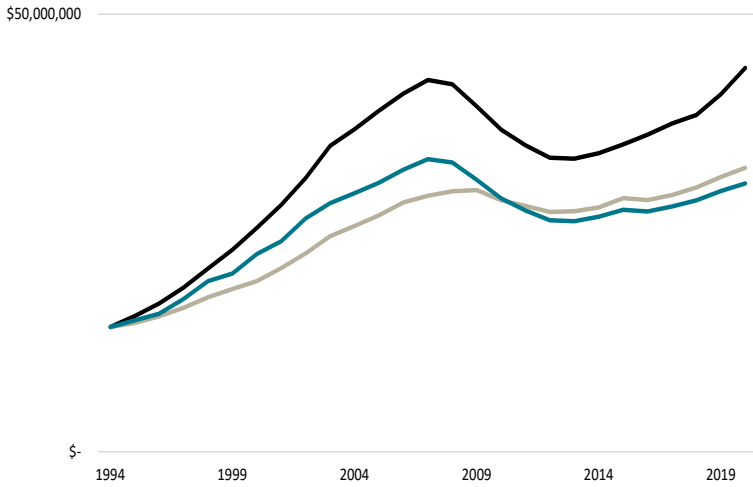
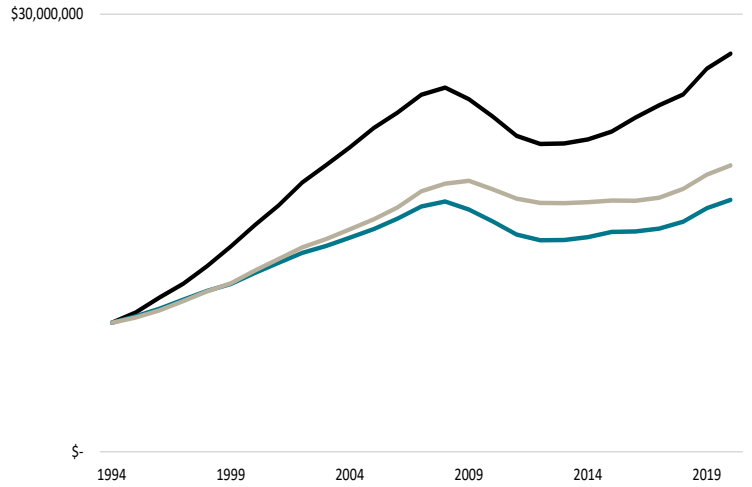


Chart C-7
Lenawee County



Hypothetical Tax Rate Scenarios, 1994 to 2020

Chart C-6
Jackson County

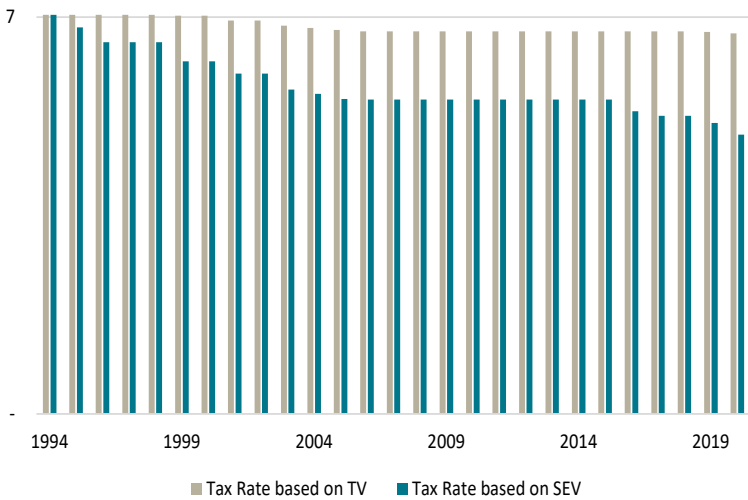
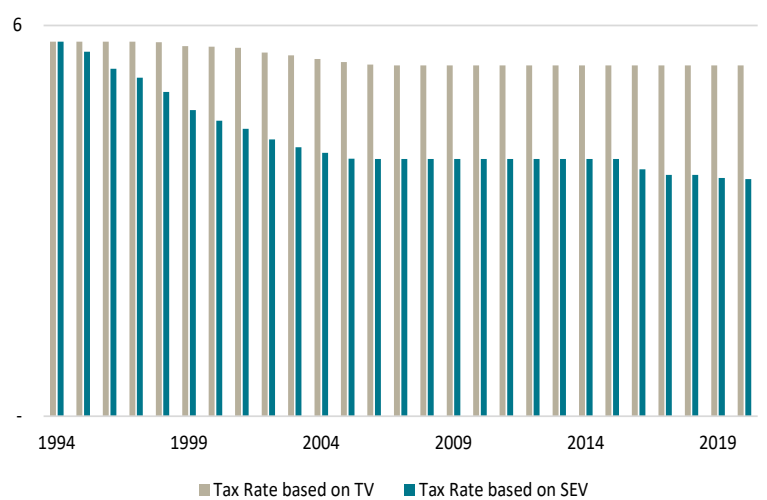


Chart C-8
Lenawee County



Note: Jackson County missing losses and additions data for FY1997, FY1998, FY2000, and FY2002 (kept MRF at 1.0 for years missing data)

Property Tax Rate Scenarios, 1994 to 2020

Chart C-9
Chippewa County

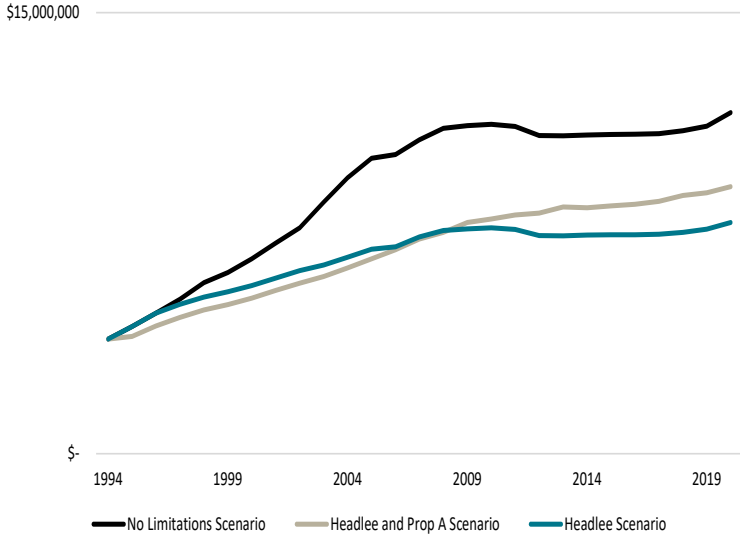
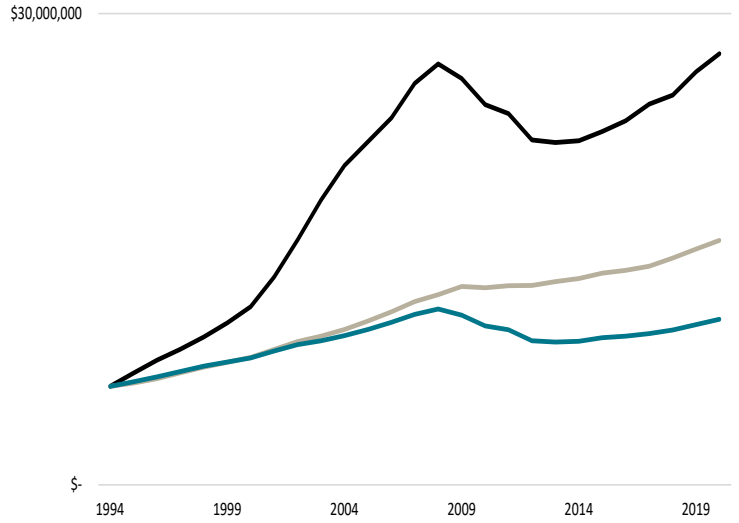


Chart C-11
Leelanau County



Hypothetical Tax Rate Scenarios, 1994 to 2020

Chart C-10
Chippewa County

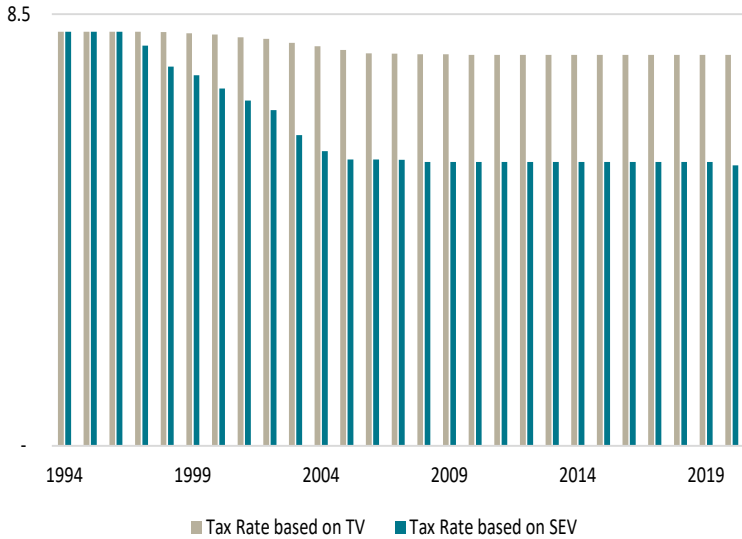
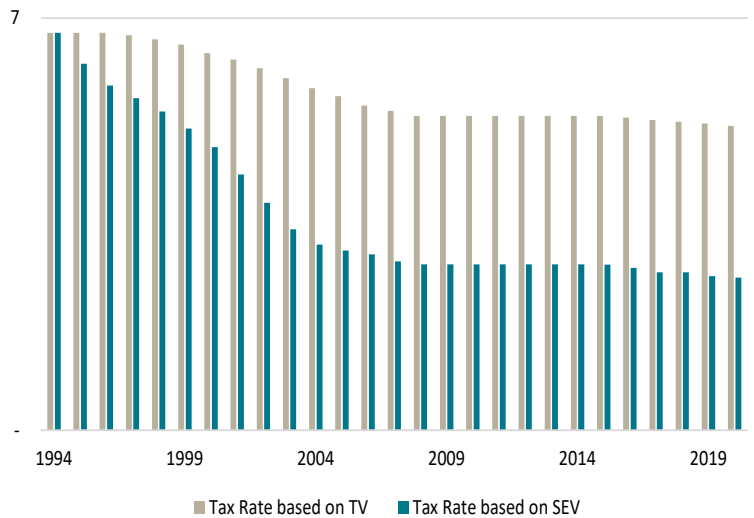


Chart C-12
Leelanau County



Note: Chippewa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Note: Chippewa County millage rate based on 1992 levied rate because it was best available

Source: Michigan Department of Treasury, Forms L-4028, L-4029, Ad Valorem Tax Levy Reports

Appendix D

Tax Data in Urban Communities

Property Tax Rate Scenarios, 1994 to 2020

Chart D-1
Pontiac (Oakland County)

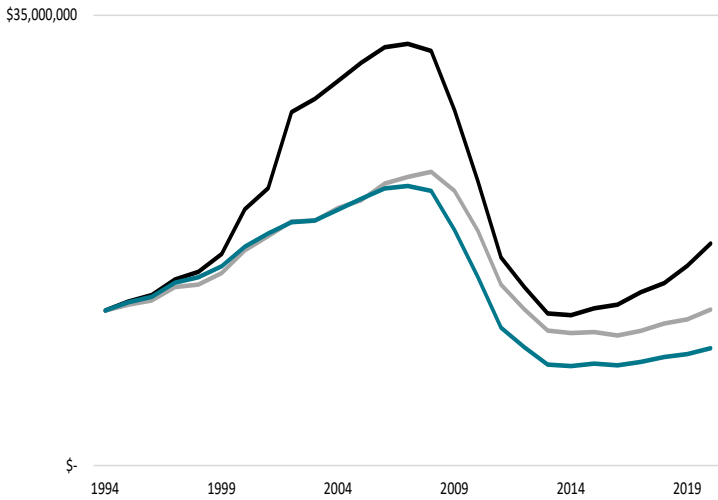
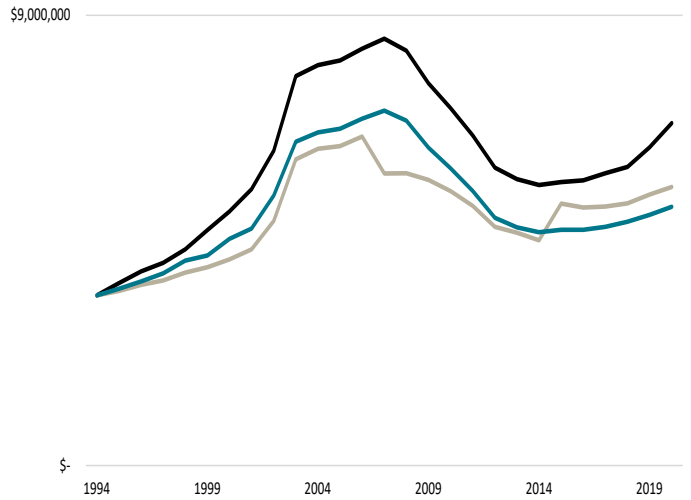


