

A Brief History of Local Government Finances in Michigan

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A Brief History in Three Parts

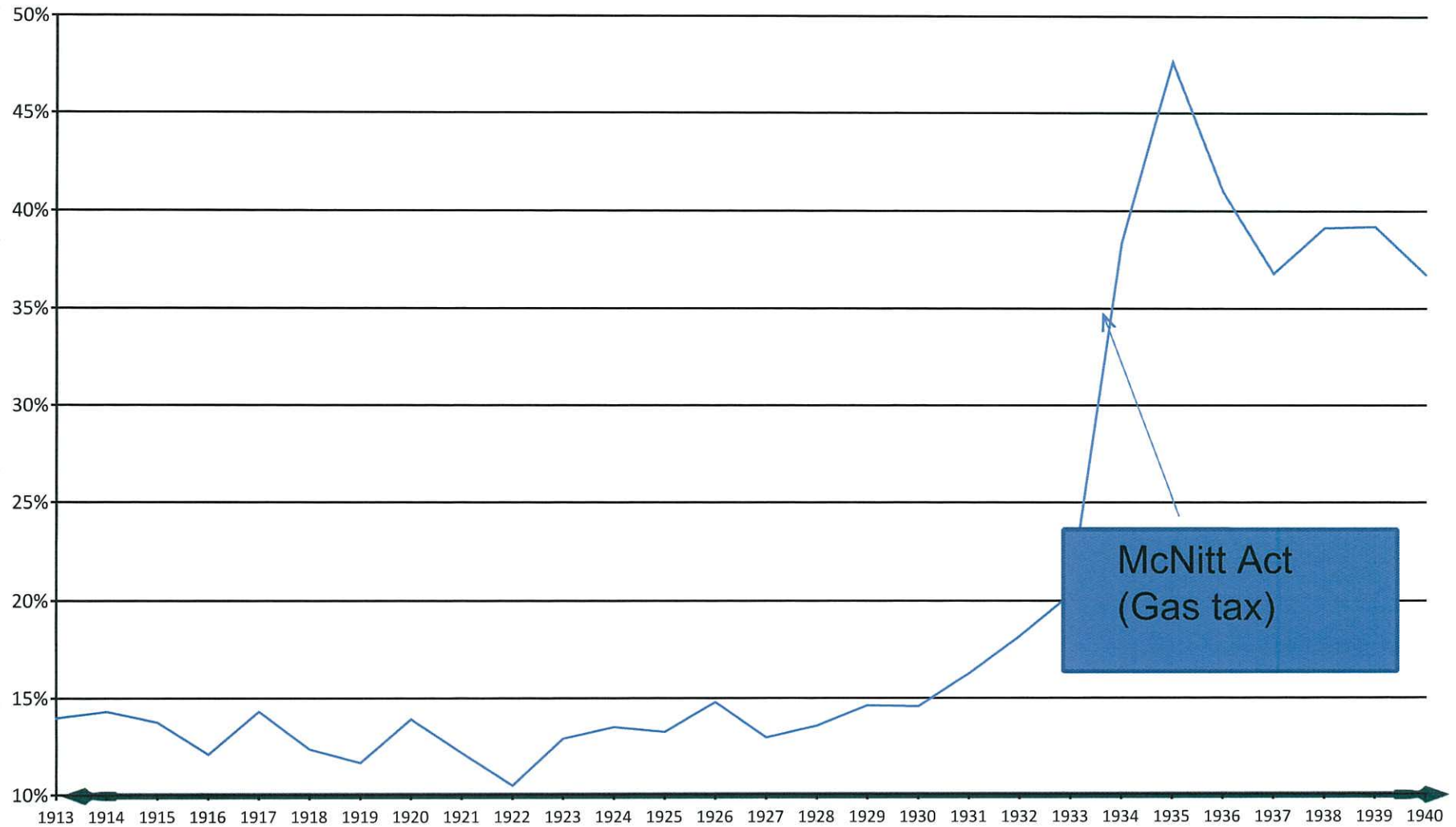


Phase One: State Aid

- **Up until 1930's property taxes were the whole story**
 - Each layer of govt. was pretty self reliant
 - Legislature set rules
- **Big shift in early 1930's**
 - State dropped property tax and shifted to sales tax; locals saw big dropped in assessed values in Depression
 - Locals began to rely on state funding (sales tax and gas tax transfers)



