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RESEARCH COUNCIL  
OF MICHIGAN

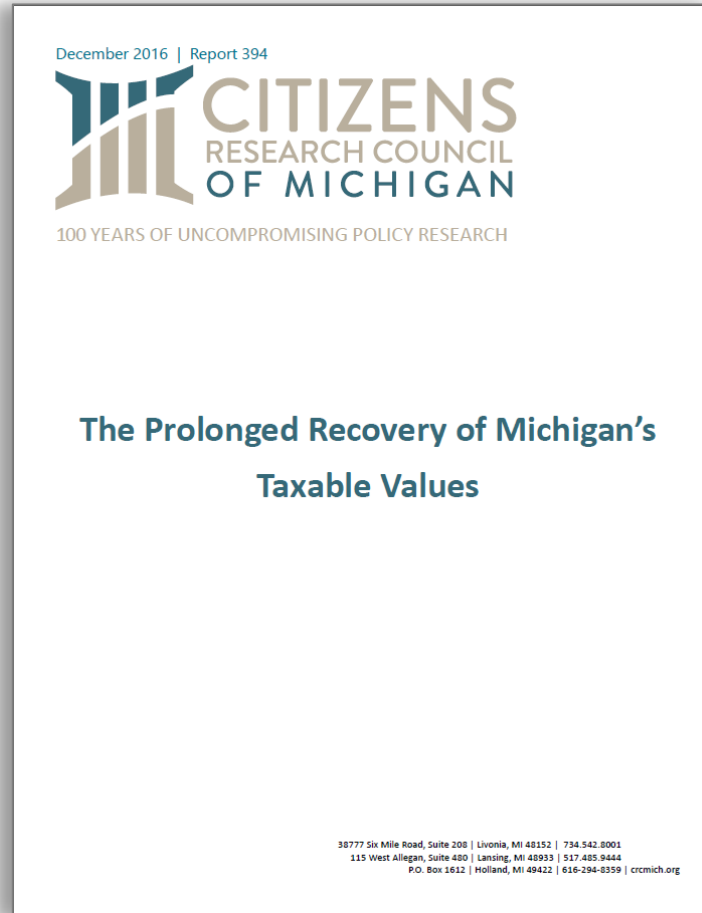
The Prolonged Recovery  
of Michigan's Taxable  
Values

# The Prolonged Recovery of Michigan's Taxable Values

Citizens Research Council of Michigan Webinar  
December 22, 2016

Eric Luper, President

[crcmich.org/the-prolonged-recovery-of-michigans-taxable-values-2016/](http://crcmich.org/the-prolonged-recovery-of-michigans-taxable-values-2016/)



# Citizens Research Council

- Founded in 1916
- Statewide
- Non-partisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research – accurate, independent and objective
- Relies on charitable contributions from Michigan foundations, businesses, and individuals
- *[www.crcmich.org](http://www.crcmich.org)*

# Eric Lupher, President of Citizens Research Council of Michigan

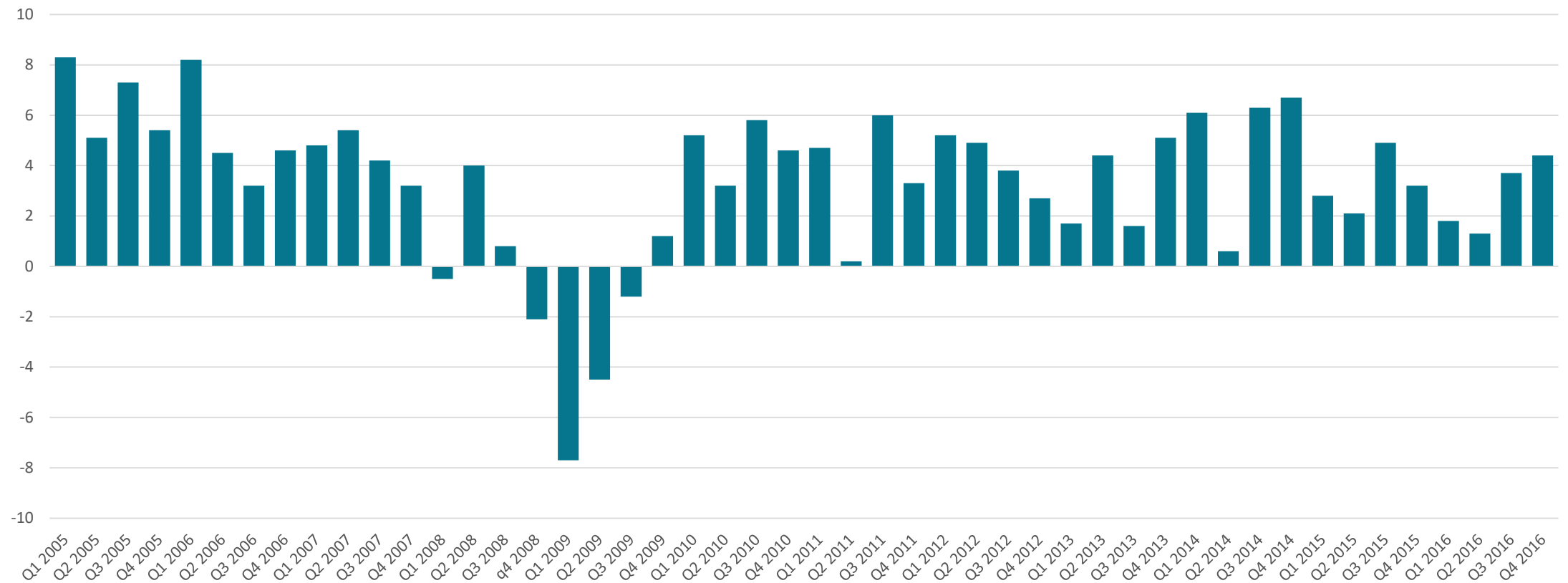


- 29 years with Citizens Research Council
- Expert on Michigan local government, including
  - intergovernmental cooperation
  - governance issues
  - municipal finance
- Also has researched such issues as
  - state taxes
  - state revenue sharing
  - highway funding
  - unemployment insurance
  - economic development incentives
  - stadium funding

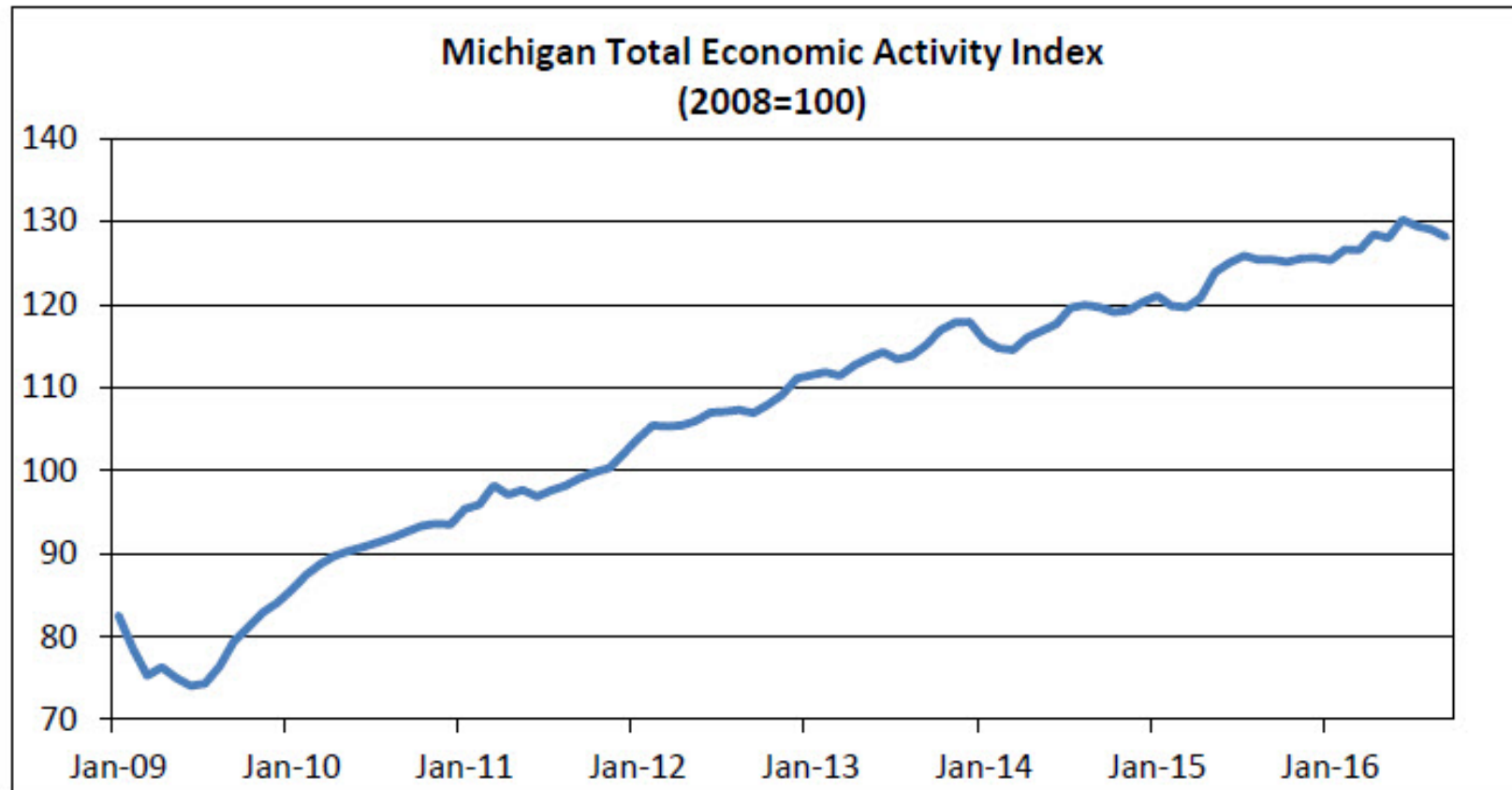
Economic recovery since worst of recession has not been shared by all