Chart D-3
Jackson (Jackson County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart D-2
Pontiac

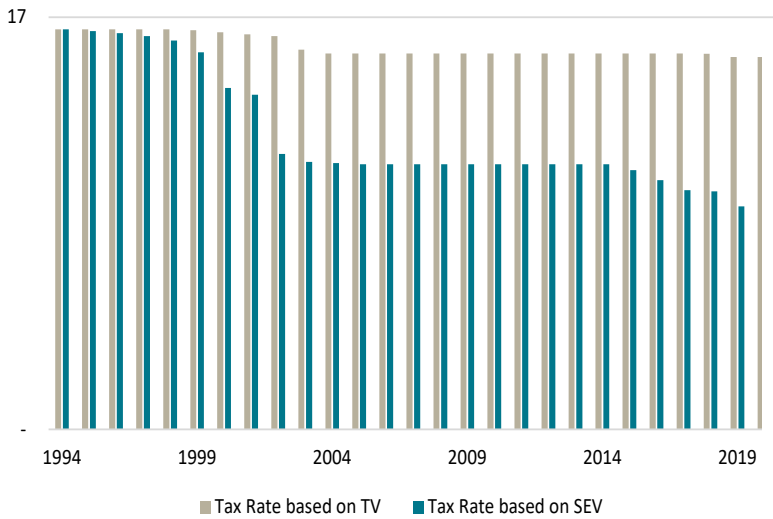
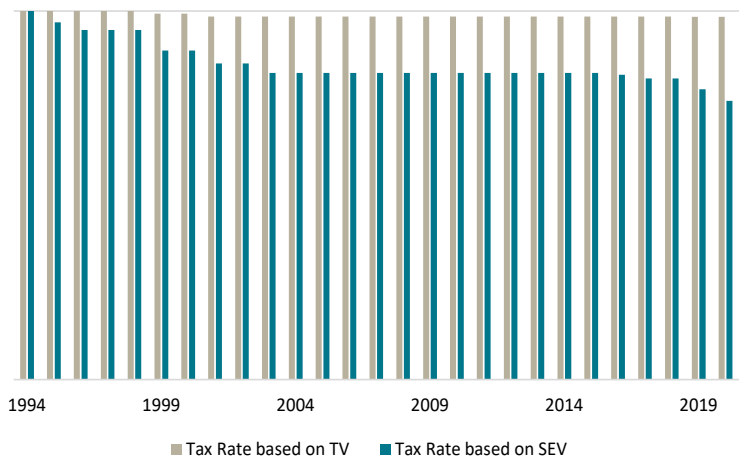


Chart D-4
Jackson



Note: Jackson County missing losses and additions data for FY1997, FY1998, FY2000, and FY2002 (kept MRF at 1.0 for years missing data)

Property Tax Rate Scenarios, 1994 to 2020

Chart D-5
Grand Haven (Ottawa County)

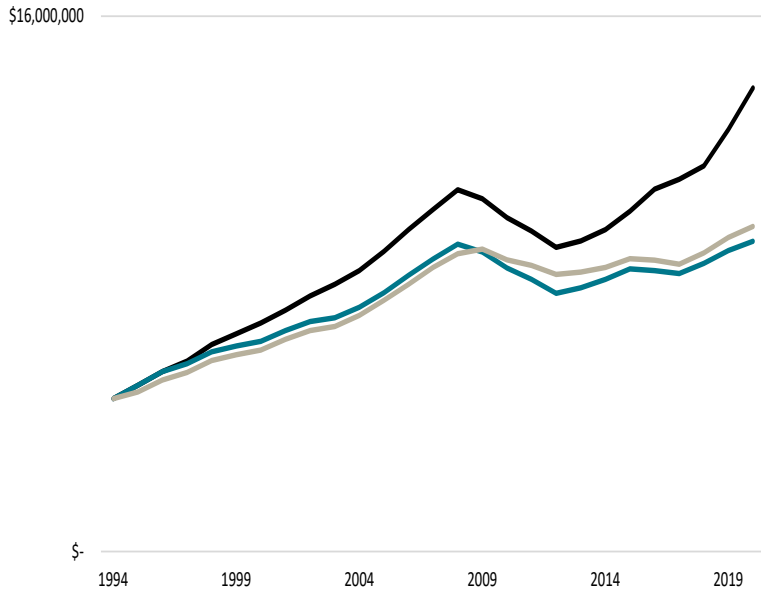
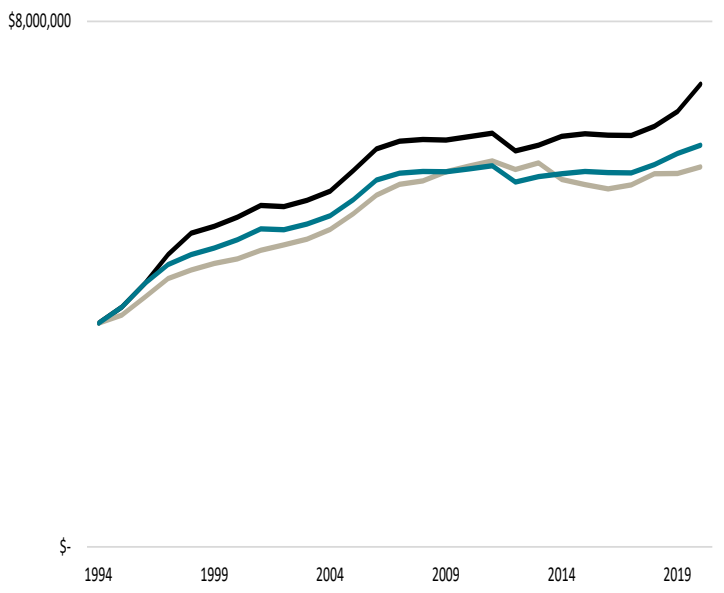


Chart D-7
Sault Ste. Marie (Chippewa County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart D-6
Grand Haven

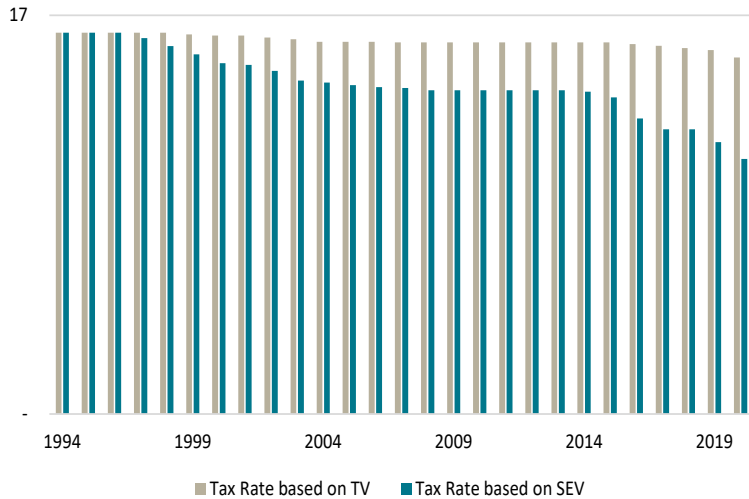
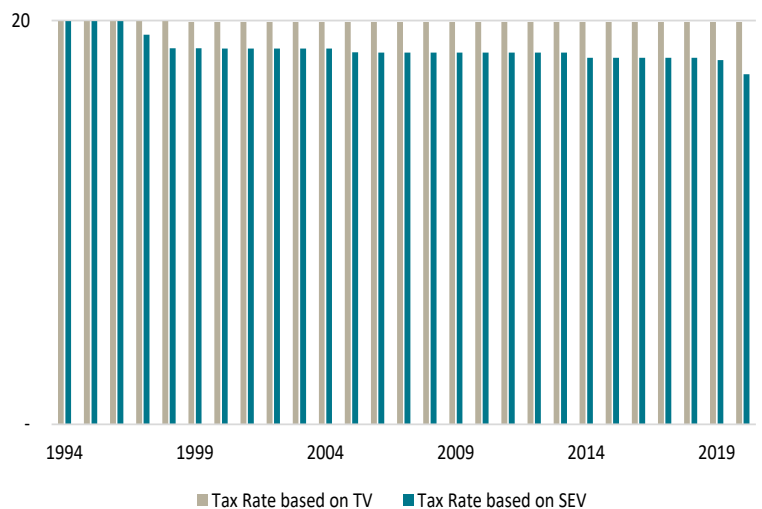


Chart D-8
Sault Ste. Marie



Note: Ottawa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Note: 1993 tax rate is based on total rate levied, not total rate authorized

Note: Chippewa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Property Tax Rate Scenarios, 1994 to 2020

Chart D-9
Adrian (Lenawee County)

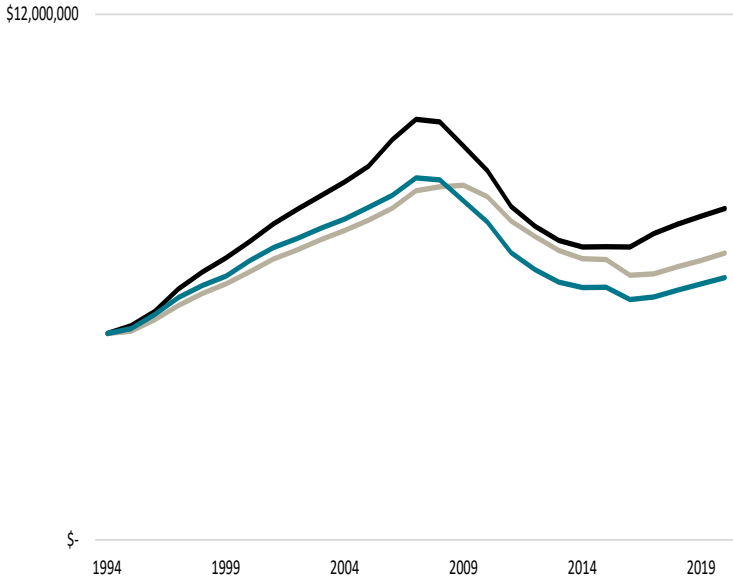
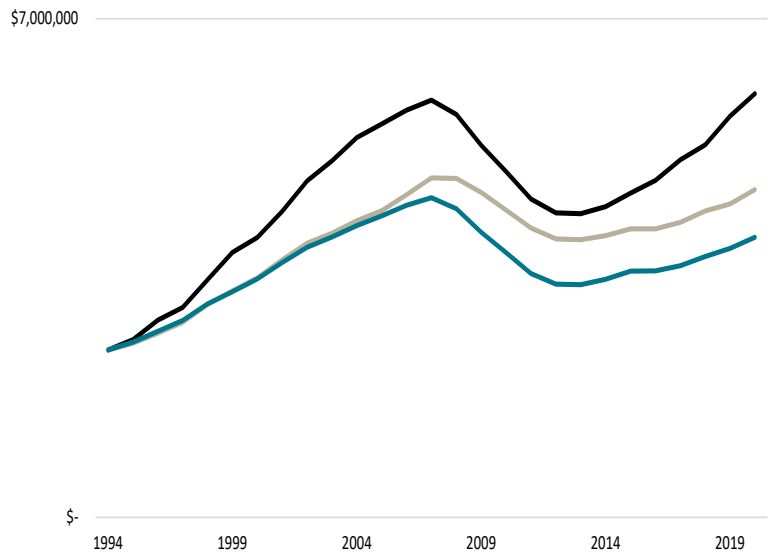


Chart D-11
Tecumseh (Lenawee County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart D-10
Adrian

