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## Study says Michigan Property Tax Caps Hamstring Local Budgets

*By John O'Neil, Chicago*

State caps on property taxes are negatively impacting local budgets in states like Michigan and should be relaxed or repealed. That's the message in a new study by the Center on Budget and Policy Priorities.

### MICHIGAN'S CONSTITUTIONAL CAPS

There are two property tax limits in Michigan's state constitution:

1. The 1978 Headlee Amendment limits annual property tax revenue growth to the rate of inflation. It requires a rollback of property tax rates if the increase in assessed value would lead revenue growth to exceed inflation.
2. In 1994, Proposal A substituted sales taxes for property taxes as the major school funding source and limited the annual growth in taxable property value to the rate of inflation or 5%, whichever is less.

Together, the Headlee Amendment and Proposal A sharply curtail localities' ability to provide services, particularly after a recession. That's because one of the limits (Proposal A) allows taxable values to fall during recessions but then limits their growth during an economic recovery. This makes it nearly impossible for local revenues to recover as the economy improves.

The result is that Michigan's local governments have faced serious financial difficulties. By 2014, 17 local governments and school districts in the state were experiencing severe fiscal distress and were operating under the control of state-appointed emergency financial managers.

As a Michigan State University report noted, "Michigan's particular mix of stringent limitations on local revenue and its relatively low level of financial assistance to cities, coupled with spending pressures stemming from spiking local service burdens and increased labor costs, create conditions that drive up the potential for local fiscal distress."

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An important element of the distress has been the constraints on property tax revenue, which fell from 57% of local governments' own-source revenue in 1978 to 44% in 2015, a drop of nearly a quarter.

## **FUNDING FALLS FOR SERVICES**

Localities have responded to serious funding challenges by cutting spending for services. One study of spending by Michigan cities other than Detroit found that total spending fell by more than 17% between 2008 and 2014, after adjustment for inflation.

Funding declined for every category of services.

- ↓ 13% for police and sheriffs
- ↓ 14% for fire departments
- ↓ 27% for parks and recreation
- ↓ 8% for health and human services

Along with spending cuts to make up for lost property taxes, local governments now rely on less desirable forms of revenue such as sales taxes and fees, which are not as stable as property taxes.

The report points out that most property tax caps were enacted 20 years ago or more. Today's fiscal climate for state and local governments is very different because federal and state aid to localities has declined over time, making localities more reliant on their own-source revenues.

For these reasons, the study's authors say it is time for states to repeal or relax existing property tax limits in order to enable localities to afford the services that their residents expect and need. Read the full report from the Center on Budget and Policy Priorities at this [link](#).