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

Growth in Michigan Real GDP



# Economic Activity has trended up

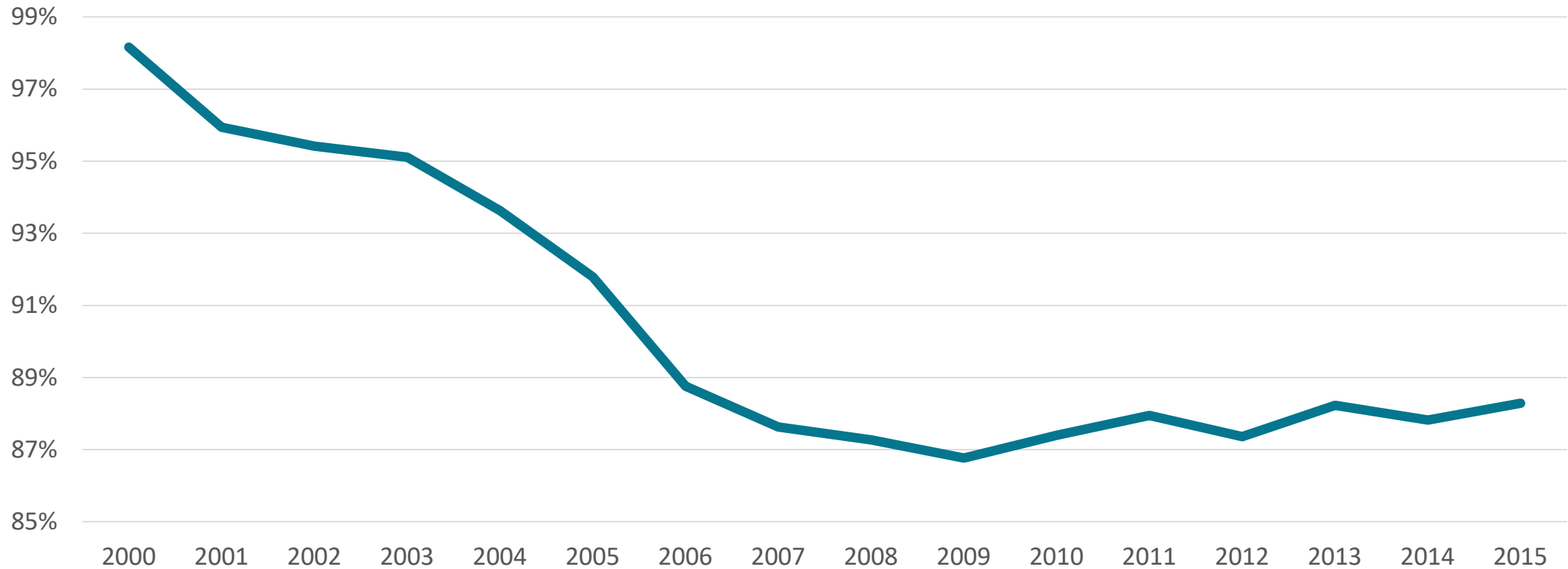


Source: Comerica Bank's Michigan Economic Activity Index, email received November 30, 2016.



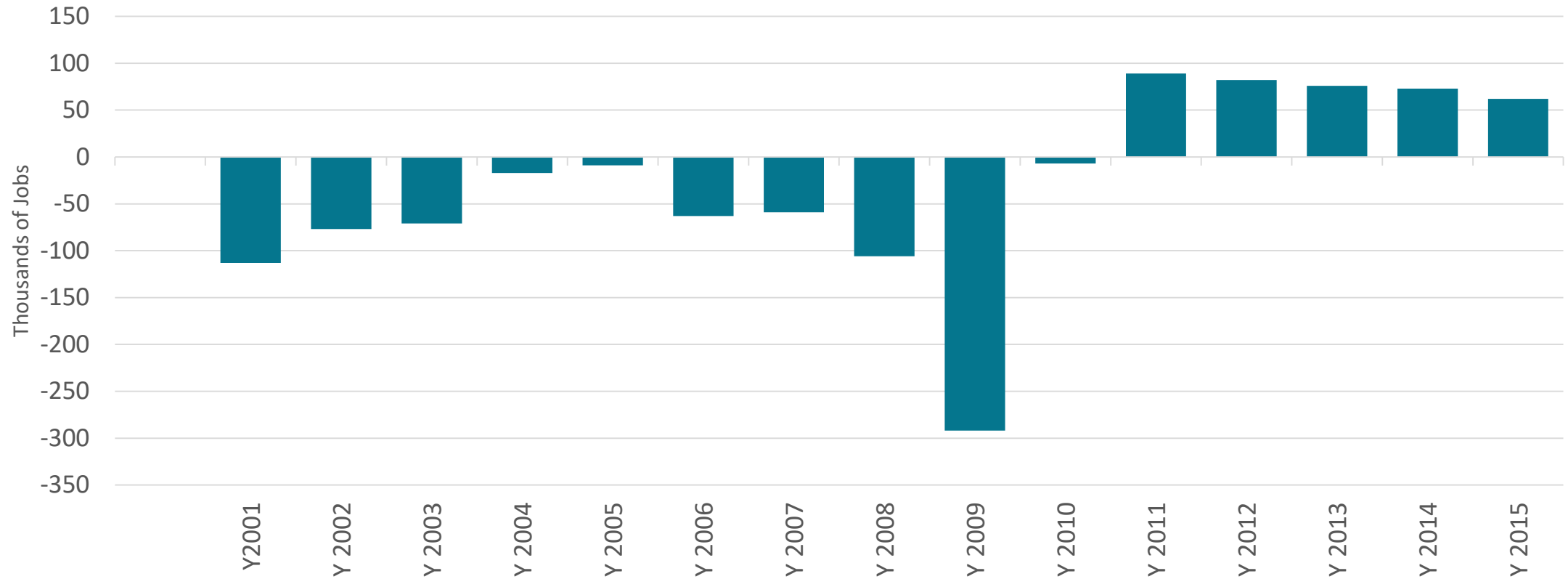
# Michigan personal income has grown a little faster than the U.S. Average

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



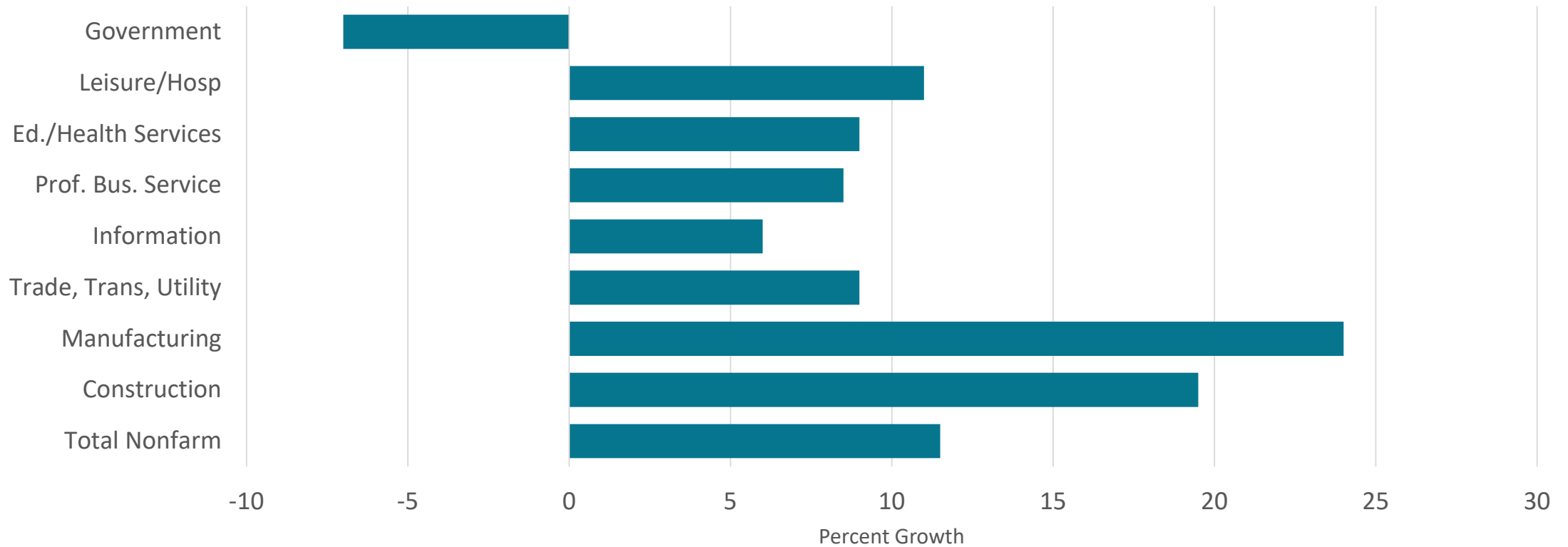
# Michigan has had several years of positive job growth