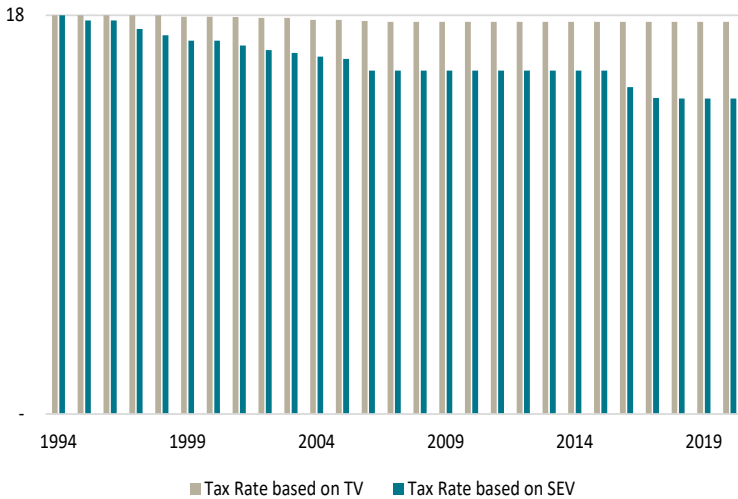
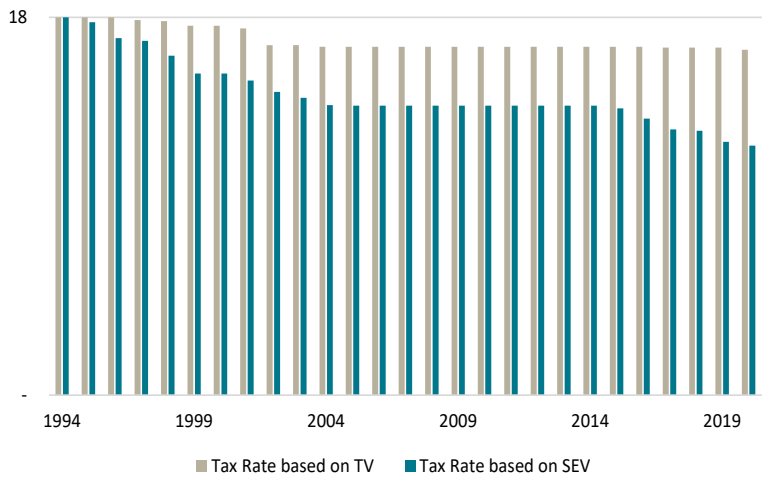


Chart D-12
Tecumseh



Property Tax Rate Scenarios, 1994 to 2020

Chart D-13
Coopersville (Ottawa County)

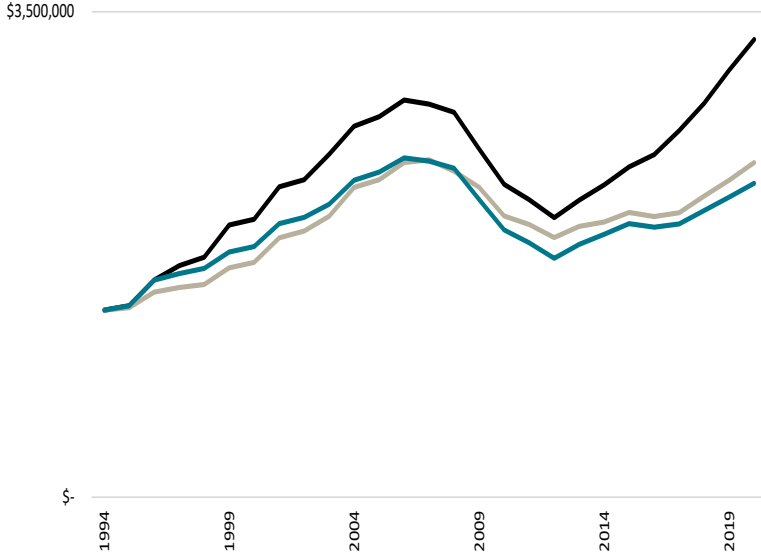
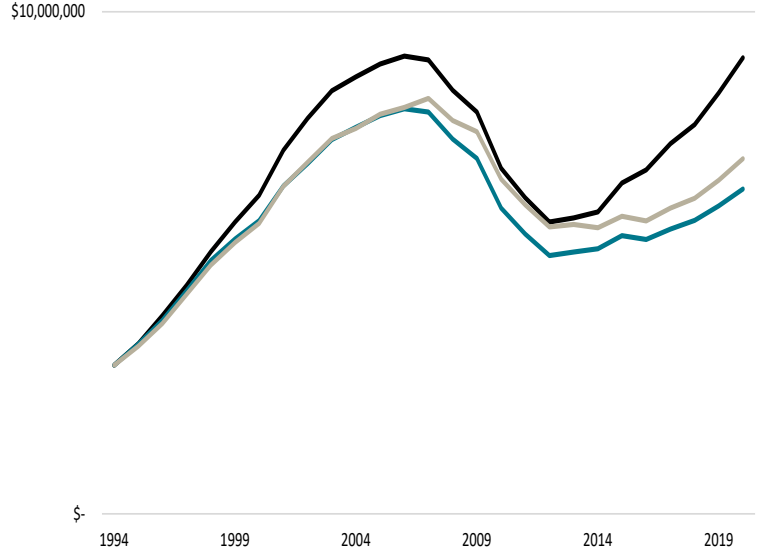


Chart D-15
Wixom (Oakland County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart D-14
Coopersville

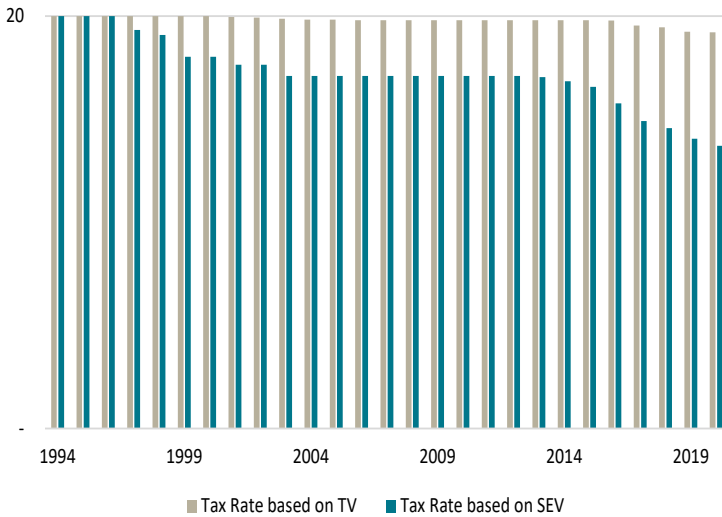
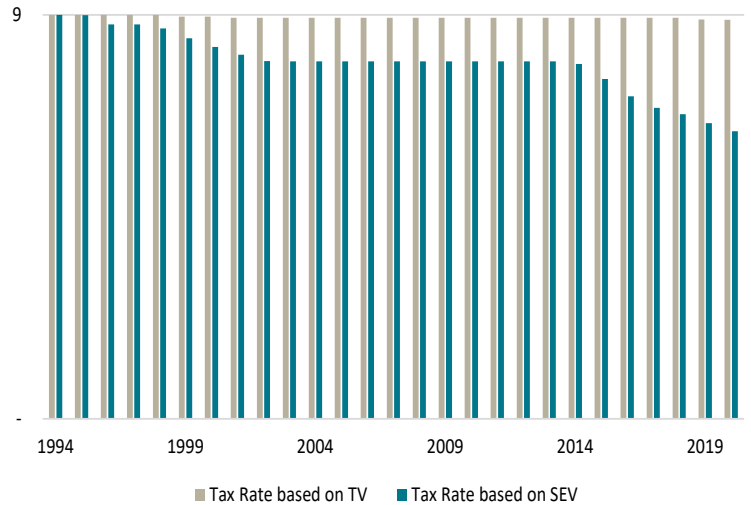


Chart D-16
Wixom



Note: Ottawa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Note: Jackson County missing losses and additions data for FY1997, FY1998, FY2000, and FY2002 (kept MRF at 1.0 for years missing data)

Source: Michigan Department of Treasury, Forms L-4028, L-4029, Ad Valorem Tax Levy Reports

Appendix E

Tax Data in Suburban Communities

Property Tax Rate Scenarios, 1994 to 2020

Chart E-1
Farmington Hills (Oakland County)

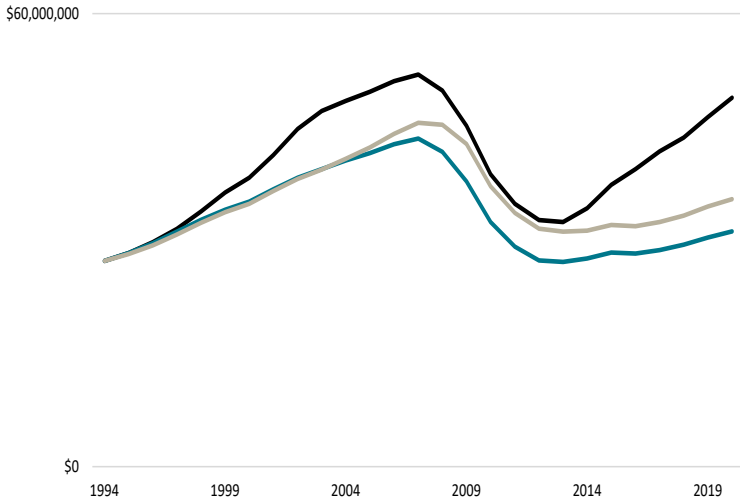
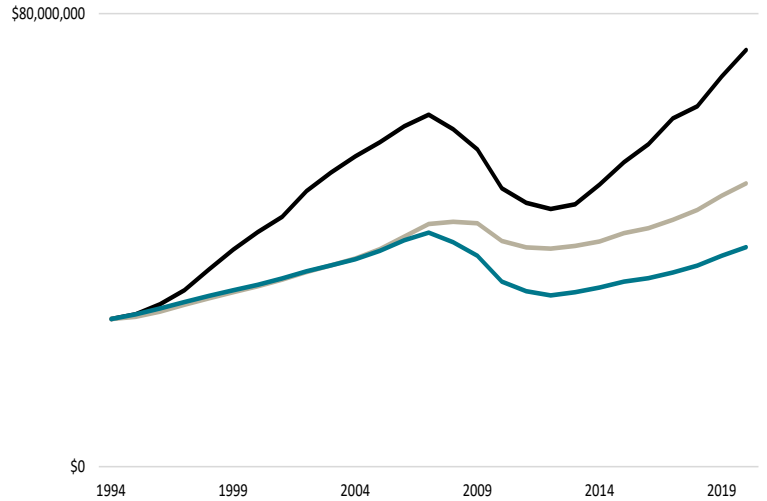


Chart E-3
Royal Oak (Oakland County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart E-2
Farmington Hills

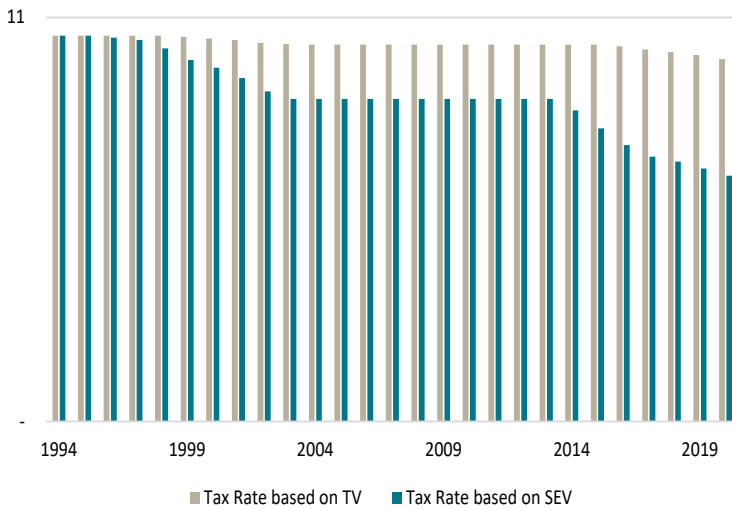
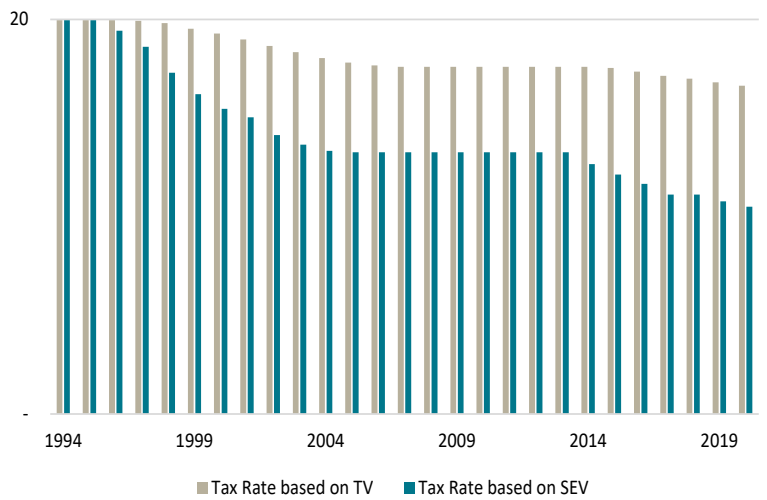


