

The Michigan Property Tax Real and Personal



Michigan Department of Treasury
Office of Revenue and Tax Analysis
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EXECUTIVE SUMMARY

Property Taxes

- Michigan taxpayers paid \$9.46 billion in property taxes in 2000.
- Between 1994 and 2000, annual statewide property tax growth averaged 5.9 percent. New construction put in place after 1994 provided 65.1 percent of the increase, and existing property value increases accounted for 26.5 percent. Millage rate increases were 8.4 percent.
- Residential property comprised 65.0 percent of 2001 statewide taxable value, commercial property (real and personal) accounted for 17.8 percent and industrial property was 11.1 percent of the total.
- The 2000 average millage rate for all property (homestead and nonhomestead) was 39.32 mills. The 2000 statewide average homestead rate equaled 31.54 mills, and the nonhomestead rate averaged 50.10 mills.

Proposal A

- Proposal A cut property taxes nearly 30 percent in 1994 and capped future value increases to the rate of inflation.
- Between fiscal years 1993 and 1999, Michigan's property tax burden fell from 7th highest among the 50 U.S. states to 22nd.
- Compared with the 1993 all property rate, the 2000 statewide average homestead millage rate declined 25.10 mills; the nonhomestead millage rate fell 6.54 mills.
- The taxable value cap saved taxpayers an estimated \$1.6 billion in calendar year (CY) 2000. In 2001, statewide taxable value was \$55.0 billion (17.6 percent) less than state equalized value (SEV). The difference between agricultural SEV and taxable value (35.3 percent) was twice that for all property.
- Between 1994 and 2000, local school operating taxes' share of the property tax levy declined slightly while local school debt taxes' share rose sharply from 6.8 percent to 10.2 percent.

Personal Property

- Personal property made up 11.6 percent of 2001 taxable value. Industrial property accounted for 38.6 percent of personal property taxable value; commercial property, 35.5 percent and utility property 25.2 percent.
- Thirty-six states (including Michigan) and the District of Columbia tax most personal property. Eleven states tax all business inventories. Business inventories have been exempt from Michigan property tax since 1976.

INTRODUCTION

In 1893, the State of Michigan enacted the General Property Tax Act (Public Act 206 of 1893) as the main source of revenue for local governments. The basis of the general property tax is real and personal tangible property value that is not otherwise exempt. Beginning in 1995, the property tax base was changed from state equalized value (SEV, equal to 50 percent of true cash value) to taxable value. Unlike SEV, each year the taxable value of a property cannot increase by more than five percent or the rate of inflation, whichever is less, until the property is transferred.¹ Once transferred, most property's taxable value rises to its SEV. Beginning in 2001, the taxable value of agricultural property that remains in agricultural use after a transfer remains capped.

Michigan statute and constitution provide for numerous property tax exemptions. These include property owned by religious and nonprofit organizations, educational institutions, government property, and certain agricultural property. Exempt personal property includes: inventories, special tools, and air and water pollution control equipment. In addition, new personal property located in designated areas may be exempted from the general ad valorem property tax by local option. Homestead property (property used as a principal residence) is exempt from the 18-mill basic local school district operating tax.

This report focuses upon the general ad valorem property tax. For some property, taxpayers remit a specific tax in lieu of the general ad valorem property tax.² Most telecommunications and railroad property is centrally assessed by the State, not locally assessed, and has a State public utility tax levied upon it, rather than an ad valorem property tax.³ In addition, many local units levy special assessments on real property for specific public purposes, typically police and fire protection.⁴

Proposal A made dramatic changes to Michigan's property tax system. Given this, the remainder of this Introduction provides a brief description of Proposal A as background. Section 1 provides a history of property tax collections. Section 2 compares Michigan's property tax burden and government reliance on property taxes with other states.

Section 3 examines the composition of property tax collections by taxing unit type. Section 4 examines the distribution of taxable value by property classification. Section 5 examines the distribution of taxable value across Michigan's 83 counties. Section 6 discusses the distribution of property tax collections by classification.