Michigan Annual Employment Growth

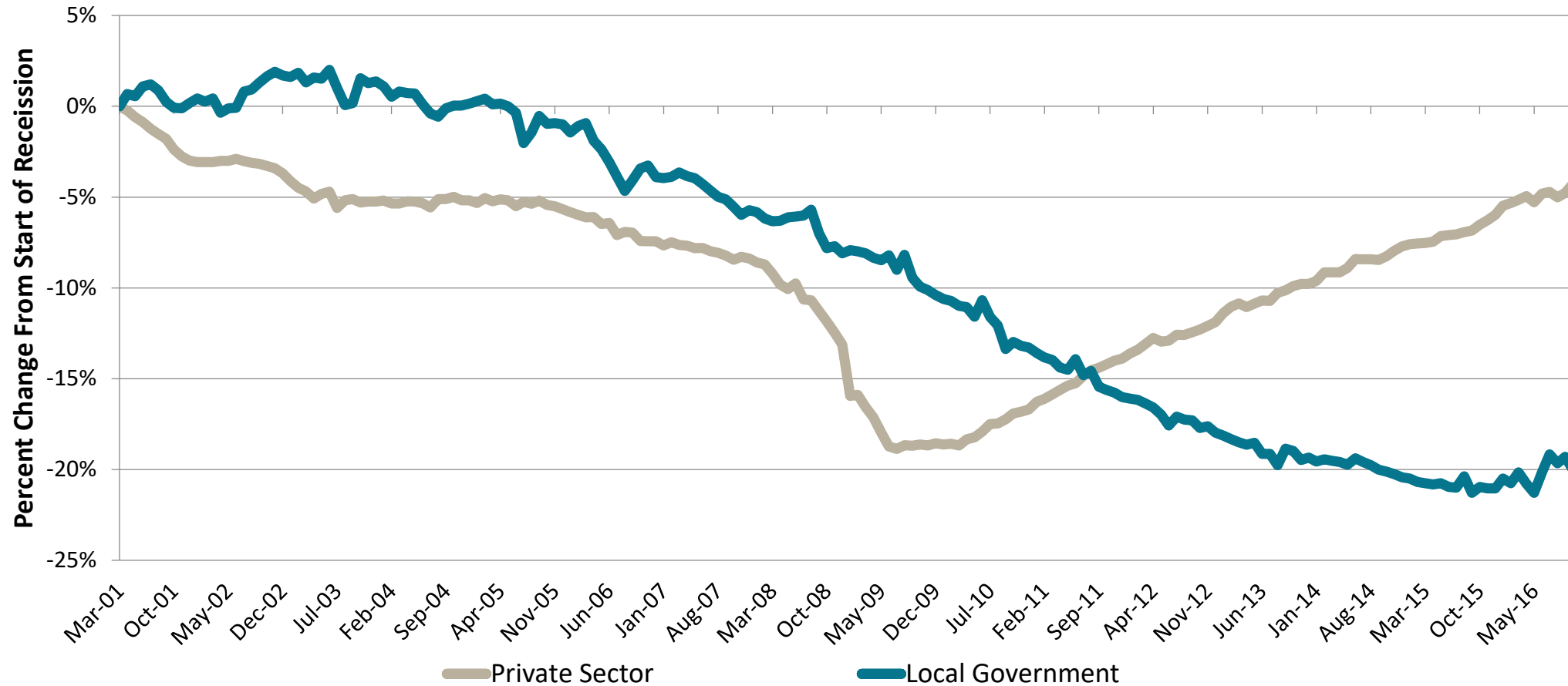


# But a significant sector of the economy has not experienced the growth

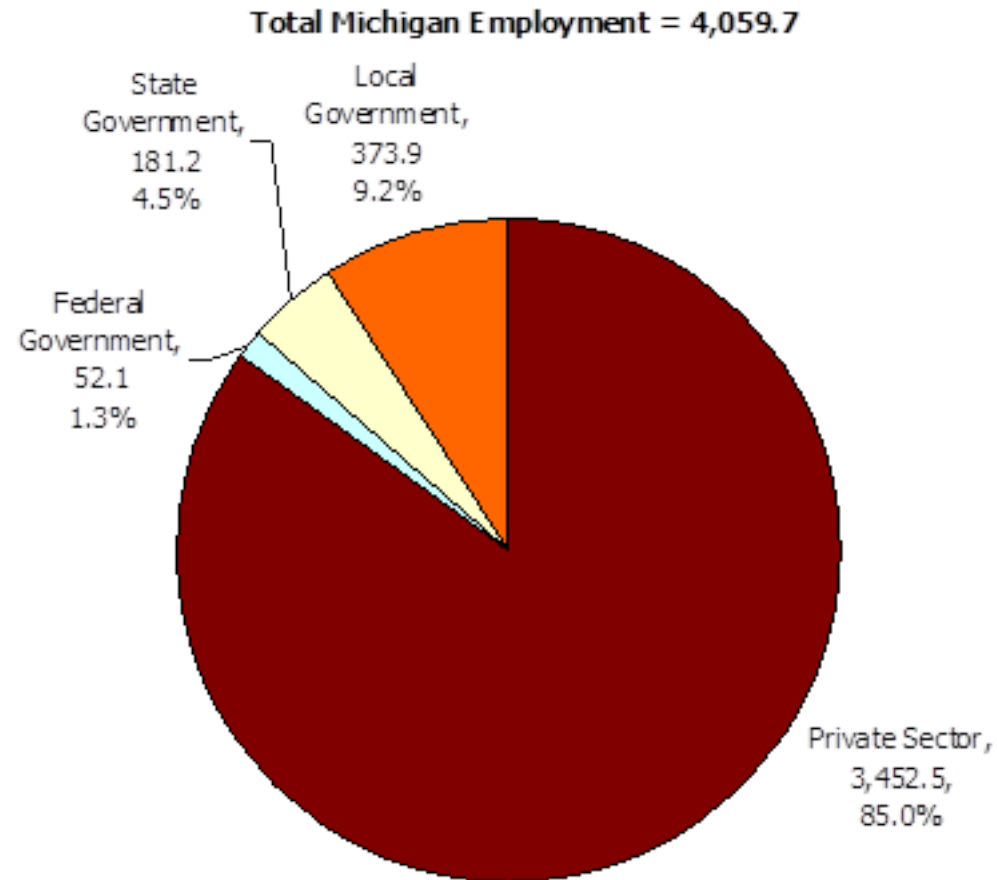
Michigan Job Growth by Industry Jan. 2010 to Sept. 2016



