# Council Comments

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1978 STATE BALLOT ISSUES

## THE TAX LIMITATION PROPOSAL OF TAXPAYERS UNITED

Initiative petitions have been filed by Taxpayers United for Tax Limitation to place on the ballot at the November 7 election a proposed amendment to the Michigan Constitution of 1963. This amendment to Article IX (the finance article) of the constitution would add ten new sections (25 through 34) and amend one existing section (6). The proposal provides limitations on total state revenues and spending and on local taxes by:

- Limiting total state revenues, excluding federal aid, to a fixed ratio or percentage of the total personal income of Michigan residents in the prior calendar year. This ratio which is estimated to be 9.4 percent of personal income will limit future increases in total state revenues to a fixed percentage of any increase in the personal income of Michigan residents that occurs from year to year.

- Imposing limitations on state-local fiscal relationships to prevent the state from shifting costs to local governments.

- Limiting the taxing powers of local units of government. While local units can impose or increase the rate of any tax currently authorized by law or charter, any "new" local taxing power authorized after the effective date of the amendment could be exercised only with voter approval. Also, increases in property tax levies resulting from increases in the state equalized value of existing property could not exceed the rate of increase in the Consumer Price Index.

- Prohibiting the levy of property taxes outside of millage limitation for the payment of principal and interest on bonds issued after the effective date of the amendment that have not been approved by the voters.

### Limitations on State Revenues and Expenditures

The proposed amendment establishes an overall limitation on total state revenues, excluding federal aid and tax credits based on actual or imputed tax liabilities, in relation to Michigan personal income. The amendment provides that actual state revenues in fiscal 1978-79 divided by calendar 1977 Michigan personal income will be the tax limitation ratio or percentage. State revenues in 1978-79 (excluding federal aid of $2.2 billion) are estimated to total $6.6 billion and personal income for 1977 is estimated to be $70.5 billion. Based on these estimates it appears that the revenue limitation ratio will be about 9.4 percent. Thus, for future years total state revenues subject to the limitation could not exceed 9.4 percent of personal income in the prior calendar year.

Table 1 on page 4 shows trends in total state revenues, revenues subject to the limitation, personal income and the tax limitation ratio or percentage for the past ten years. From fiscal 1969 through fiscal 1978 total state revenues subject to limitation increased by 182 percent and 151 percent, respectively, while total personal income increased 114 percent. Because revenues increased at a faster rate than personal income, the revenue limitation ratio has increased from 7.6 percent ten years ago to a current level of 9.8 percent and an estimated level of 9.4 percent in 1978-79.

Procedures for Increasing the Limit. The proposed amendment specifies three procedures by which the state revenue limitation can be increased. First, the limitation can be increased by vote of the people approving an amendment to the constitution. Second, if responsibility for funding a program is transferred from one level of government to another as a result of a constitutional amendment, the state revenue limit can be adjusted, but the new combined state and local revenues authorized can be no greater than the amount authorized prior to the transfer. Third, the limitation can be increased for a one-year period if the governor and the legislature by a two-thirds vote declare an emergency and specify the nature, cost and method of financing the emergency.

Refunds of Excess Revenues. The amendment provides that if actual revenues in a fiscal year exceed the dollar amount of the limitation by one percent or more, the total amount of the excess revenue shall be refunded to taxpayers pro rata on their income tax and single business tax returns. If the excess revenue is less than one percent of the total dollar amount of the limitation, the excess may be transferred to the budget stabilization fund.

Impact on State Bonding. The proposed state revenue limit does not apply to revenue needed to pay principal and interest on state bonds approved by the voters pursuant to Sec. 15 of the constitution or state school bond loan fund obligations (Sec. 16). State bonds issued pursuant to these sections will continue to be full faith and credit unlimited tax obligations of the state. Principal and interest on other state obligations which have not been approved by the voters such as highway tax dedicated bonds and state building authority bonds would be subject to the revenue limitation.

State Spending Limit. The proposed amendment limits state spending to the amount of the revenue limit plus federal aid, any surplus from a prior year (presumably including budget stabilization funds) and payments of principal and interest on voter approved state debt or school bond loans. The proposed spending limit basically reinforces the present constitutional requirements for a balanced state budget.

## Limitations on State-Local Fiscal Relationships

The proposed amendment provides for several limitations on state-local fiscal relationships which appear to be designed to insure that the imposition of an overall state revenue limit does not encourage the state to reduce state aid to local governments or shift state costs to local governments. The state is prohibited from reducing the proportion of total state spending paid to all units of local government as a group below the proportion in effect in 1978-79. An estimated 41.5 percent of total state spending is to be paid to local governments in 1978-79. Since this applies to local governments "taken as a group," the state could still shift aid among types of local units or among programs and services.

The state is prohibited from reducing the state-financed proportion of the necessary costs of any existing activity or service required of units of local government by law. it appears that this provision would apply to the state proportion of the necessary costs statewide rather than in each unit of local government.

Finally, the state is required to finance the necessary increased costs incurred by local governments stemming from any state-mandated new activity or service or increase in the level of any activity or service beyond that required by existing law. It appears that this provision would require the state to reimburse each local unit for 100 percent of its necessary costs of carrying out any new mandated function whether mandated by law or by state agency.

## Limitations on Local Taxes

Section 31 of the proposed amendment imposes a number of restrictions on the taxing authority of local units of government. Essentially, two classes of local taxes are established: "old" and "new." An "old" tax is one that the local unit of government is authorized to impose by law or charter at the time the amendment takes effect. Local units could impose or increase the rate of an old tax up to currently authorized limits without voter approval. Any "new" local tax authorized after the amendment takes effect could not be imposed nor could its rate be increased without approval of the voters.