¹Excluding additions and new construction.

²Specific taxes include the industrial facilities tax, technology park facilities tax, obsolete properties tax, commercial forest tax, private forest tax, Neighborhood Enterprise Zone tax, MSHDA payment in lieu of taxes, mobile home tax and low grade iron ore tax.

³Public Act 282 of 1905 (MCL 201.1 - 201.21). In 2001, the State utility tax levy totaled \$149.3 million.

⁴Ad valorem 2000 special assessments levied unit-wide totaled \$77.0 million.

Section 7 examines changes in property tax millage rates across time and compares millage rates across counties. Section 8 briefly examines the taxable value cap and its impact on the property tax levy. Section 9 provides a decomposition of property tax changes, especially since 1994. Section 10 discusses the personal property tax, including interstate comparisons of personal property tax treatment.

Proposal A: A Brief History

In 1994, Michigan voters approved sweeping property tax reform as part of Proposal A. While Proposal A and its enacting legislation affected all major taxes, it had its greatest impact on the property tax. Proposal A both dramatically lowered the property tax rate (millage rate) on homestead and qualified agricultural property and placed substantial restraints upon growth in the property tax base (taxable value) of all property.

As for the rate, Proposal A divided property into two groups: homestead property (property used as a principal residence) along with qualified agricultural property, and nonhomestead property (e.g., rental housing, second homes, and business property).^{5,6} Proposal A eliminated locally levied school operating taxes on most homestead property and qualified agricultural property. For nonhomestead property, an 18-mill basic operating tax replaced the pre-Proposal A local school operating millage. In most districts, these changes substantially reduced local school operating taxes on nonhomestead property.⁷

Between 1994 and 1996, local school districts could levy up to 3 mills of local school operating “enhancement” millage. In addition, districts with high revenue per pupil prior to Proposal A were also allowed to levy a hold-harmless millage to raise the portion of their per pupil foundation allowance in excess of the State guarantee. The hold-harmless millage is first levied on homestead properties up to 18 mills. If more millage is needed, additional hold-harmless millage is levied upon both homestead property and nonhomestead property.

At the same time, a new 6-mill State Education Tax (SET) was enacted and levied on all property.

⁵As defined under Michigan Compiled Laws, Section 211.7dd: “Qualified agricultural property” means “unoccupied property and related buildings classified as agricultural, or other unoccupied property and related buildings located on that property devoted primarily to agricultural use.”

⁶As defined under Michigan Compiled Laws, Section 211.7dd: “Homestead” means that portion of a dwelling or unit in a multiple-unit dwelling that is subject to ad valorem taxes and is owned and occupied as a principal residence by an owner of the dwelling or unit. Homestead also includes all of an owner’s unoccupied property classified as residential that is adjoining or contiguous to the dwelling subject to ad valorem taxes and that is owned and occupied as a principal residence by the owner.

⁷Beginning in 1994, local school districts could levy a basic operating millage equal to the lesser of 18.0 mills or their 1993 local school operating rate. Of the 556 local school districts existing in 1994, 536 of them levied 18.0 mills of basic school operating millage. Thirteen local school districts had levied fewer than 18.0 mills in 1993. The seven other districts levied fewer than 18.0 local school basic operating mills either by choice or because the 18.0 mill levy was reduced because school operating taxes on existing property would have grown faster than inflation. See footnote 18 for more detail.

As for the tax base, Proposal A provided that property taxes are levied on taxable value, not SEV, and implemented a cap on a property's taxable value growth. Until transferred, each year a property's taxable value may not increase by more than five percent or the rate of inflation, whichever is less (excluding additions and new construction).