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

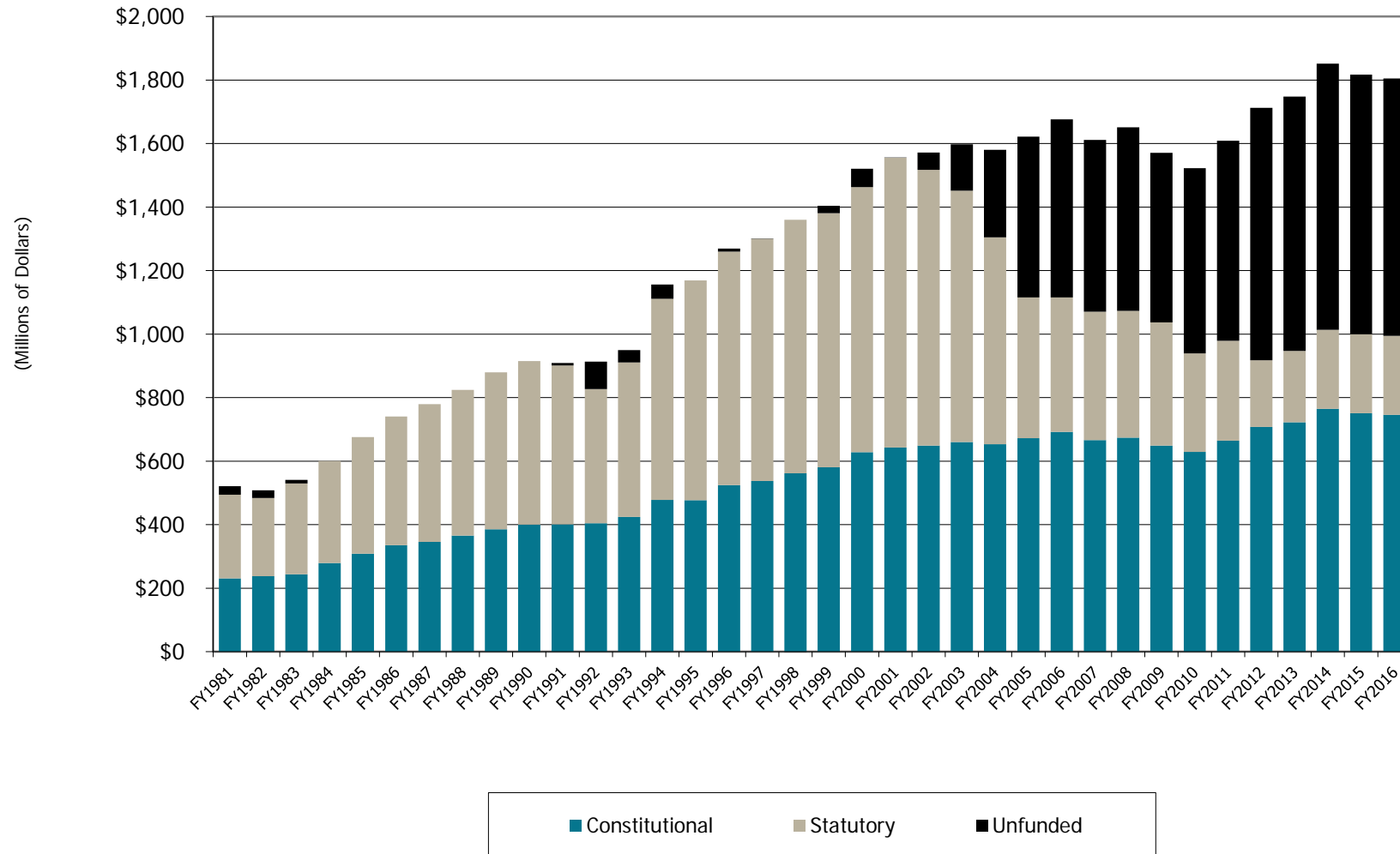


# Seasonally Adjusted Michigan Employment by Sector: 1Q2013 (in thousands)



Partly the fault of state policy

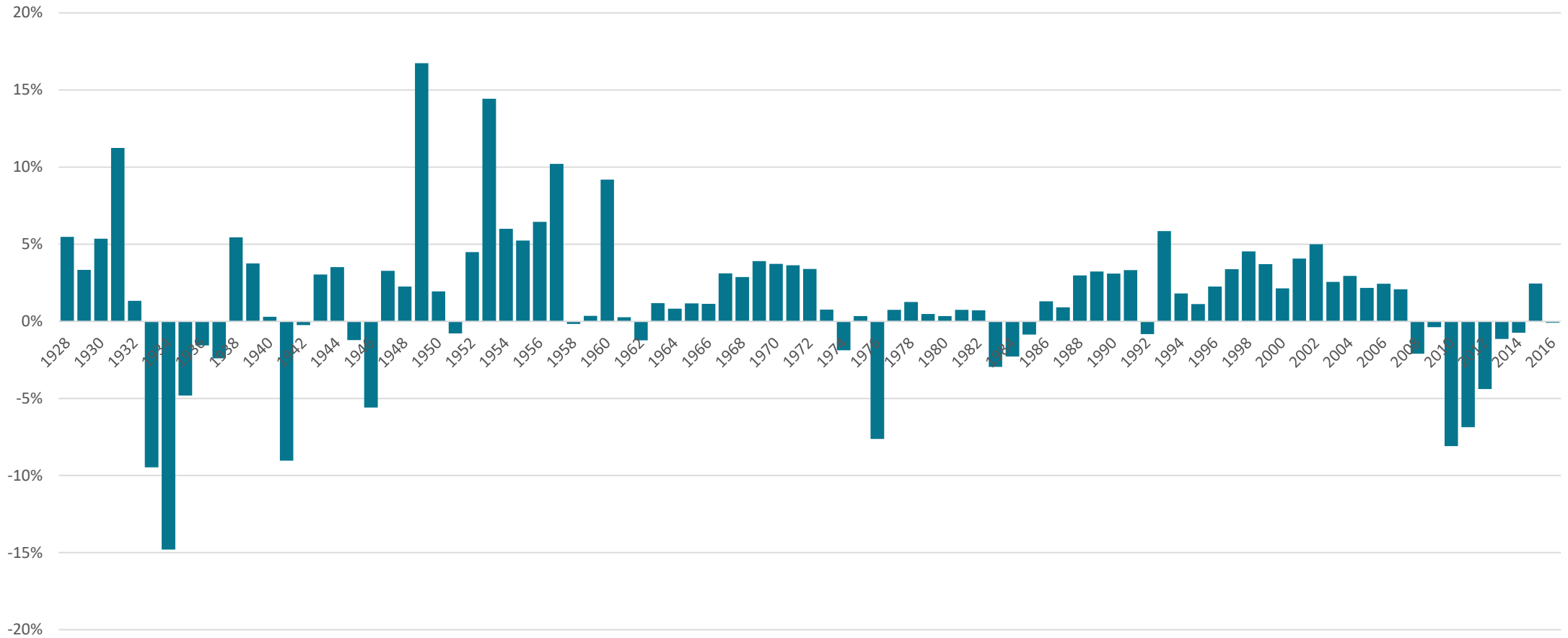
# Constitutional, Statutory, and Unfunded State Revenue Sharing



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



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



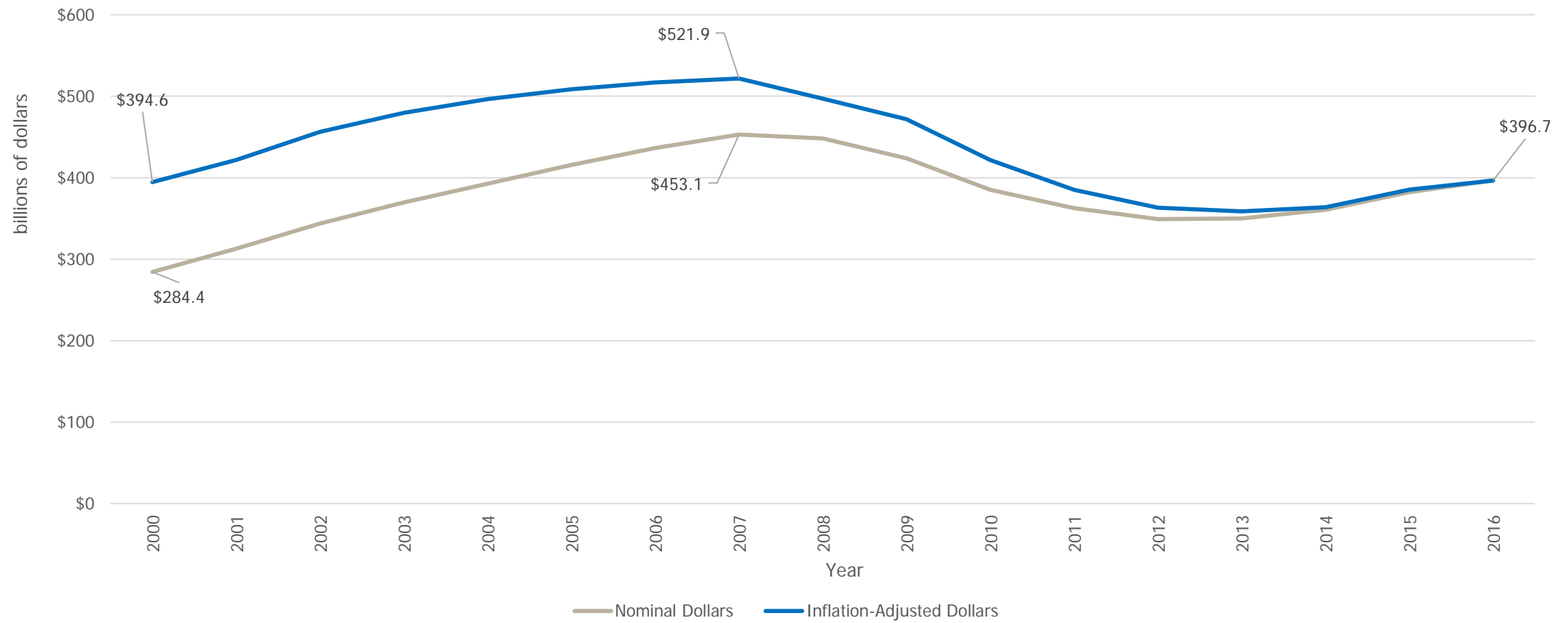
# Our Methodology

# Methodology and Policy Questions

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

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

# Nominal and Real Statewide Property Values, 2000-2016



# Headlee Amendment



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

If value of existing properties in a jurisdiction appreciate faster than rate of inflation



Then that jurisdiction's tax rates must be "rolled back"



So that net result is an inflationary growth of tax revenues



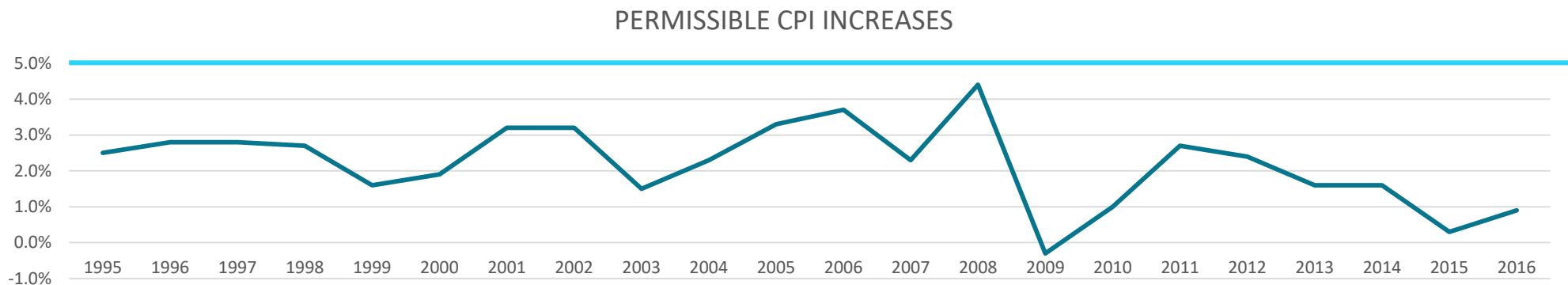
- There is no mechanism to counteract lost tax base

# Headlee was not completely successful

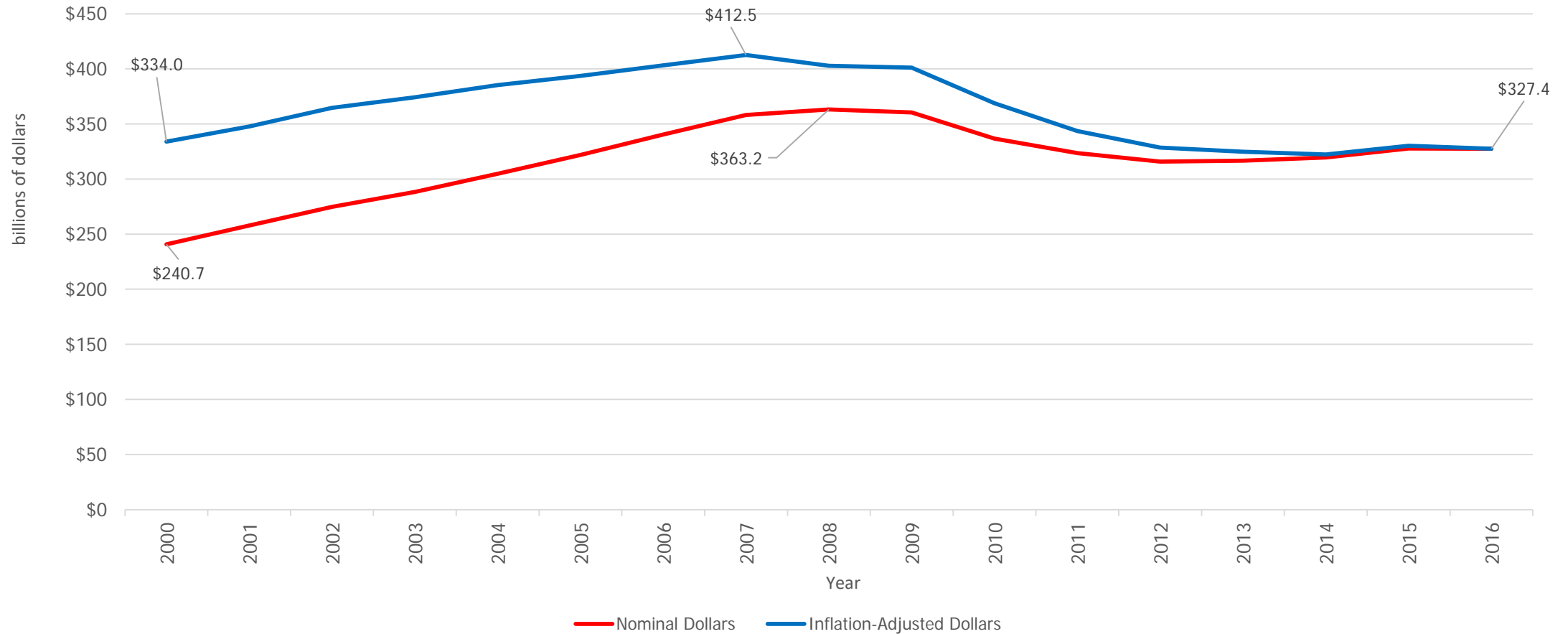
- Tax Base growth was measured on a jurisdiction-wide basis
  - The value of properties growing at a rate less than inflation offset growth in the value of properties at rates faster than inflation
  - Some property owners were still experiencing steep increases in property tax bills