Chart E-4
Royal Oak



Property Tax Rate Scenarios, 1994 to 2020

Chart E-5
Summit Township (Jackson County)

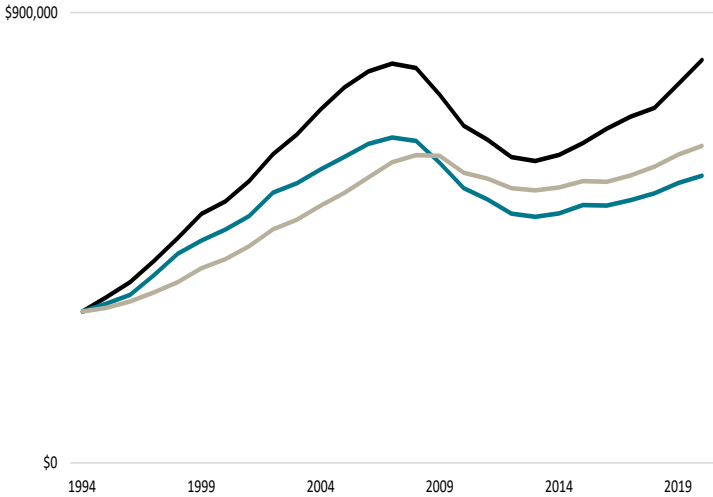
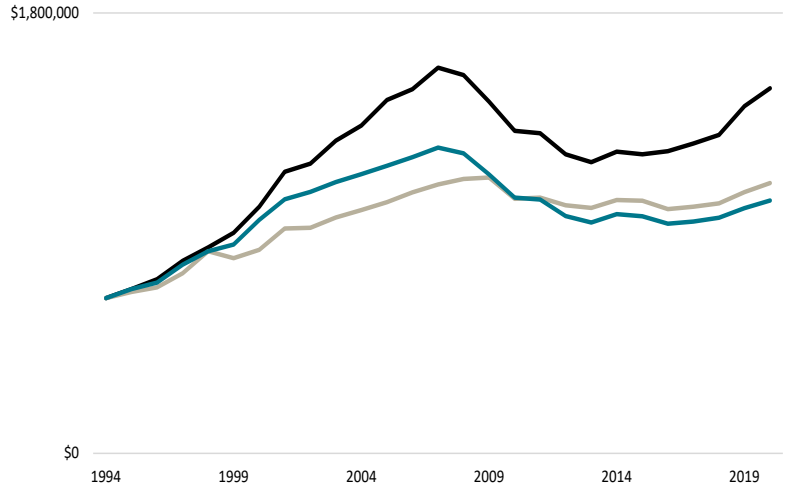


Chart E-7
Blackman Township (Jackson County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart E-6
Summit Township

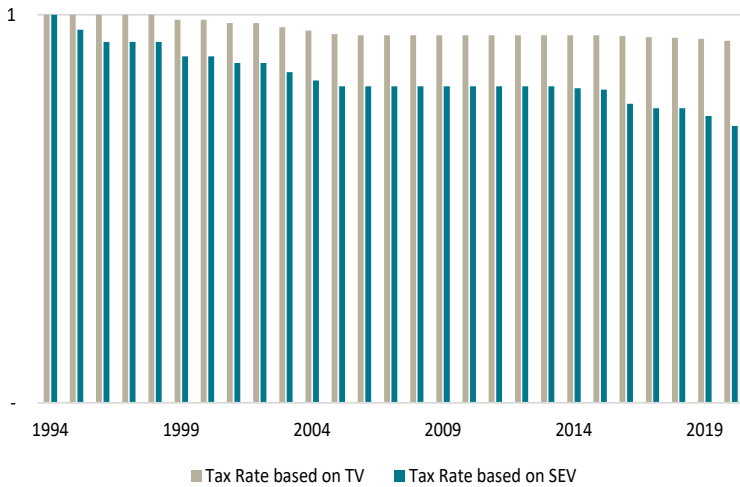
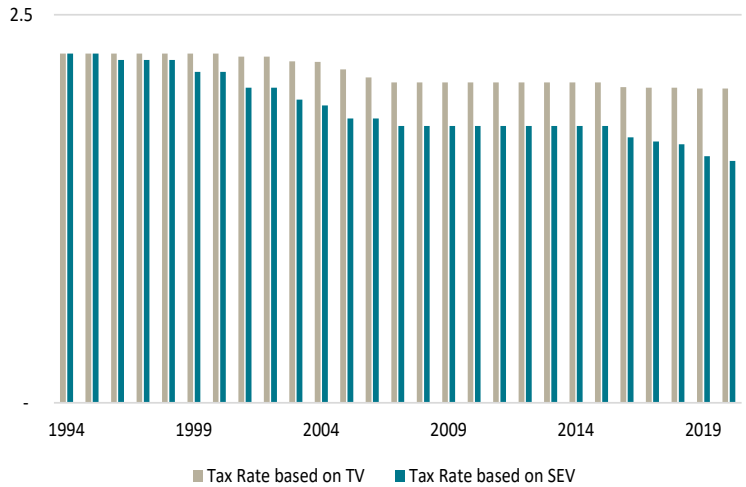


Chart E-8
Blackman Township



Note: Jackson County missing losses and additions data for FY1997, FY1998, FY2000, and FY2002 (kept MRF at 1.0 for years missing data)

Property Tax Rate Scenarios, 1994 to 2020

Chart E-9
Park Township (Ottawa County)

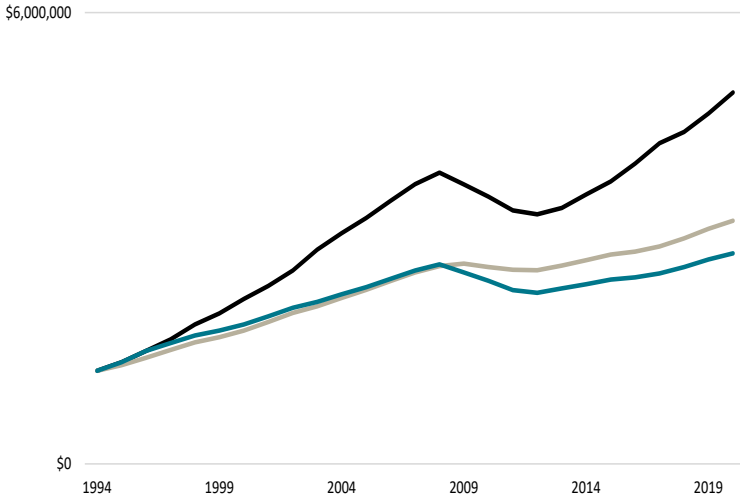
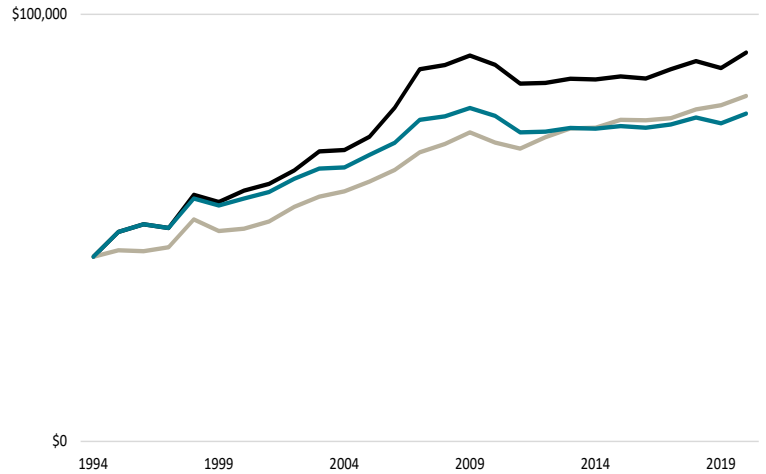


Chart E-11
Kinross Township (Chippewa County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart E-10
Park Township

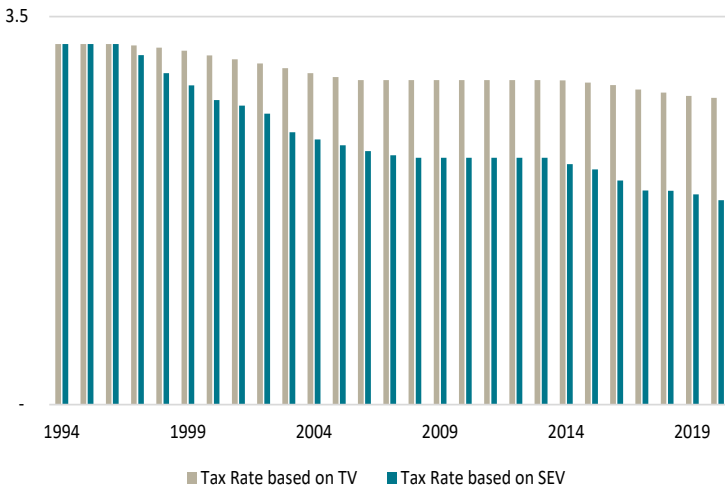
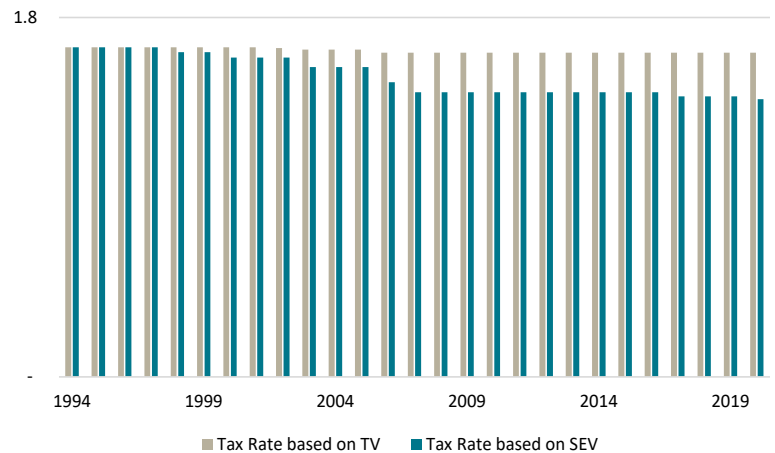


Chart E-12
Kinross Township



Note: Ottawa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Note: Chippewa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Property Tax Rate Scenarios, 1994 to 2020

Chart E-13
Zeeland (Ottawa County)

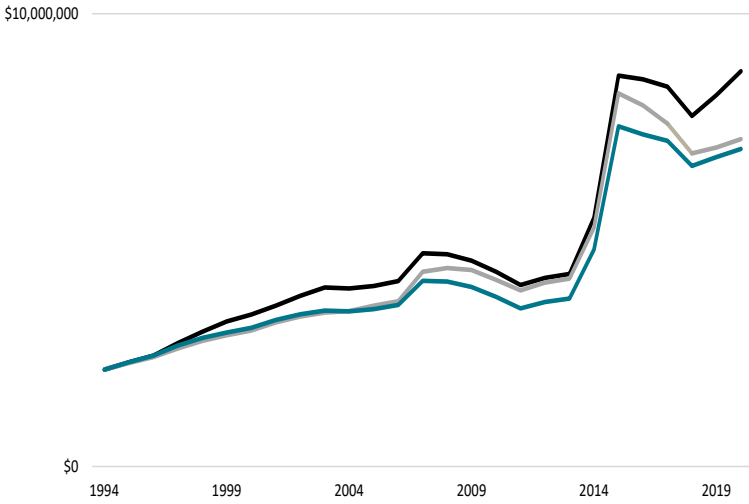
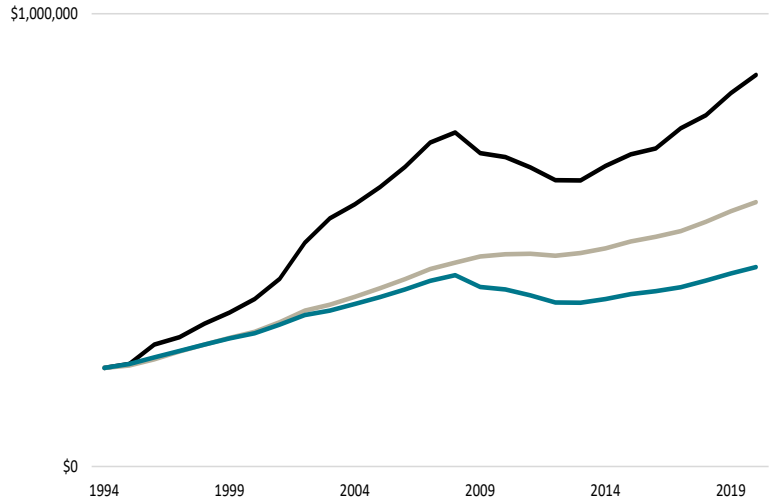