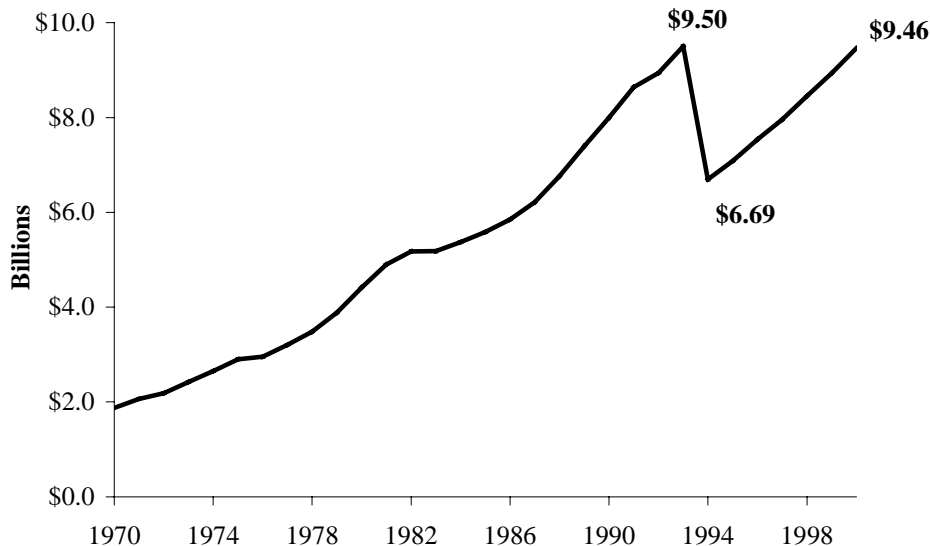
Legislation tied to Proposal A cut the income tax rate from 4.6 percent to 4.4 percent. To partially offset the net property tax cut and income tax cut, Proposal A implemented several tax increases and new taxes in addition to the SET. Proposal A increased the sales and use tax rate from 4.0 percent to 6.0 percent. Similarly, the cigarette tax rate was increased from 25 cents to 75 cents a pack. A new 16 percent tax on other tobacco products was also enacted, as was a State real estate transfer tax. Revenue from these tax increases and new taxes were earmarked to the School Aid Fund for State funding of local school operations.

SECTION 1: PROPERTY TAX COLLECTION HISTORY

Between 1970 and 1993, property tax growth averaged 7.3 percent annually. However, growth comparisons across the decades are dramatic. Through the 1970s, the statewide property tax levy more than doubled, rising 107.5 percent. Property taxes rose sharply in the early 1980s, slowed through the mid-1980s and then re-accelerated toward the end of the decade. For the 1980s as a whole, property taxes rose 67.5 percent. Property tax growth remained strong through the early 1990s. (See full-page Exhibit 2.)

With the sharp reductions in local school operating taxes in 1994, statewide property tax collections fell 29.6 percent. Taking the 1990s as a whole, property taxes rose only 11.7 percent. In 2000, property taxes rose 5.9 percent, equal to the average annual property tax growth rate since 1994. Despite strong economic and property value growth, the statewide property tax levy in 2000 was slightly less than the 1993 property tax levy.⁸ (See Exhibit 1.)

**Exhibit 1
Property Taxes Dropped Dramatically in 1994**



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

⁸2000 is the most recent year for which State Tax Commission (STC) property tax data are available. 2001 is the most recent year for which published STC data for SEV and taxable values are available. The STC issues three property value series: SEV as of the fourth Monday in May, taxable value as of the fourth Monday in May and taxable value as of December 1. The first two value series subdivide values by property classification; the December 1 series provides only total taxable values.