# Proposal A Taxable Value Cap

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



# Nominal and Real Statewide Taxable Values, 2000-2016

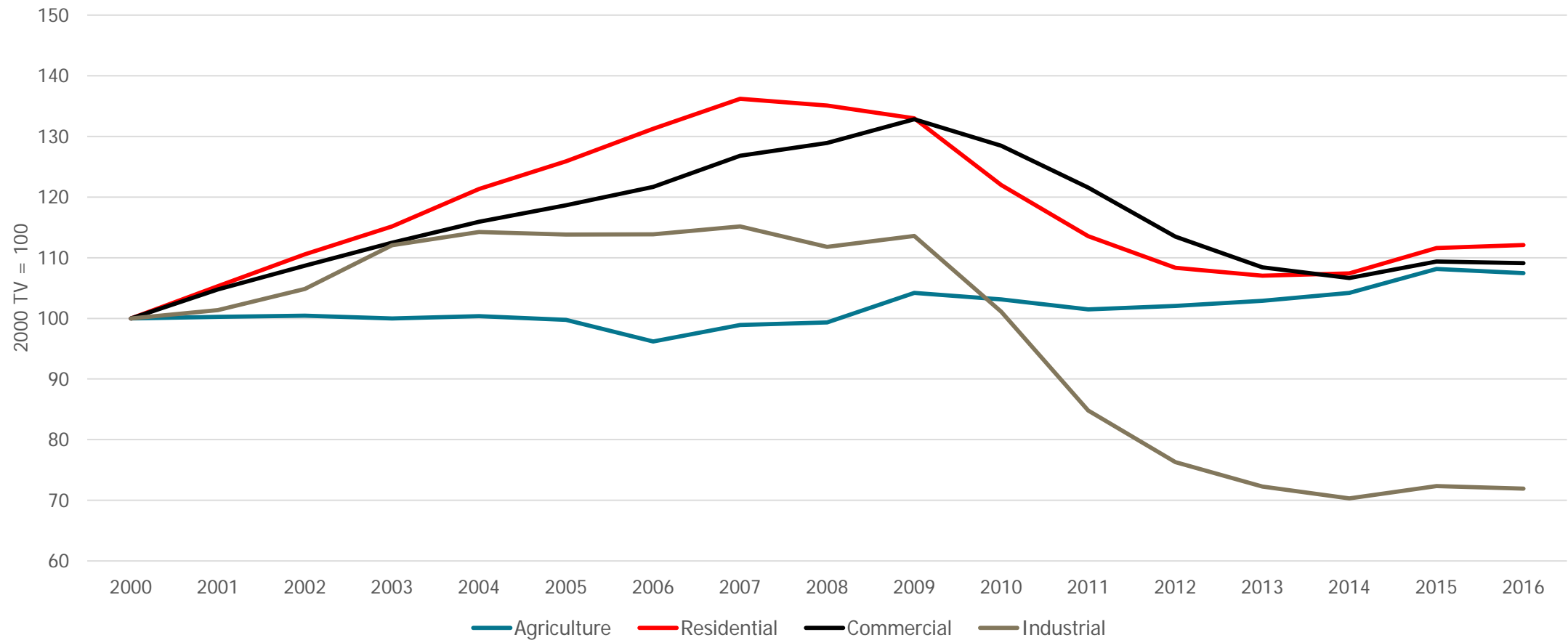




# The Interaction of Headlee and Proposal A

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

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



# 2016 Taxable Values Compared to Peak Values

# 2016 Compared to Inflation-Adjusted Peak Values

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

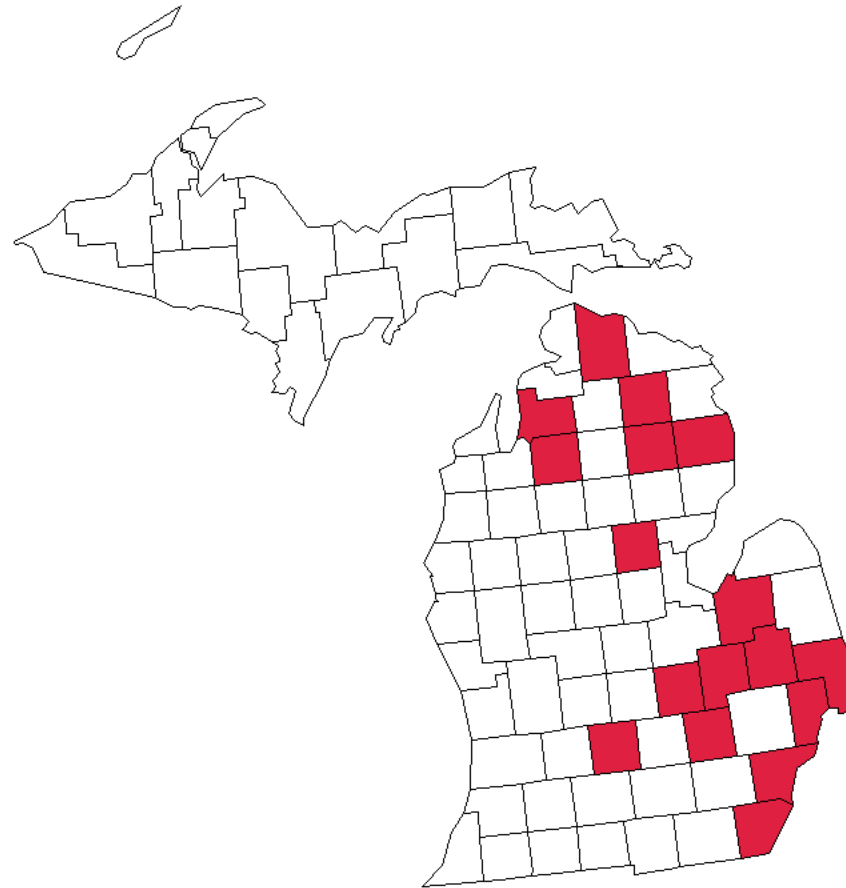
# 15 Cities for whom 2016 Taxable Values are the Furthest Below their Peak Taxable Values

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

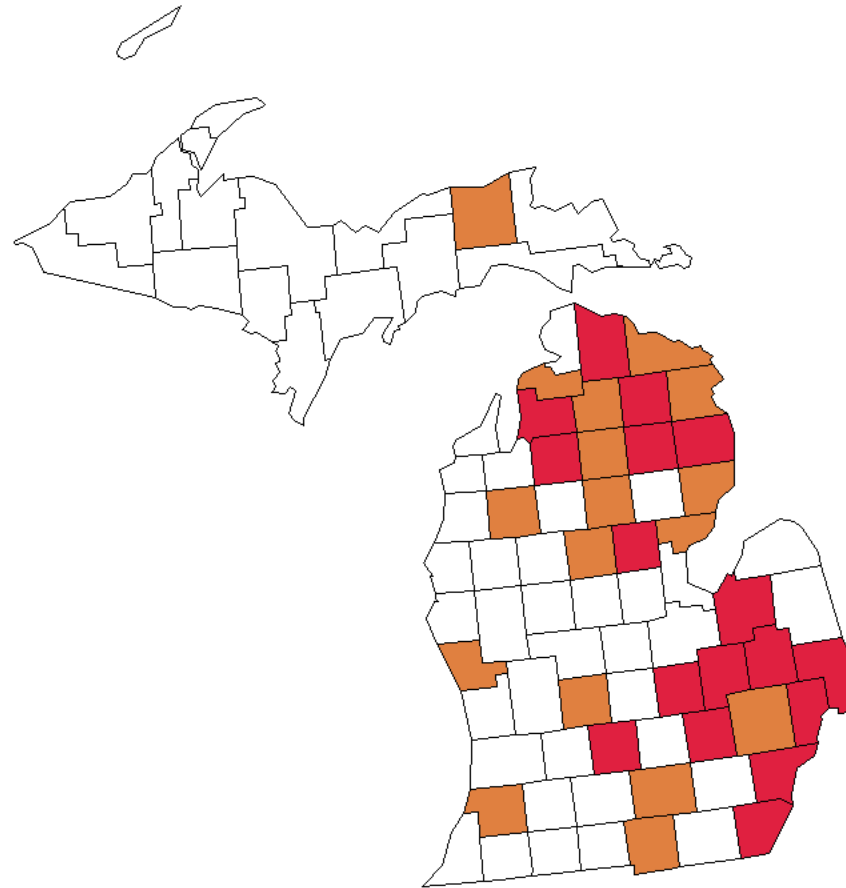
# 15 Townships for whom 2016 Taxable Values are the Furthest Below their Peak Taxable Values