State Share of Local Revenue



Changes to Local Govt. Financing

- 1930's saw major shift as state shifted to sales tax and sharing gas tax with locals
 - Sales tax was shared for education and welfare (local responsibility)
 - State took away responsibility for roads from townships
 - Federal government also began sharing revenues with local government's through New Deal
- General Revenue Sharing
 - 1946, 1963, 1974 const. amendments to increase rev sharing



Phase Two: Property Tax Limits

- Property taxes remains most important revenue source
- Has been around since early 1800's
 - Generally most hated tax, why?
 - Based on potential value as opposed to actual wealth or transactions
 - Many efforts to restrain property taxes going back almost 200 years



Recent Reforms

- **Headlee (1978) & Proposal A (1994)**
 - Growth in property tax revenues cannot exceed the rate of inflation plus taxes generated from new construction
 - Growth in individual parcels is limited to inflation or 5%
- **Under the taxable value cap and Prop A**
 - local government fiscal capacity (especially in areas of significant housing price declines) may be severely curtailed for years to come.



Third Phase: EVIP & State Rev sharing

- **Economic Vitality Incentive Program**
 - Designed to cause shifts in employee compensation, intergovernmental cooperation and transparency
- **Competitive Grant Assistance Program**
 - Designed to pay for upfront intergovernmental cooperation costs



Where are we today? The Crisis and Beyond



Local Govt. Revenue Sources (as of today)

- Property Tax (12.7 bil.)
- State Revenue Sharing (Constitutional and Statutory) (\$1 bil.)
- Income Tax (City) (\$500 mil.)
- User Fees & Charges (\$6 bil.)
- Miscellaneous (\$1 bil.)
 - Grants (Federal & State) & Interest Income