Exhibit 2
Ad Valorem Real and Personal Taxes

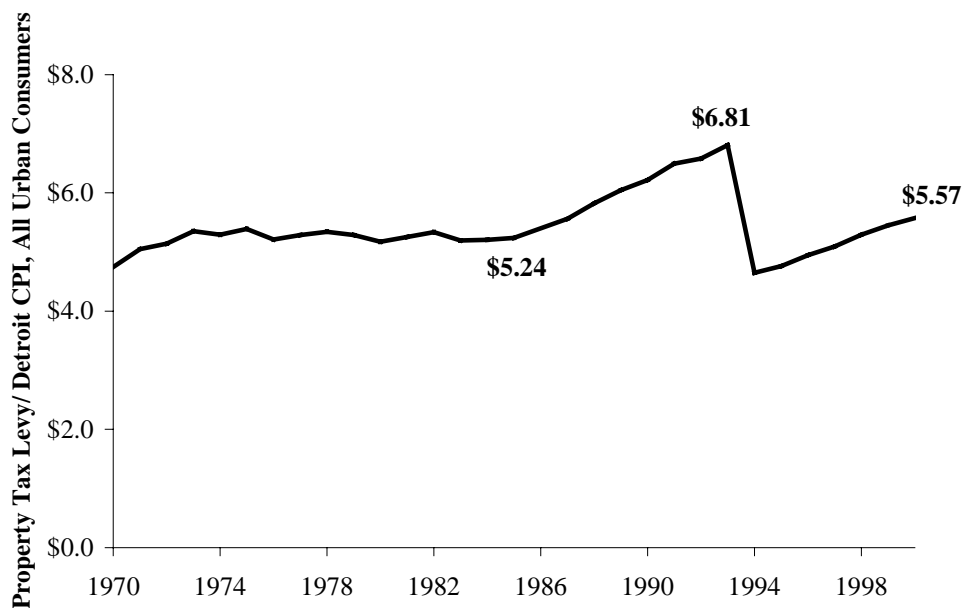
Year	Tax Levy		Inflation Adjusted Property Tax Levy		Property Taxes as Percent of Personal Income	
	Amount (Millions)	Percent Change	Amount (Millions)	Percent Change	Ratio	Percent Point Change
1970	\$1,874.3	12.9 %	\$4,745.0	6.3 %	5.0 %	0.4
1971	2,063.3	10.1	5,044.7	6.3	5.1	0.1
1972	2,183.2	5.8	5,137.0	1.8	4.9	-0.2
1973	2,420.4	10.9	5,354.9	4.2	4.8	-0.1
1974	2,649.6	9.5	5,288.6	-1.2	4.9	0.1
1975	2,903.9	9.6	5,387.6	1.9	5.1	0.2
1976	2,960.7	2.0	5,212.5	-3.2	4.6	-0.5
1977	3,207.1	8.3	5,283.5	1.4	4.4	-0.2
1978	3,484.9	8.7	5,336.7	1.0	4.3	-0.1
1979	3,889.4	11.6	5,284.5	-1.0	4.3	0.0
1980	4,411.4	13.4	5,171.6	-2.1	4.6	0.3
1981	4,898.4	11.0	5,255.8	1.6	4.8	0.2
1982	5,172.5	5.6	5,332.5	1.5	5.0	0.2
1983	5,187.3	0.3	5,197.7	-2.5	4.7	-0.3
1984	5,374.3	3.6	5,207.6	0.2	4.4	-0.3
1985	5,592.9	4.1	5,236.8	0.6	4.2	-0.2
1986	5,851.0	4.6	5,402.6	3.2	4.1	-0.1
1987	6,214.6	6.2	5,563.7	3.0	4.2	0.1
1988	6,761.1	8.8	5,823.5	4.7	4.3	0.1
1989	7,391.1	9.3	6,043.4	3.8	4.4	0.1
1990	7,998.5	8.2	6,219.7	2.9	4.5	0.1
1991	8,638.7	8.0	6,490.4	4.4	4.8	0.3
1992	8,941.7	3.5	6,579.6	1.4	4.7	-0.1
1993	9,500.6	6.3	6,805.6	3.4	4.7	0.0
1994	6,690.7	-29.6	4,646.3	-31.7	3.1	-1.6
1995	7,081.1	5.8	4,765.2	2.6	3.1	0.0
1996	7,536.1	6.4	4,941.7	3.7	3.2	0.1
1997	7,952.7	5.5	5,088.1	3.0	3.2	0.0
1998	8,449.6	6.2	5,287.6	3.9	3.2	0.0
1999	8,933.4	5.7	5,450.5	3.1	3.2	0.0
2000	9,462.3	5.9	5,572.6	2.2	3.3	0.1
1970-79		107.5 %		11.4 %		4.3 %
1980-89		67.5		16.9		-0.2
1990-99		11.7		-12.4		-1.3

Sources: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.
Bureau of Labor Statistics, U.S. Department of Labor. Bureau of Economic Analysis, U.S. Department of Commerce.
Inflation-adjusted property tax levy equals property tax levy divided by the Detroit CPI (All Urban Consumers), 82-84 base year.