The amendment establishes a property tax roll-back provision. If the state equalized value of existing property (exclusive of new construction and improvements) in a taxing unit increases more rapidly than the Consumer Price Index, the maximum authorized property tax rate for the taxing unit is reduced so that the total tax levy on existing property is no greater than the prior-year levy adjusted for inflation as measured by the U.S. Consumer Price Index. In order to conform to the property tax uniformity requirements of the constitution, this provision would apply to each taxing unit as a whole rather than to individual parcels of property within the taxing unit. The amendment also provides that if the definition of the base of an existing tax is broadened (e.g., by repealing exemptions or expanding the coverage), the maximum authorized tax rate in each local unit shall be reduced proportionately so that the total yield of the tax does not increase.

These restrictions on local taxing powers would not apply to taxes imposed to pay principal and interest on local debt authorized prior to the effective date of the amendment.

## Limitations on Local Property Taxes for Debt Service

The proposal also amends the existing Article IX, Section 6, of the constitution which provides that taxes imposed for the payment of principal and interest on debt are excluded from the constitution millage limitations and that taxes may be levied for the payment of principal and interest without limitation as to rate or amount. The proposed constitutional amendment would amend this section to provide that the exclusion from millage limitations of taxes levied for the payment of principal and interest applies only to bonds or other types of indebtedness approved by the electors. Taxes could not be levied outside of millage limitations to pay principal and interest on future bond issues that have not been approved by the voters, but local units could continue to levy taxes without limit as to rate or amount to pay principal and interest on any general obligation debt outstanding at the time the amendment takes effect.

Local units of government are currently authorized to issue without voter approval a wide variety of general obligation bonds or other evidence of indebtedness which pledge the full faith and credit of the local unit and, once such bonds are issued, the local unit can levy property taxes outside its millage limitations without voter approval to pay the principal and interest on the bonds. During 1977, local units issued about $500 million of general obligation bonds and only about 15 percent of the total was approved by the voters.

Under the proposed amendment local units would be required to submit to the electors proposed general obligation bond issues that pledged the full faith and credit and unlimited taxing power of the local unit, but could continue to issue without voter approval limited tax obligation bonds (e.g., bonds that pledged an existing revenue source such as motor vehicle fund revenues), special assessment bonds and self-supporting revenue bonds.

*The Research Council has prepared a detailed technical analysis of this proposed amendment and a limited number of copies are available upon request.*

Table 1

Total State Revenues, Revenues Subject to the Limitation, Personal Income and Revenue Limitation Ratio, 1968-69 to 1978-79

| | Total State Revenues | | Revenue Subject to Limitation[1] | | Personal Income[2] Calendar Years 1968-1977 | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Amount (Millions) | % Inc. over Prior Year | Amount (Millions) | % Inc. over Prior Year | Amount (Millions) | % Inc. over Prior Year | Revenue Limitation Ratio[3] |
| 1968-69 | $ 2,874.6 | — | $2,401.8 | — | $32,980.0 | — | — |
| 1969-70 | 3,080.4 | 7.2% | 2,515.0 | 4.7% | 36,056.0 | 9.3% | 7.6% |
| 1970-71 | 3,444.2 | 11.8 | 2,743.0 | 9.0 | 37,158.0 | 3.1 | 7.6 |
| 1971-72 | 4,158.4 | 20.7 | 3,262.2 | 18.9 | 39,188.0 | 5.5 | 8.8 |
| 1972-73 | 5,021.8 | 20.8 | 3,821.4 | 17.1 | 43,428.0 | 10.8 | 9.8 |
| 1973-74 | 5,373.1 | 7.0 | 4,110.6 | 7.6 | 48,457.0 | 11.6 | 9.5 |
| 1974-75 | 5,585.0 | 3.9 | 4,142.9 | 0.8 | 51,690.0 | 6.7 | 8.6 |
| 1975-76[a] | 7888.4[a] | 41.2[a] | 5,747.4[a] | 38.7[a] | 54,449.0 | 5.3 | N.A. |
| 1976-77 | 7147.7[a] | -9.0[a] | 5,336.8[a] | -7.1[a] | 61,515.0 | 13.0 | 9.8 |
| 1977-78[b] | 8,121.5 | 13.2 | 6,040.8 | 13.2 | 70,504.0 | 14.6 | 9.8 |
| Percent Increase 1968-69 to 1977-78 | 182.5% | | 151.5% | | 113.8% | | |
| Average Annual | 13.0% | | 11.4% | | 8.9% | | |
| 1978-79b | $ 8,775.5 | 8.1% | 6636.5 | 9.9% | N.A. | N.A. | 9.40% |

[1] Total state revenue excluding federal aid and including non-tax credits.

[2] Personal Income is for calendar year ending during fiscal year. 1975-77 figures are preliminary and subject to revision in August, 1978, by U.S. Department of Commerce.

[3] Revenue limitation ratio is fiscal year "revenue subject to limitation" divided by prior calendar year personal income (e.g., 1977-78 revenue ÷ 1976 personal income).

[a] Fiscal year 1975-76 was extended to 15 months, so revenue amounts and percent increases or decreases are not comparable to figures for 1974-75 and 1976-77.

[b] 1977-78 and 1978-79 revenues are Governor's budget estimates.