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

Every city and township in these 17 counties has not recovered to its inflation-adjusted peak value

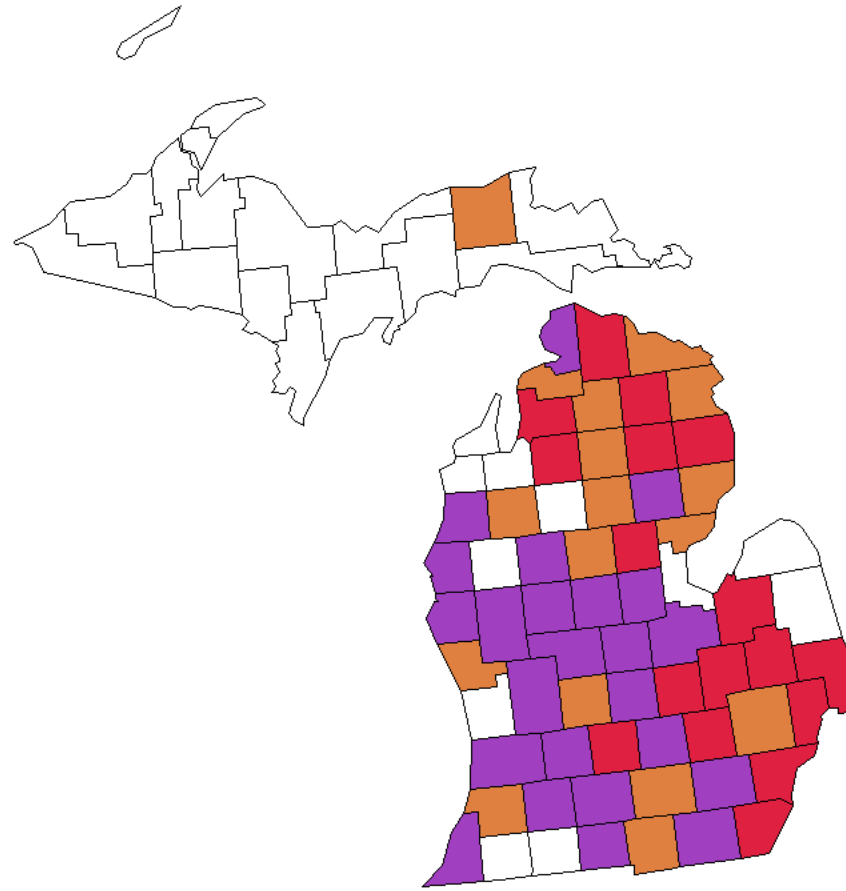


17 more counties have only one township that has recovered to inflation-adjusted peak value

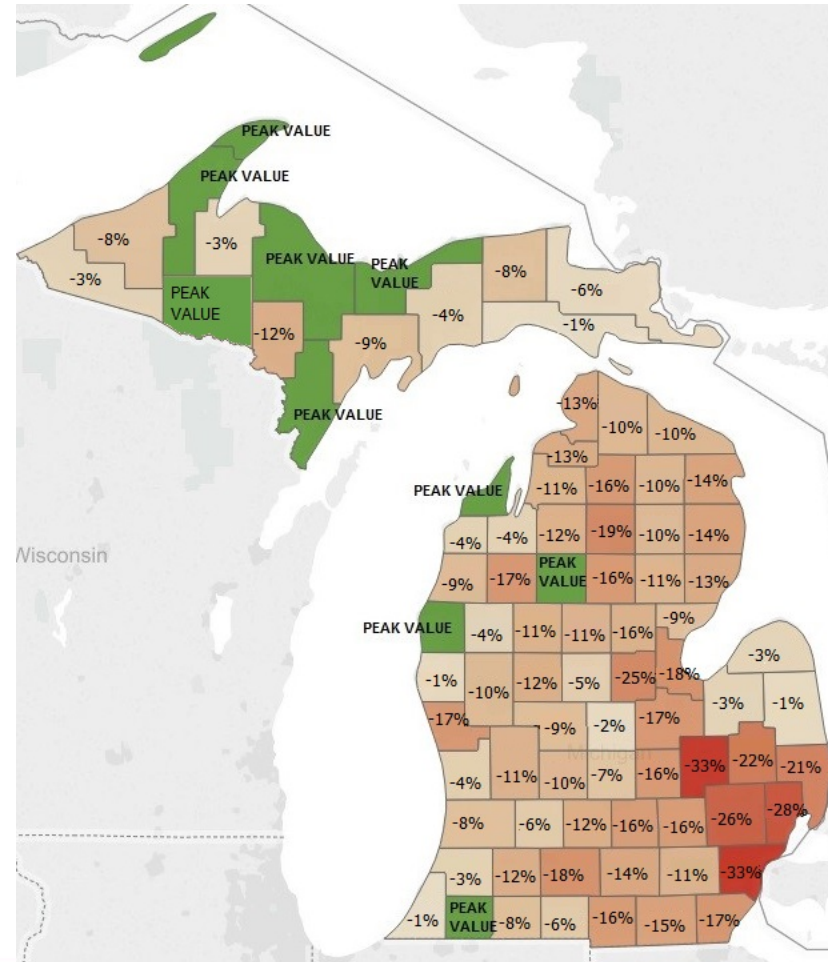




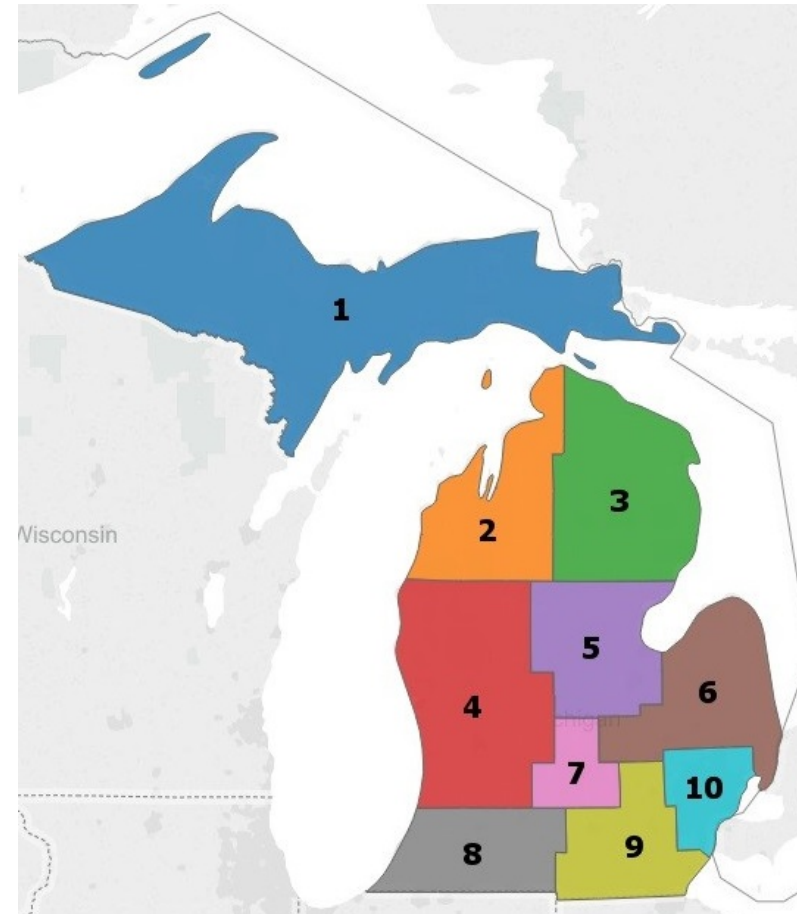
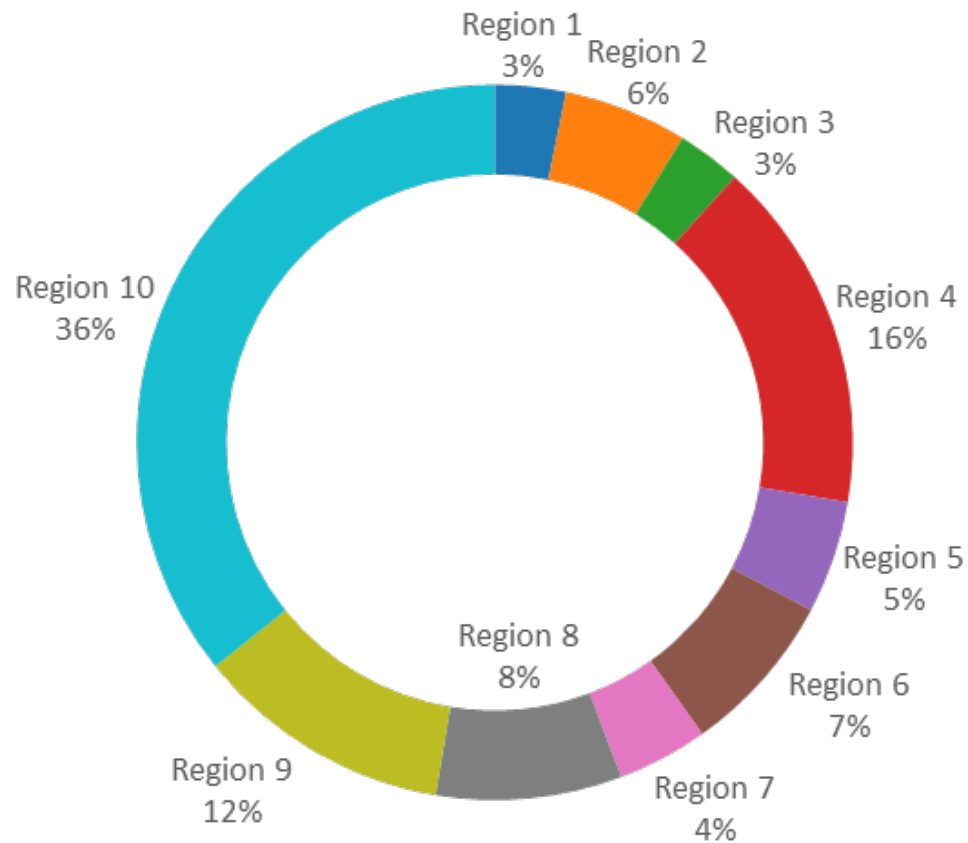
24 more counties have at least 80% of jurisdictions below inflation-adjusted peak value