Chart E-15
Elmwood Township (Leelanau County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart E-14
Zeeland

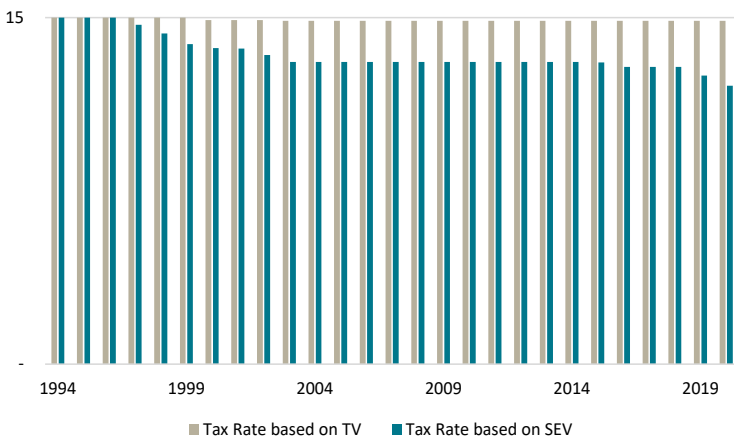
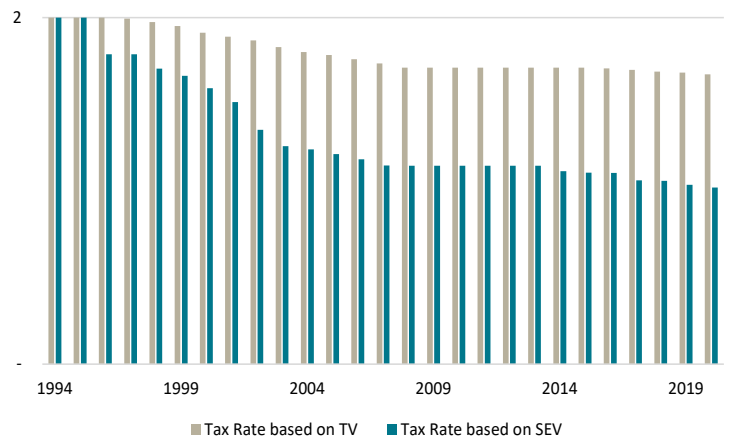


Chart E-16
Elmwood Twp



Note: Ottawa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Note: FY2015 increase is from a very large expiring IFT coming onto the assessment roll; FY2016 and 2017 decrease due to Industrial EMPP exemption; FY2018 decrease is from a large power plant settlement

Source: Michigan Department of Treasury, Forms L-4028, L-4029, Ad Valorem Tax Levy Reports

Appendix F

Tax Data in Exurb Communities

Property Tax Rate Scenarios, 1994 to 2020

Chart F-1
Allendale Township (Ottawa County)

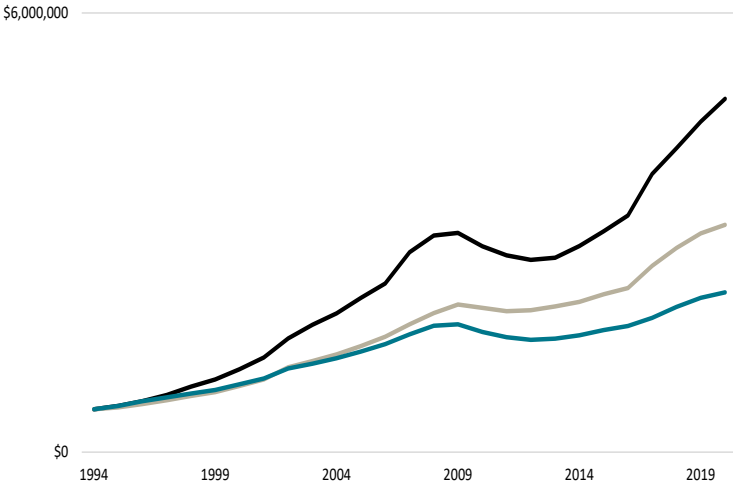
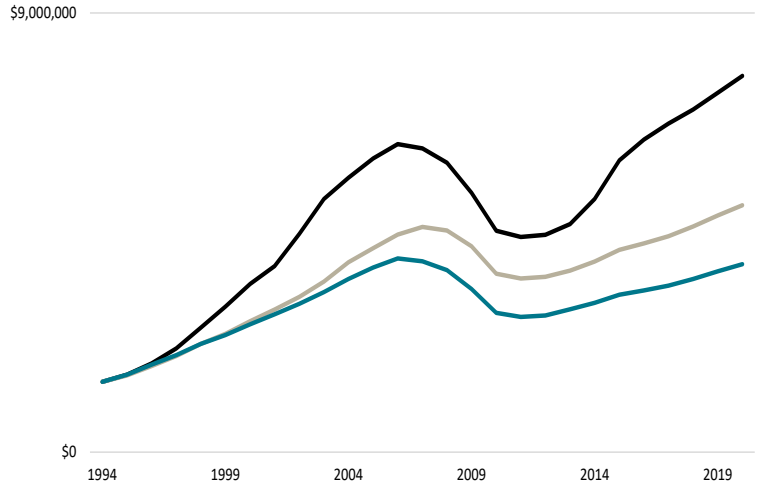


Chart F-3
Oakland Township (Oakland County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart F-2
Allendale Township

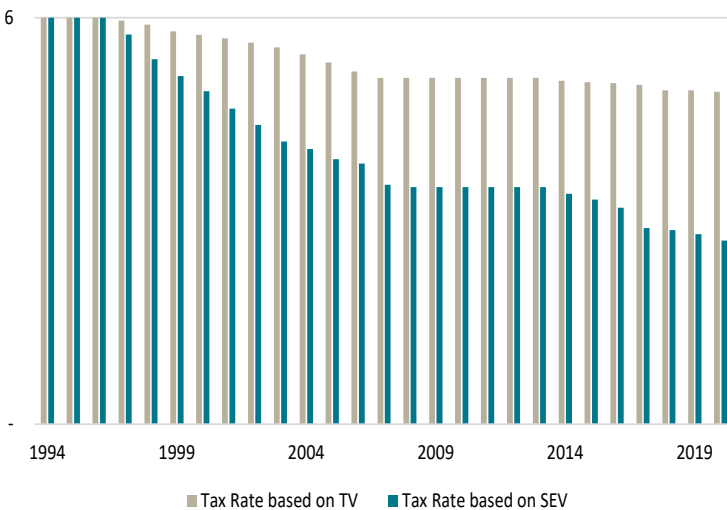
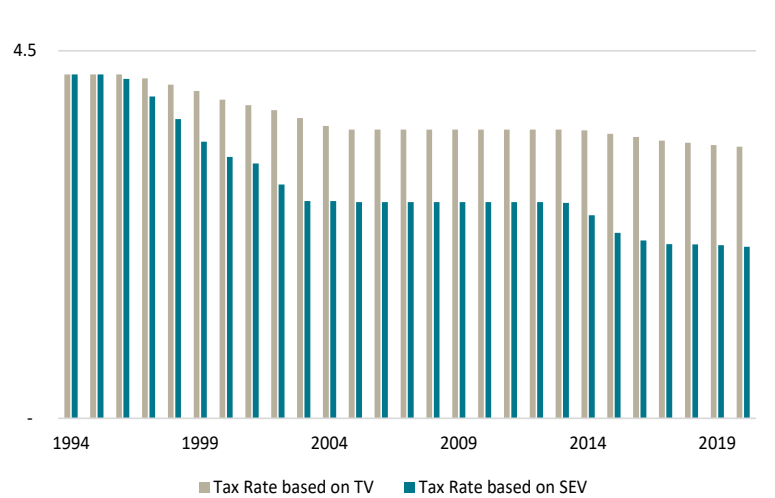


Chart F-4
Oakland Township



Note: Ottawa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Property Tax Rate Scenarios, 1994 to 2020

Chart F-5
Grass Lake Township (Jackson County)

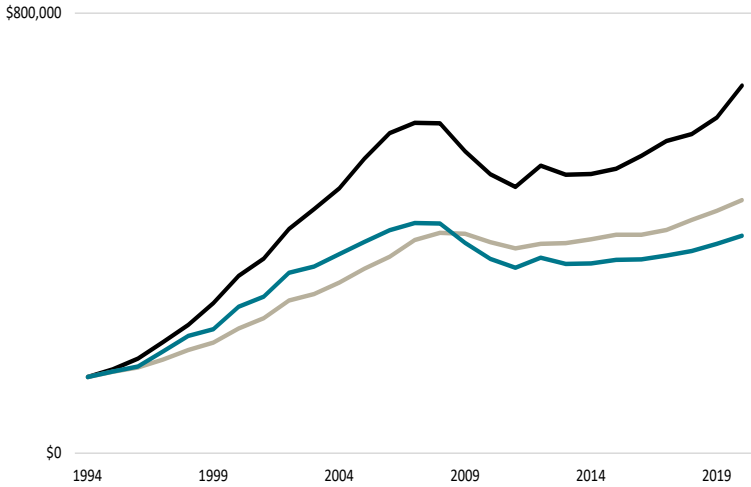
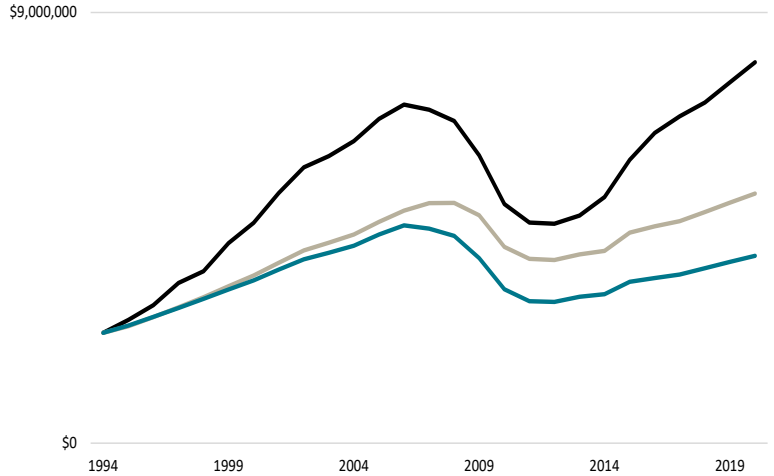


Chart F-7
Brandon Township (Oakland County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart F-6
Grass Lake Township

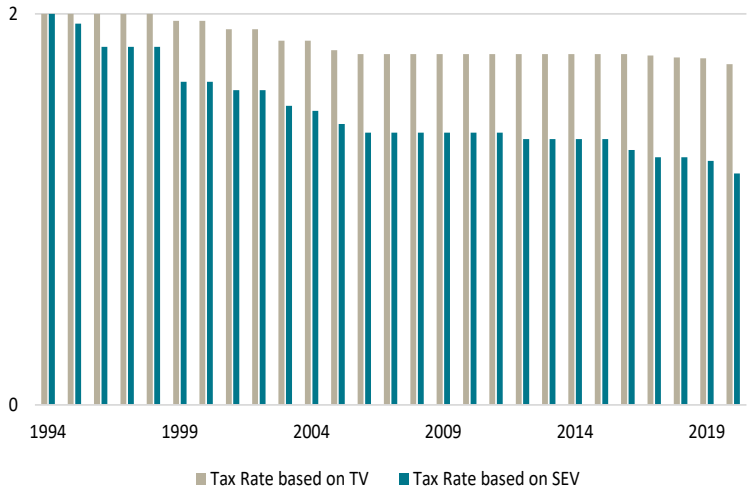
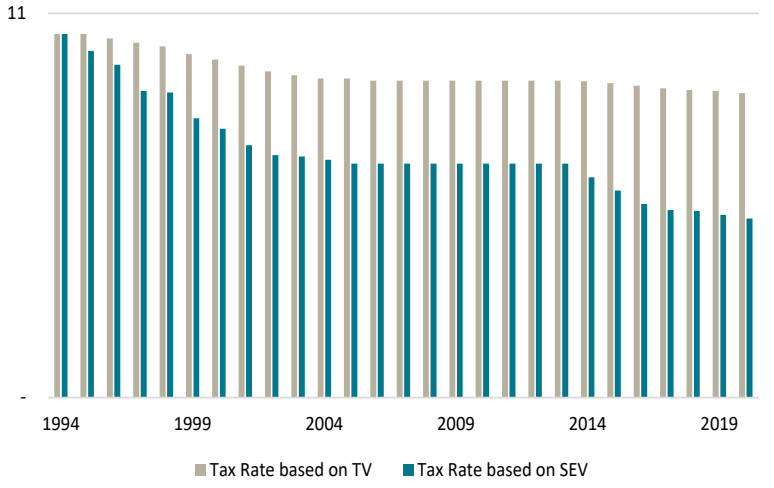