City govt revenues

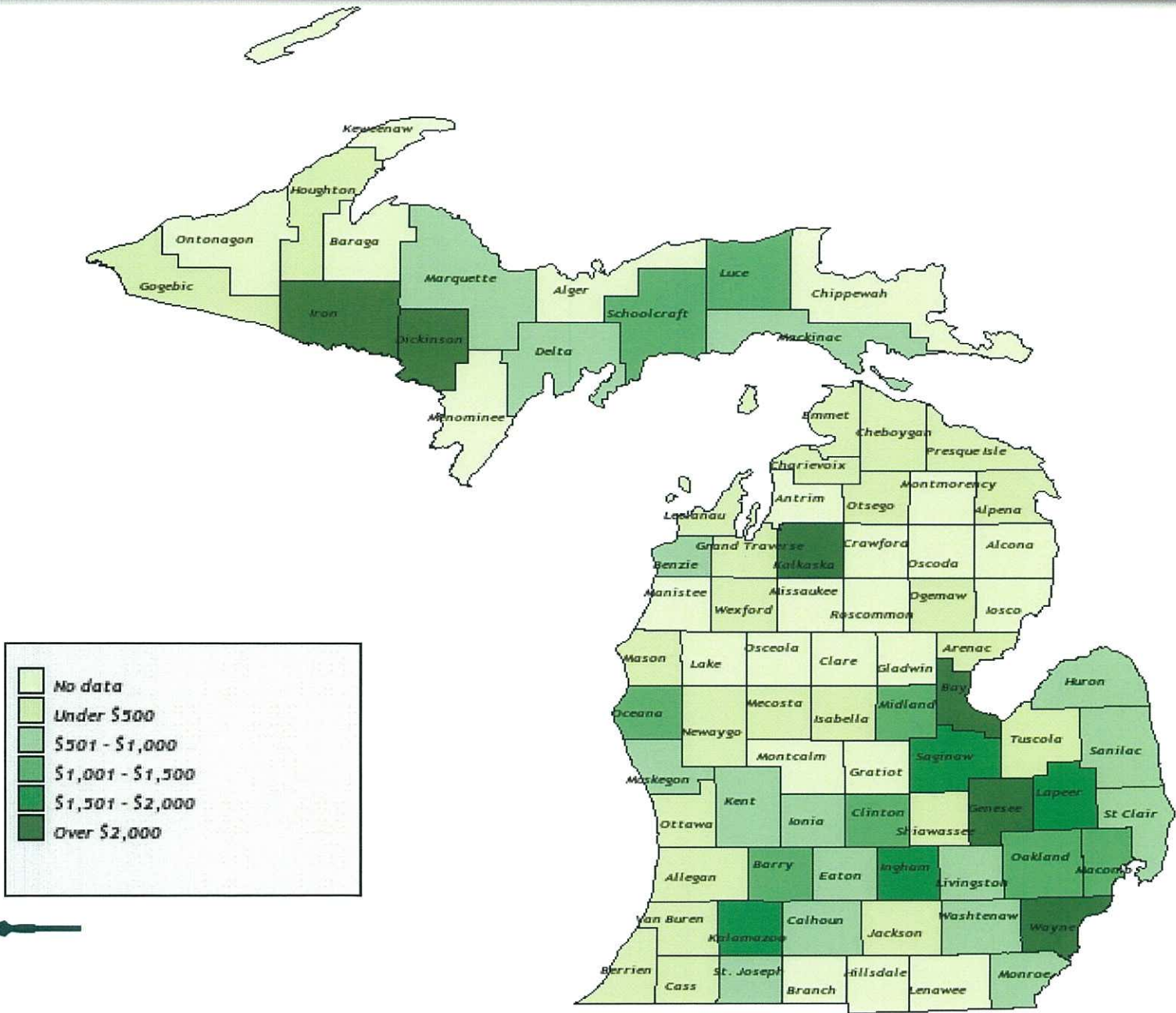
	2008	2012	Change	% Change
Total General Fund Revenues	2,786,289,206	2,530,817,126	(255,472,080)	-9.2%
Property Taxes	1,521,114,779	1,371,851,755	(149,263,024)	-9.8%
State Revenue Sharing	423,334,339	350,174,316	(73,160,023)	-17.3%
Income tax	158,562,044	151,075,677	(7,486,367)	-4.7%
transfer in, bond proceeds	111,341,878	109,575,146	(1,766,732)	-1.6%
Total inflows	2,897,631,084	2,640,392,272	(257,238,812)	-8.9%



City govt spending

	2008	20012	Change	% Change
Total General Fund Expenditures	2,672,725,520	2,479,005,775	(193,719,745)	-7.2%
Public Safety	1,175,797,541	1,150,165,192	(25,632,349)	-2.2%
General Government	613,010,842	553,117,869	(59,892,973)	-9.8%
Debt Service	21,592,253	19,406,927	(2,185,326)	-10.1%
Transfer Out	203,186,665	162,438,673	(40,747,993)	-20.1%
Total Spending	2,875,912,185	2,641,444,447	(234,467,738)	-8.2%





Property Tax Revenues

	2012	2007	Stress
State education tax	\$1.8 bil.	\$2.1 bil.	High stress
City	\$2.2 bil.	\$2.5 bil.	High Stress
County	\$ 2.1 bil.	\$2.2 bil.	Moderate stress
Township	\$850 mil.	\$913 mil.	Moderate stress
Schools	\$5.6 bil.	\$6.3 bil.	High stress
Village	\$86 mil.	\$100 mil.	Moderate Stress
Total	\$12.7 bil.	\$14.2 bil.	