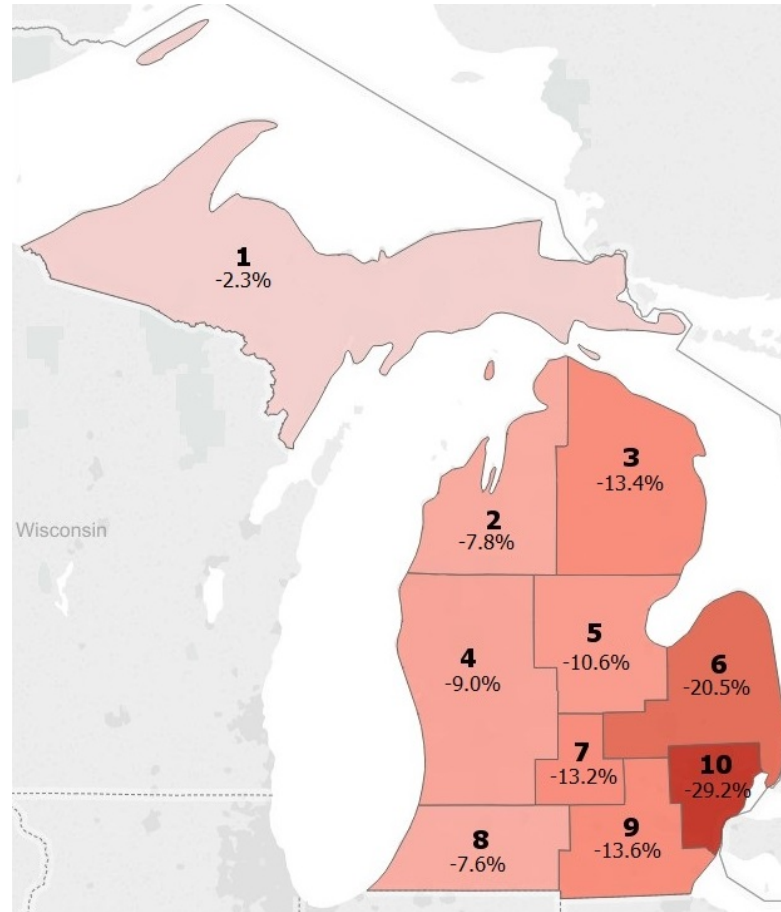
# 2016 County Taxable Values as a Percent of Inflation-Adjusted Peak Values in Each County



# Regional Share of 2016 Total State Taxable Value



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



But perhaps peak values were artificially inflated...

Let's Compare 2016 to 2000 Taxable Values

# Cities and Townships with 2016 Taxable Values below their 2000 Values

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

# 15 Cities for whom 2016 Taxable Values are the Furthest Below their 2000 Taxable Values

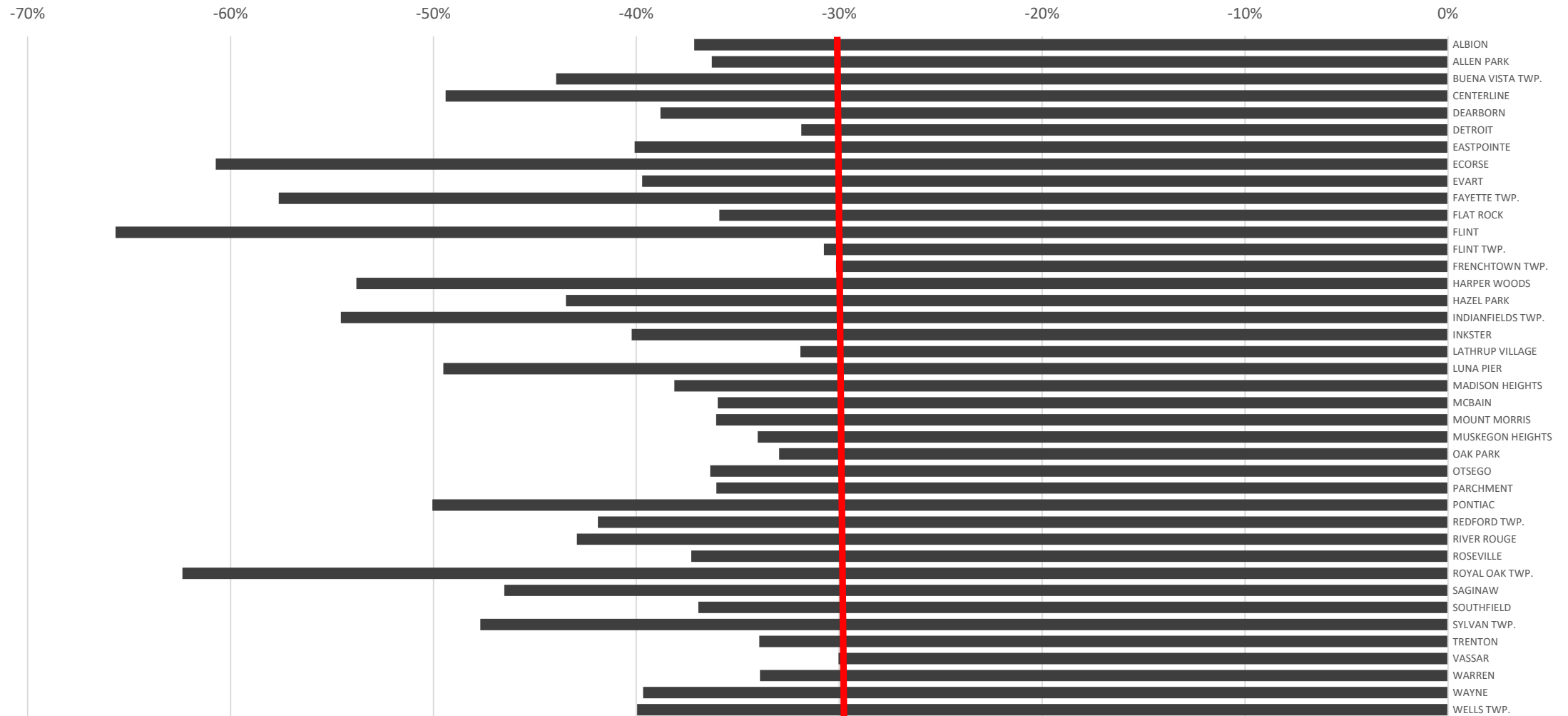
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Monroe	Luna Pier	1,389	50.2	112.4	141.7	12.1
Macomb	Centerline	8,320	50.6	54.0	82.1	49.1
Saginaw	Saginaw	49,347	53.2	58.5	74.5	43.8
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Macomb	Eastpointe	32,657	59.6	52.3	88.4	45.0
Osceola	Ewart	1,861	59.9	101.2	135.4	97.9
Wayne	Wayne	17,081	60.0	70.8	96.5	50.2
Wayne	Dearborn	95,171	61.2	73.8	69.0	82.7
Oakland	Madison Heights	30,198	61.5	68.1	102.8	25.1