Chart F-8
Brandon Township



Note: Jackson County missing losses and additions data for FY1997, FY1998, FY2000, and FY2002 (kept MRF at 1.0 for years missing data)

Property Tax Rate Scenarios, 1994 to 2020

Chart F-9
Cambridge Township (Lenawee County)

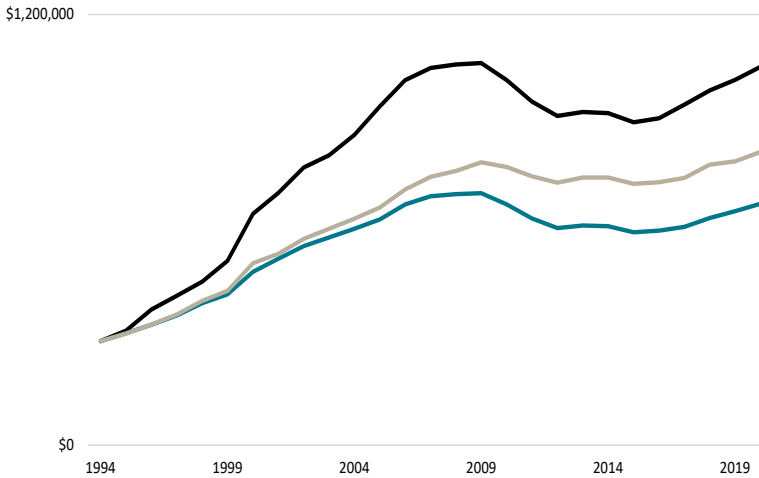
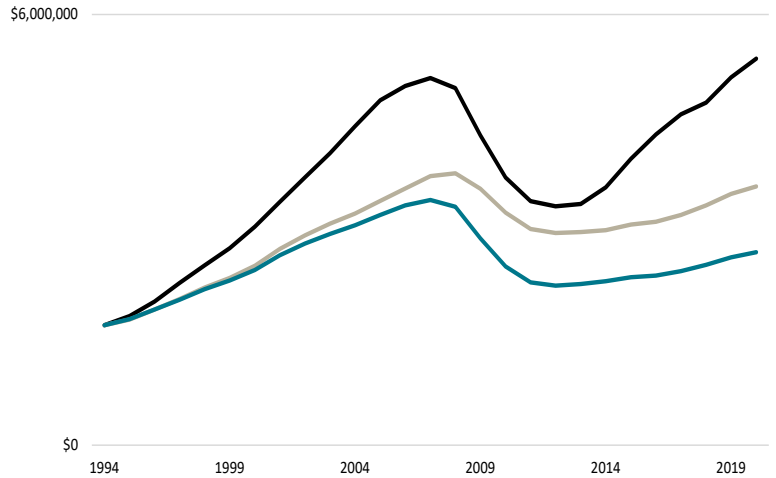


Chart F-11
Highland Township (Oakland County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart F-10
Cambridge Township

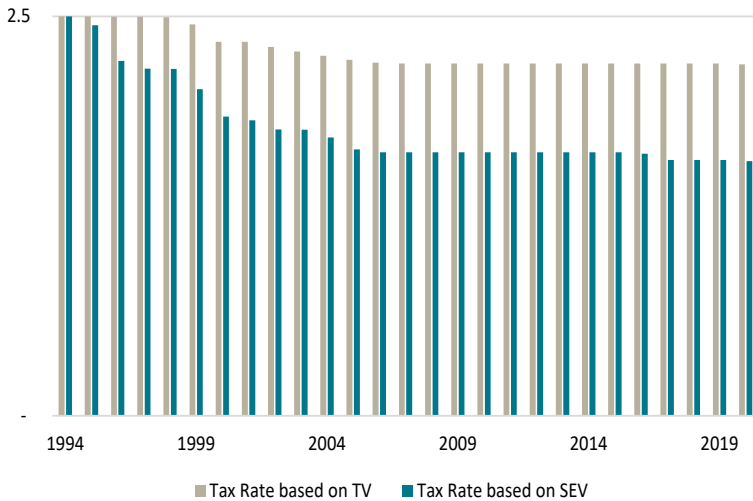
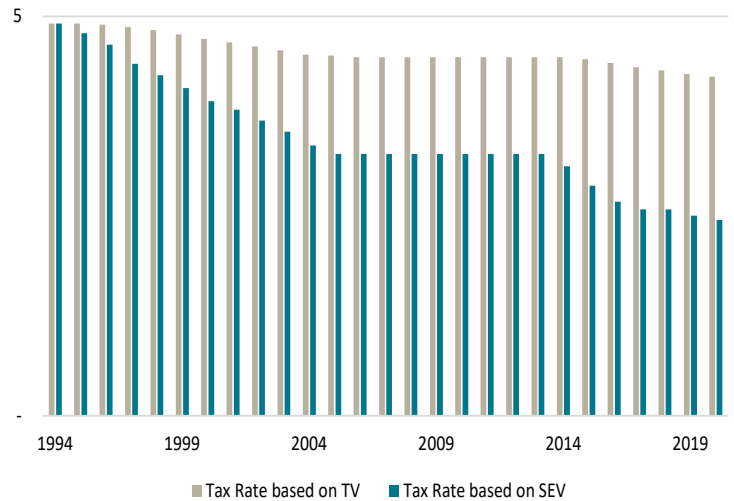


Chart F-12
Highland Township



Source: Michigan Department of Treasury, Forms L-4028, L-4029, Ad Valorem Tax Levy Reports

Appendix G

Tax Data in Rural Communities

Property Tax Rate Scenarios, 1994 to 2020

Chart G-1
Centerville Township (Leelanau County)

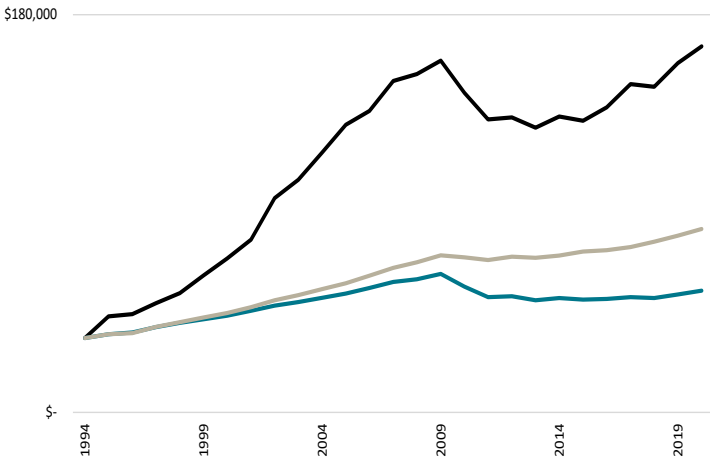
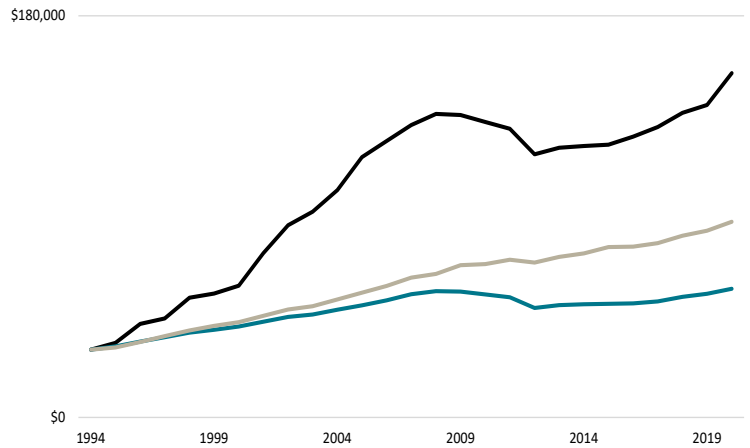


Chart G-3
Kasson Township (Leelanau County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart G-2
Centerville Township

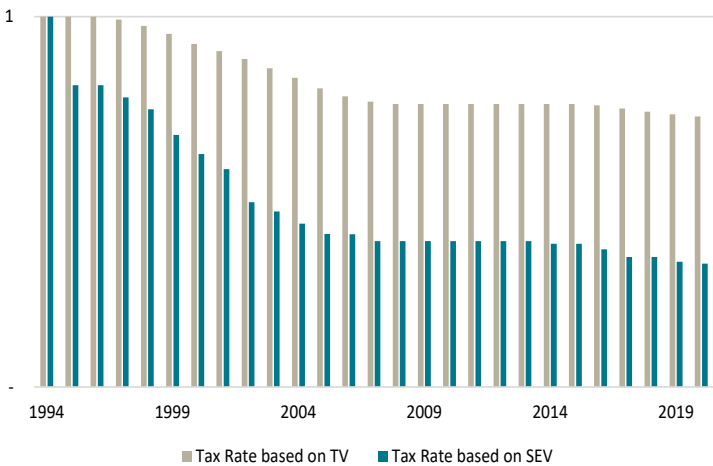
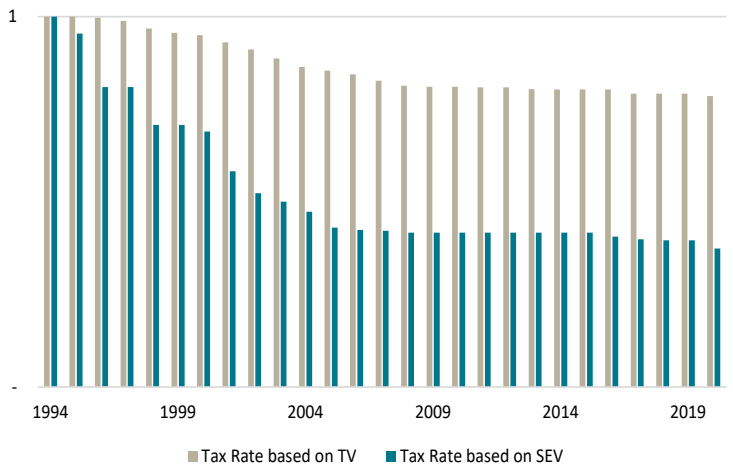


Chart G-4
Kasson Township



Property Tax Rate Scenarios, 1994 to 2020

Chart G-5
Drummond Island Township (Chippewa County)

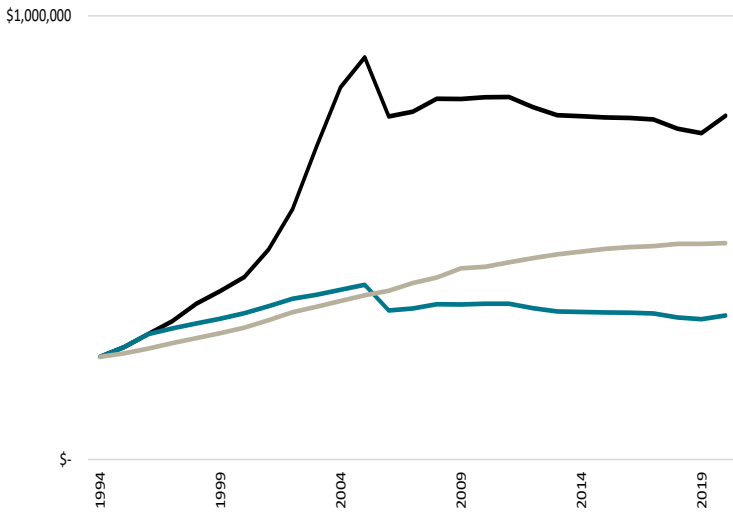
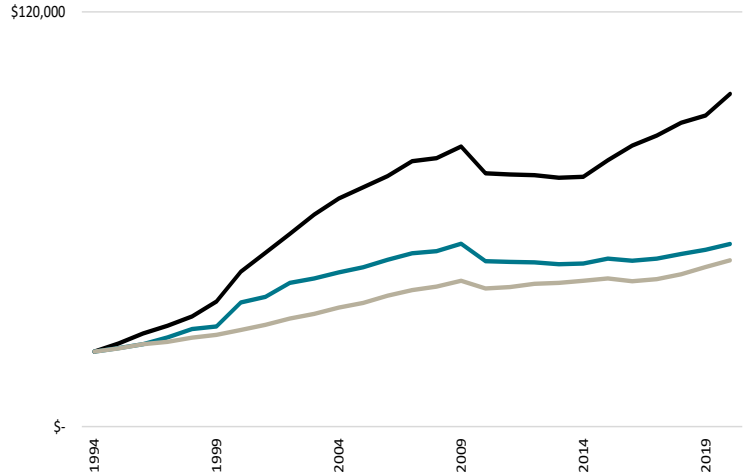