Property Tax Loss Concentration

- Genesee County: -\$100 mil. (-25%)
 - Macomb County -\$200 mil. (-20%)
 - Oakland County -\$500 mil. (-20%)
 - Wayne County -\$500 mil. (-22%)
-
- Total Statewide Tax losses: -\$1.5 bil.
 - These four counties represent \$1.3 bil. (87% of total)



What's the Story

- **Tax rates vs. Taxable Value**
- Tax rates statewide have increased slightly on average for all classes of govt.
- Real story is drop in taxable value
 - Minus 10% for counties, townships
 - Minus 20% for cities



Tax Payment with Falling Home Values

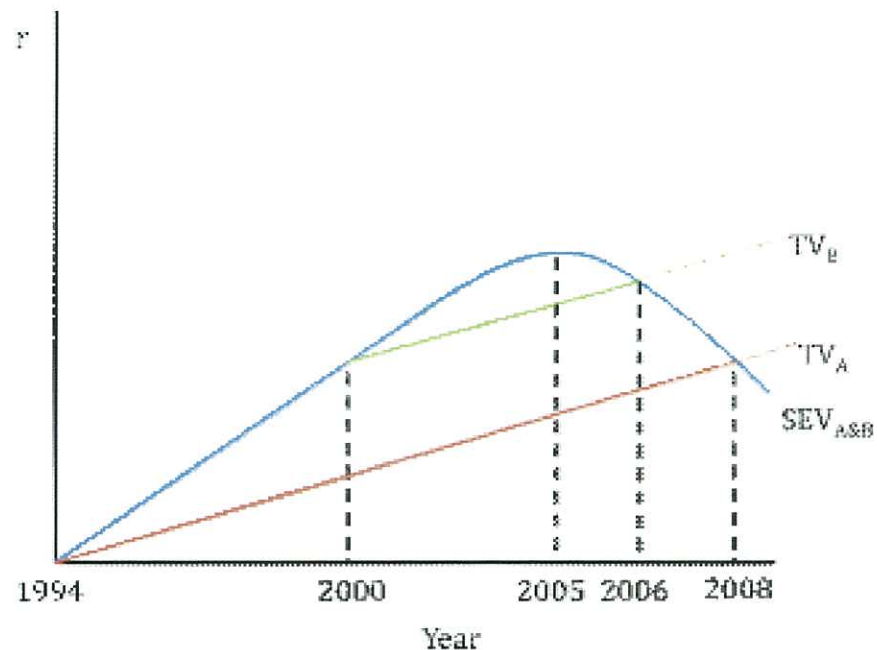
What if SEV falls below TV for a particular property?

Graph

Assessors increase TV by the rate of inflation even in the face of falling housing prices....until $TV = SEV$.

Then TV follows SEV.

When house prices stabilize and begin to increase, TV is ratcheted down....local unit fiscal capacity may not recover for years.



City Income tax

- Relatively newcomer to tax system (1960's)
 - Detroit was first, before state, to enact, to solve a pension crisis
- Michigan is one of only 16 states with local income tax; majority of states rely on local option sales tax
- Raises about \$500 million statewide
 - Half of it from Detroit
 - Important revenue source for cities like Flint, Saginaw and Lansing
 - Generally more elastic than property



State Revenue Sharing

- Big declines in 2000's from both administrations
- \$500-600 million drop since 2000



User Fees and Charges

- Have grown in importance over last twenty years
 - May represent 20% of General Fund and even greater in Special revenue funds
- Generally concentrated in property and building fees, recreational fees and of course water and sewer fees



Where are Emergency Managers or Consent Agreements?

- Hamtramck (Wayne)
- Inkster (Wayne)
- Flint (Genesee)
- Detroit (Wayne)
- Pontiac (Oakland)
- Ecorse (Wayne)
- River Rouge (Wayne)
- Only exception is Benton Harbor
- 9 cities and 5 school districts



Today

- Revenues are slowing regaining ground (1-2%)
 - Property values and taxes have stopped declining in many areas (sooner than expected)
 - But....growth will be muted
 - Income taxes have rebounded in 2010-2011 but only slow growing now
 - State revenue sharing is stable....for now
- Expenditure growth continues at (5-7%) statewide



Inescapable Mathematics of Budgets

- Revenue Growth must be greater than Spending Growth
 - Even if you “balance the budget” have you balanced the growth rates
 - Many places have not which explains negative long term outlooks
- **% Change in Revenue > % Change in Spending**