# 15 Townships for whom 2016 Taxable Values are the Furthest Below their 2000 Taxable Values

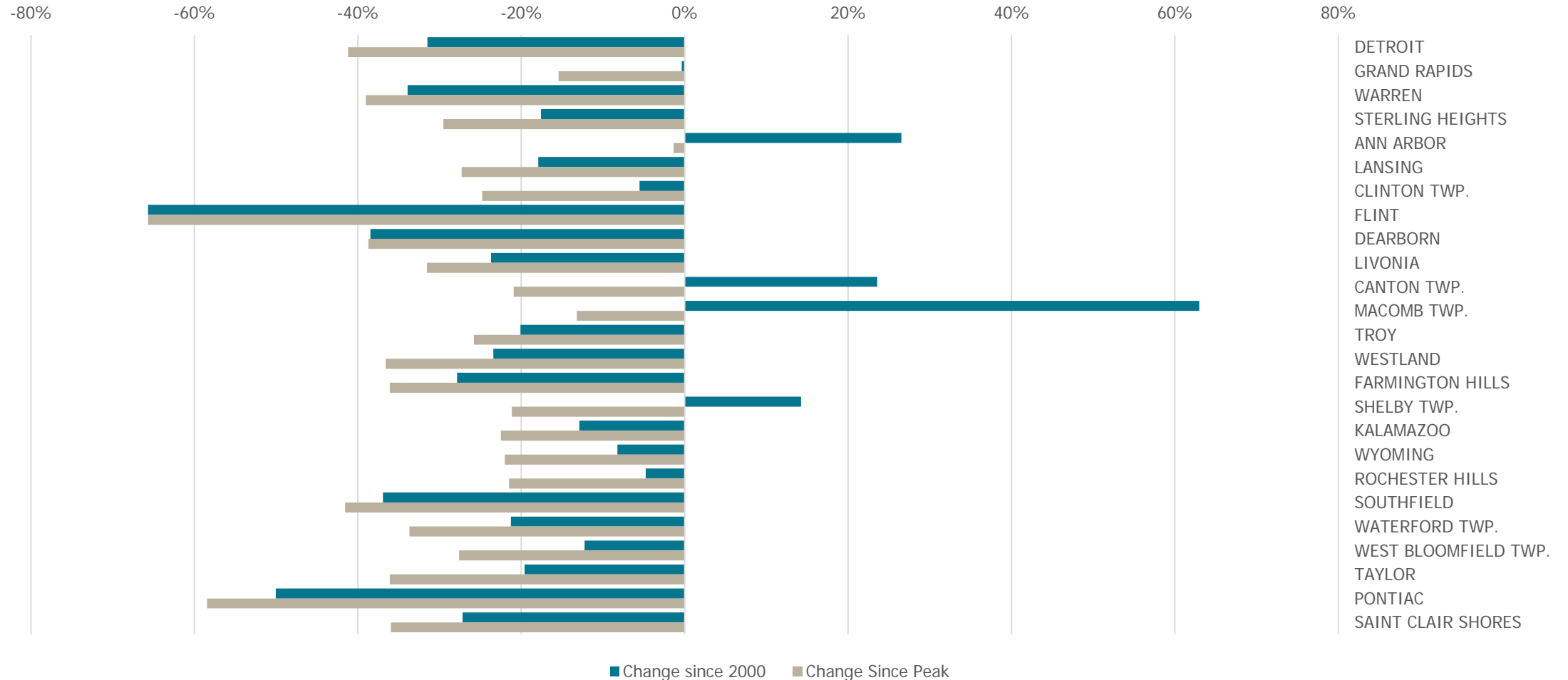
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				<u>Residential</u>	<u>Commercial</u>	<u>Industrial</u>
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Hillsdale	Fayette	1,054	42.1	54.9	11.8	8.0
Tuscola	Indianfields	2,566	45.2	51.6	22.4	25.1
Washtenaw	Sylvan	2,934	52.0	64.0	8.6	54.5
Saginaw	Buena Vista	8,239	56.0	78.6	101.1	90.0
Wayne	Redford	47,389	57.8	53.9	99.3	74.0
Delta	Wells	4,825	59.7	135.2	166.9	25.8
Genesee	Flint	30,690	68.8	70.9	68.3	93.0
Monroe	Frenchtown	19,959	69.4	102.7	115.1	42.3
Genesee	Genesee	20,577	70.4	69.6	74.3	53.3
Charlevoix	Chandler	249	73.6	168.9	103.8	48.7
Genesee	Mount Morris	20,659	74.3	71.2	84.4	278.3
Saginaw	Zilwaukee	65	75.0	102.4	88.1	114.8
Bay	Hampton	9,441	78.1	109.4	80.7	51.5
Oakland	Waterford	73,040	78.3	81.2	75.6	92.5



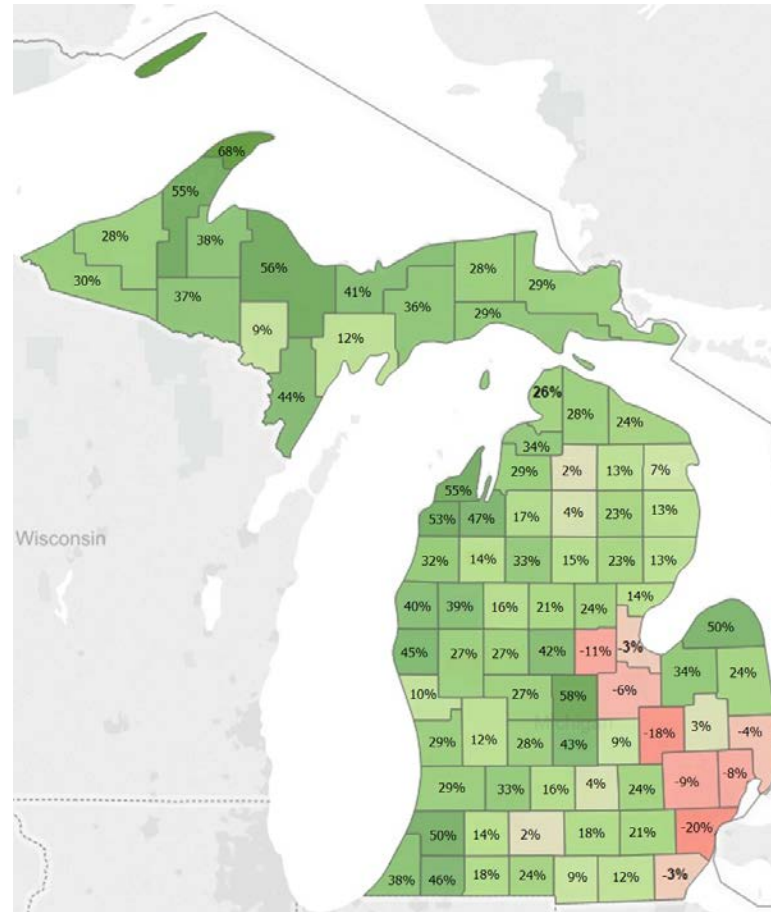
# Losses for Local Government at 30% or more below their Inflation-Adjusted 2000 Taxable Values



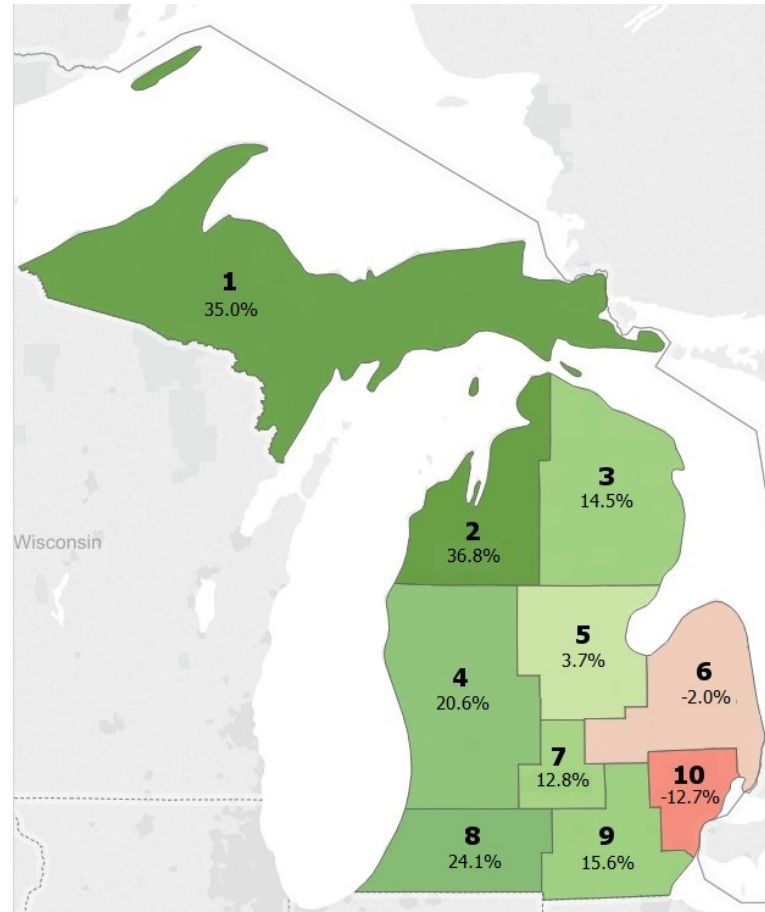
# Change in Inflation-Adjusted Taxable Values in Michigan's 25 Most Populated Local Governments



# 2016 County Taxable Values as a percent of Inflation-Adjusted 2000 Values



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



# Why it matters...

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

# Growing back these losses

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

# Problems with need for new development

- Every local government has a finite amount of developable land
- Favors exurbs and rural areas and abandoned inner cities
- Economic development tools call for local governments to give up part of new development for a period of time
  - Tax abatements
  - Tax increment financing

# Alternatives

## Increase taxing authority

- Every type of local government has a limit on tax rate
  - 15/18/50 mill limits
  - Cities - 20 mills
  - Charter Townships - 10 mills
- Limits were developed as a percent of the value of property
  - Use of taxable value as the tax base erodes that relationship
  - Could give greater taxing authority without taxing a larger percentage of the value of property



# Alternatives

## End Tax Rate Rollbacks

- The Headlee tax limitations and taxable value cap are duplicative
- Growth in taxable values for individual properties would still be restricted to the rate of inflation
- Would put local taxes on equal footing with State Education Tax

# Alternatives



## Reauthorize tax rate rollups

- Return to intent of Headlee providing ability of local governments to keep tax revenues at voter-authorized levels
- Would still have to remain within voter-authorized tax rates

# Alternatives

## Even-out taxable value movement

- If the desire is not there to allow tax rate rollups,
- Use a rolling average of values to minimize the impact of taxable value reductions

# Alternatives

## Address the service delivery model

- Counties have not suffered same reductions in taxable value as cities and townships
- Enough properties so that loss in some is offset by gains in others
- Other states put responsibility broad range of services at the county level
- Michigan service delivery primarily at city and township level
- Would achieve economies of scale and economies of skill

# Alternatives

## Diversify local government revenue sources

- Local option...
  - Sales
  - Income
  - Motor fuel
  - Motor vehicle registration
  - Alcohol
  - Tobacco
  - Public utility excise
- See [Is Michigan's System of Funding Local Government Broken?](http://crcmich.org/is-michigans-system-of-funding-local-government-broken/)  
<http://crcmich.org/is-michigans-system-of-funding-local-government-broken/>

# Alternatives

## Fund state revenue sharing

- Two goals of such programs
  - Diversify tax base of local governments
  - Equalize fiscal capacity of local governments
- Many of local governments that lost the most tax base have also suffered most from diversion of funding statutorily dedicated to state revenue sharing for other purposes

On behalf of the staff and directors,  
may you have a fact-filled 2017

*"The facts, Ma'am.  
Just the facts."*



# Citizens Research Council of Michigan

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