Chart G-7
Pulaski Township (Jackson County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart G-6
Drummond Island Township

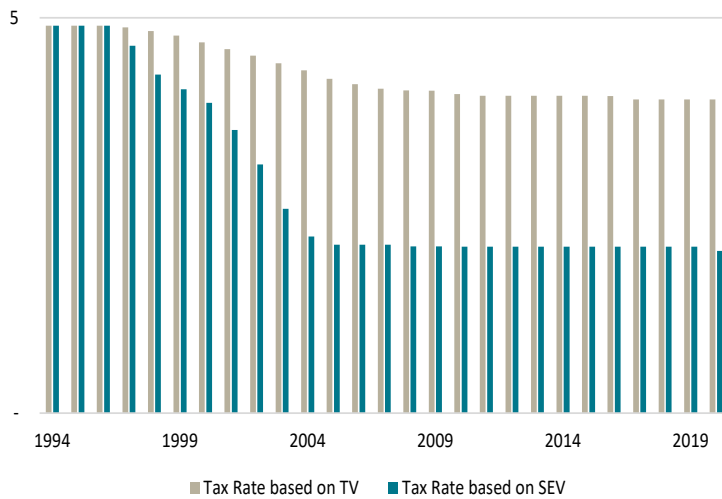
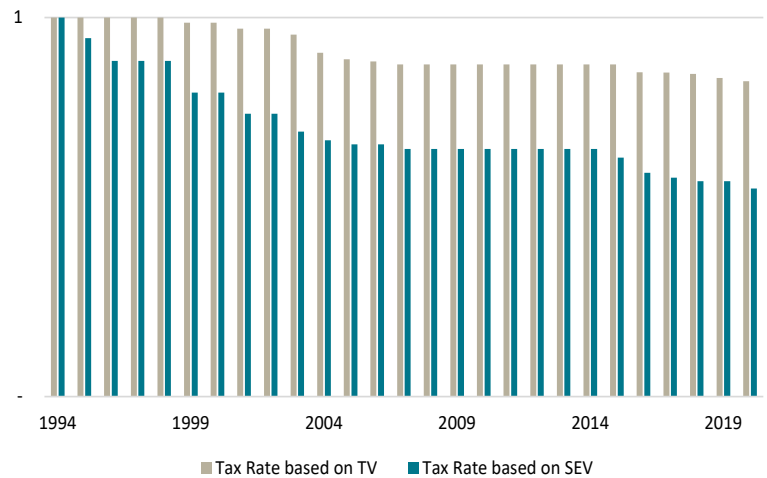


Chart G-8
Pulaski Township



Note: Chippewa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Note: Jackson County missing losses and additions data for FY1997, FY1998, FY2000, and FY2002 (kept MRF at 1.0 for years missing data)

Property Tax Rate Scenarios, 1994 to 2020

Chart G-9
Parma Township (Jackson County)

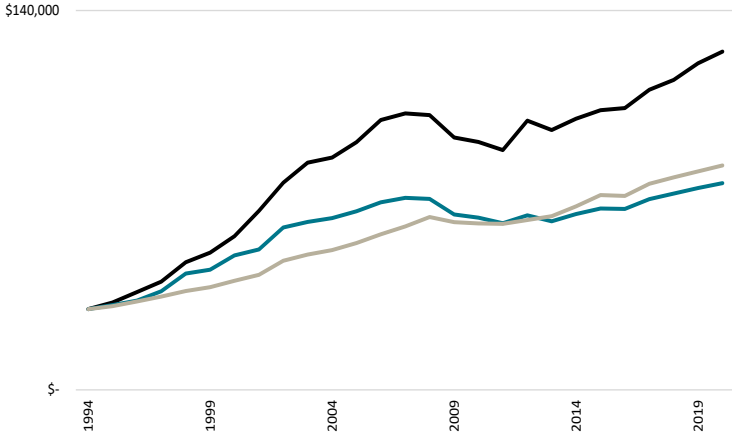
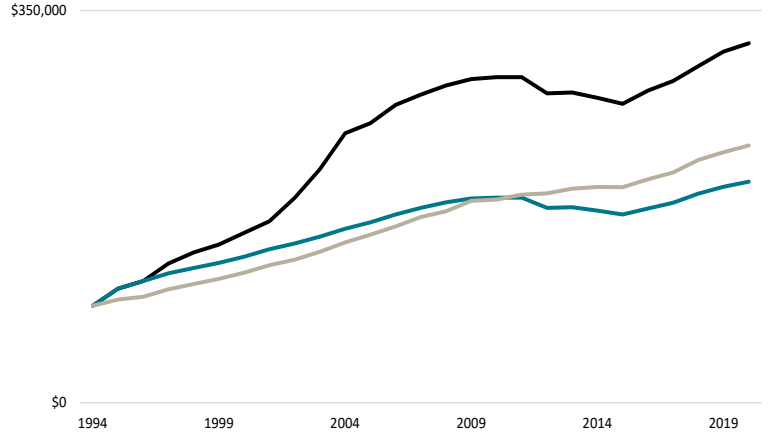


Chart G-11
Pickford Township (Chippewa County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart G-10
Parma Township

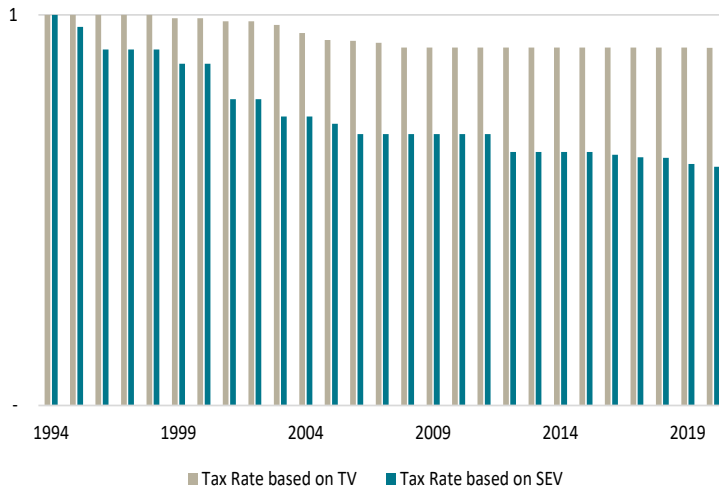
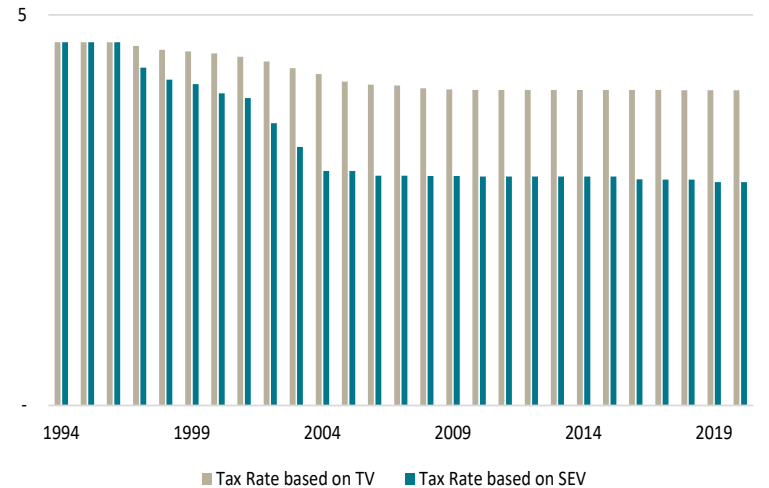


Chart G-12
Pickford Township



Note: Jackson County missing losses and additions data for FY1997, FY1998, FY2000, and FY2002 (kept MRF at 1.0 for years missing data)

Note: Chippewa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Property Tax Rate Scenarios, 1994 to 2020

Chart G-13
Leland Township (Leelanau County)

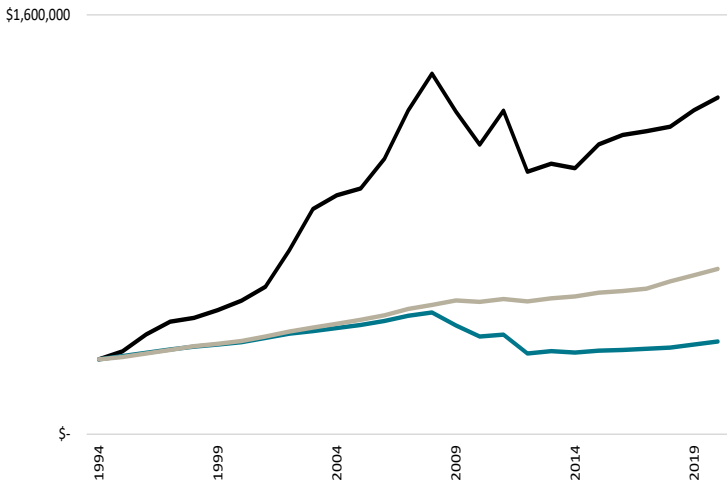
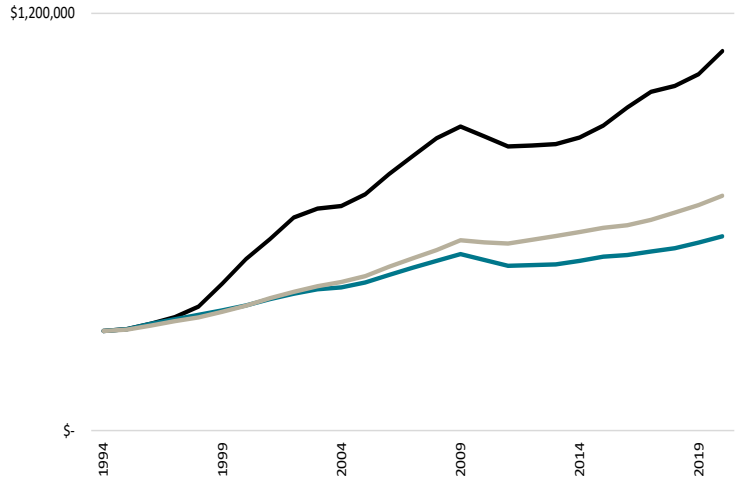


Chart G-15
Chester Township (Ottawa County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart G-14
Leland Township

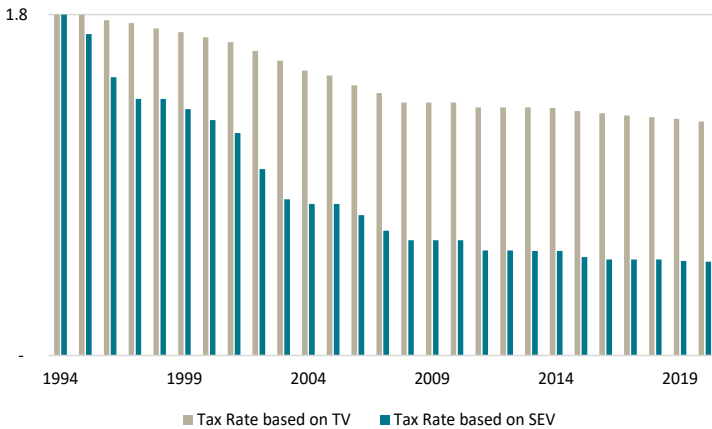
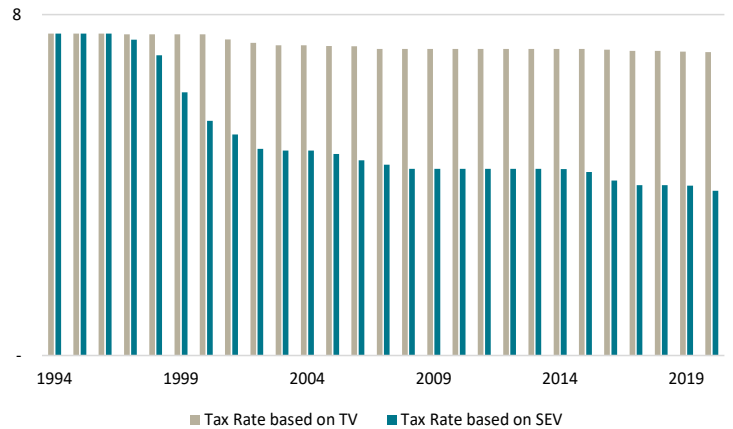


Chart G-16
Chester Township



Note: Ottawa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Property Tax Rate Scenarios, 1994 to 2020

Chart G-17
Morenci (Lenawee County)

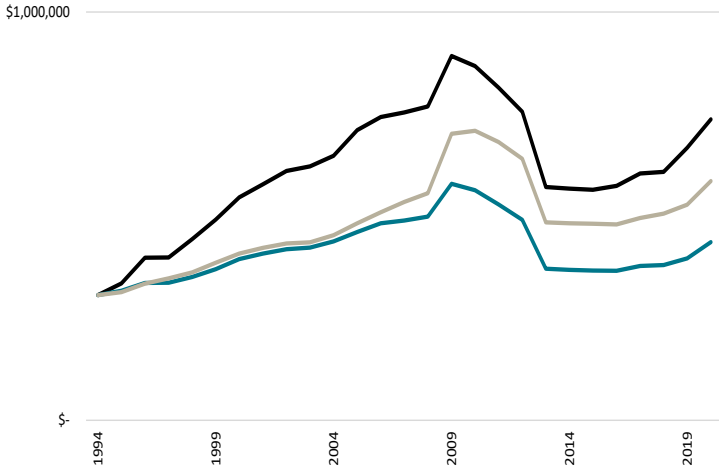
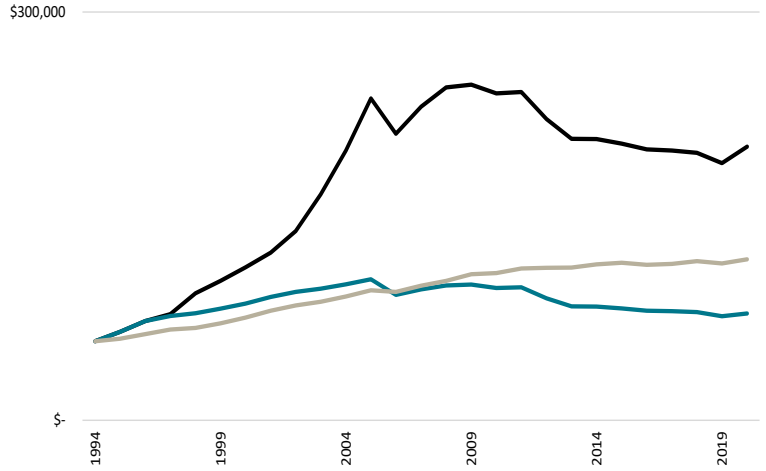


Chart G-19
Whitefish Township (Chippewa County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart G-18
Morenci

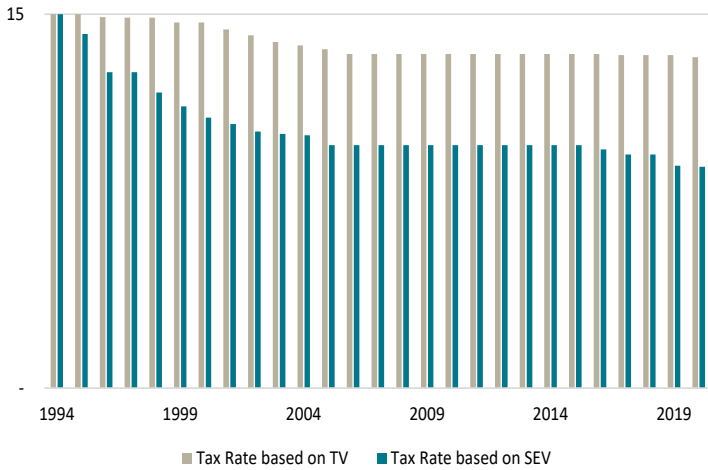
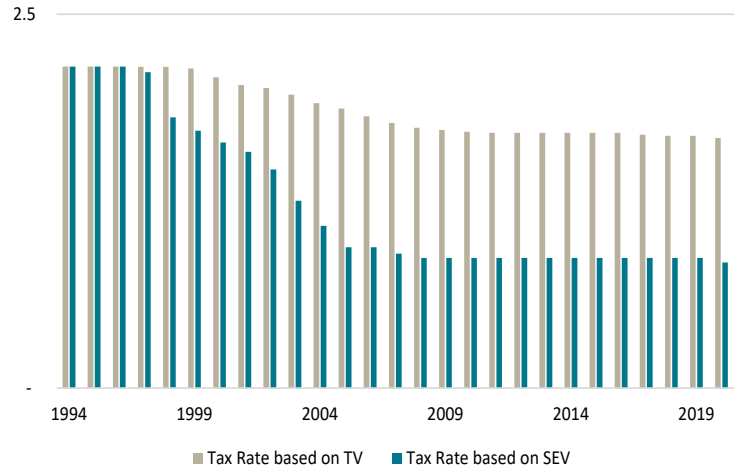


Chart G-20
Whitefish Township



Note: Chippewa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Property Tax Rate Scenarios, 1994 to 2020

Chart G-21
Hudson Township (Lenawee County)

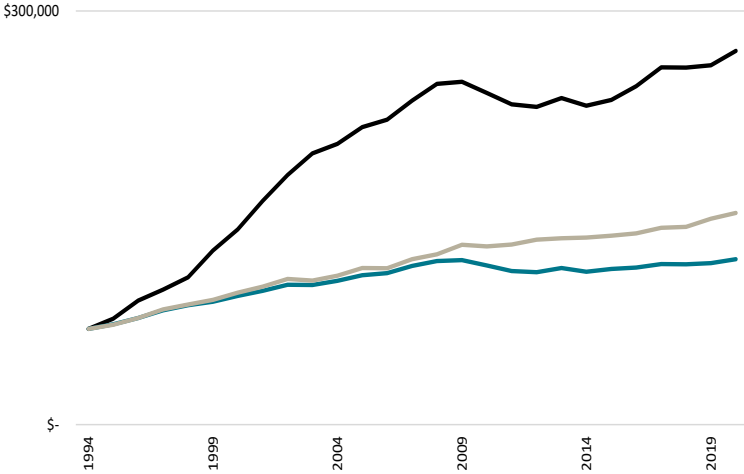
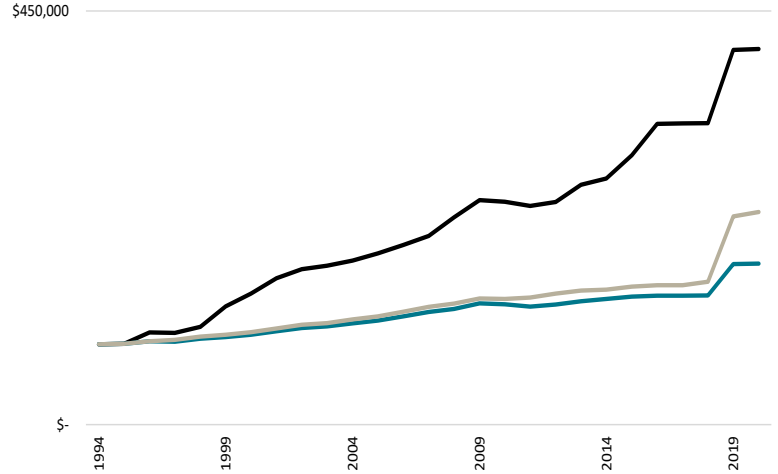


Chart G-23
Ogden Township (Lenawee County)



Note: In FY2019, Nexus Gas Line was put into township and added approximately \$23.9 million in personal property

Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart G-22
Hudson Township

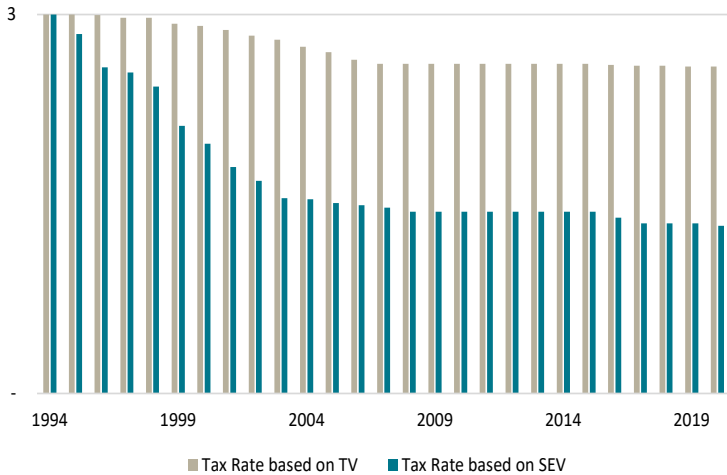
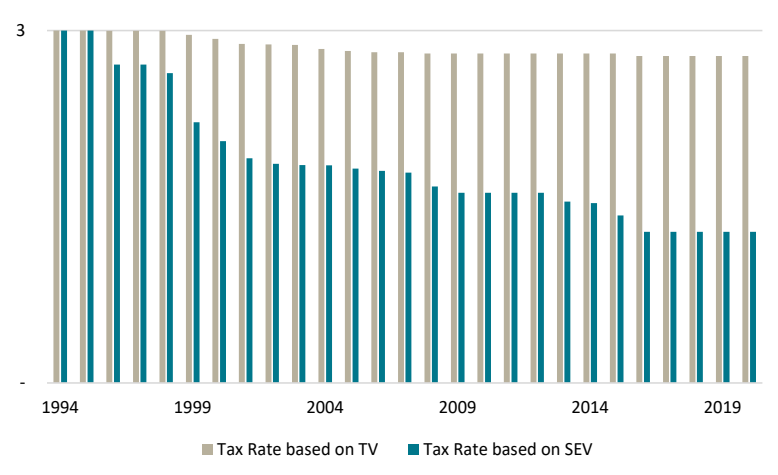
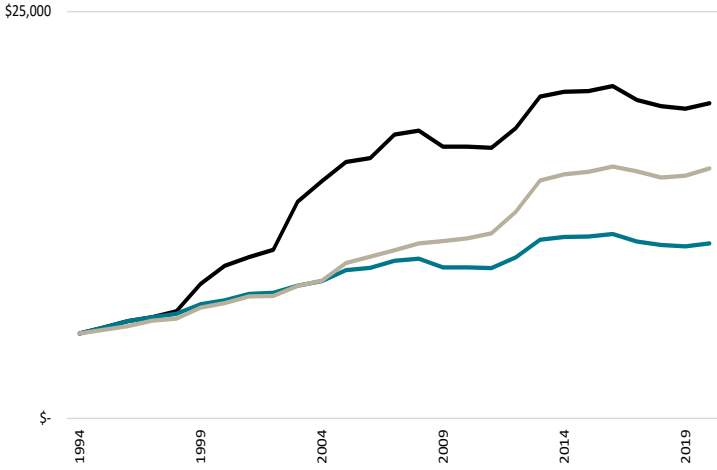


Chart G-24
Ogden Township



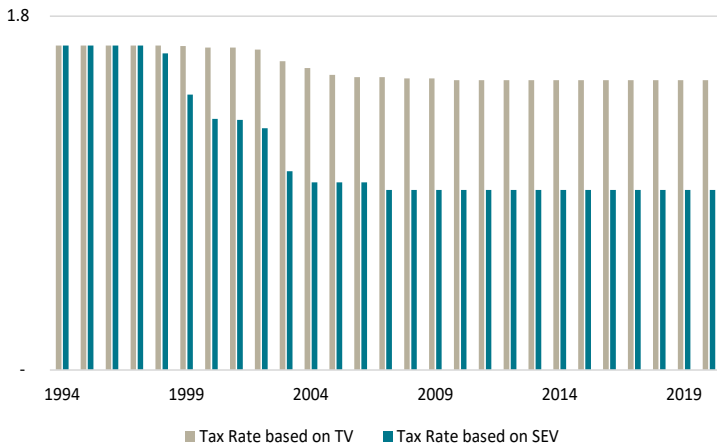
Property Tax Rate Scenarios, 1994 to 2020

Chart G-25
Chippewa Township (Chippewa County)



Hypothetical Tax Rate Scenarios based on 1993 Millage Rate and MRF Calculation, 1994 to 2020

Chart G-26
Chippewa Township



Note: Chippewa County data for additions and losses starts in FY1996 (used MRF of 1.0 for FY1995-FY1996)

Source: Michigan Department of Treasury, Forms L-4028, L-4029, Ad Valorem Tax Levy Reports

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