Relative to inflation, property taxes rose 11.4 percent through the 1970s. Inflation-adjusted property taxes remained essentially unchanged through the mid-1980s but then grew sharply over the balance of the decade. Between 1980 and 1989, inflation-adjusted property taxes grew 16.9 percent. Inflation-adjusted property taxes continued to rise sharply through the early 1990s.

The 1994 property tax cut erased all inflation-adjusted property tax increases since 1970. Steady property tax growth coupled with low inflation has increased inflation-adjusted property taxes over the past six years. In 2000, inflation-adjusted property taxes equaled approximately their late-1980s levels. (See Exhibit 3.)

Exhibit 3
Inflation-Adjusted Property Taxes Near Late-1980s Level

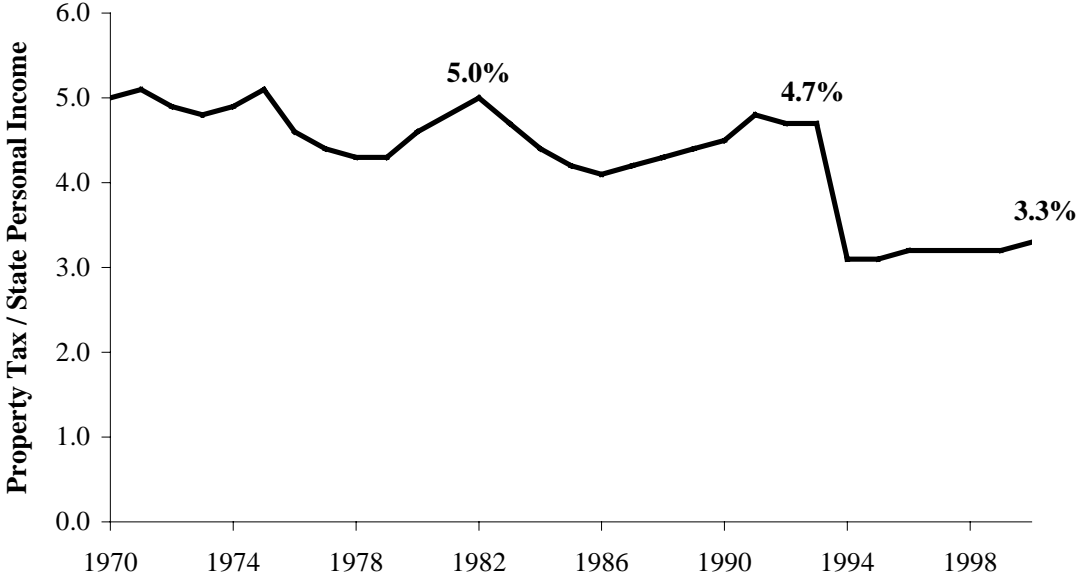


Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury, and Bureau of Labor Statistics, U.S. Department of Labor.

State personal income provides a good measure of Michigan's economic activity. Thus, examining property taxes as a percent of personal income provides a gauge of property taxes relative to State economic activity. Between 1970 and 1993, property taxes as a percent of personal income fluctuated between 4.1 percent and 5.1 percent. In 1993, property taxes comprised 4.7 percent of State personal income, the median share between 1970 and 1993.

With the sharp property tax decline in 1994, property taxes' share of personal income fell to 3.1 percent, a 50-year low. Since 1994, property taxes' share of personal income has risen slightly to 3.3 percent of personal income. (See Exhibit 4.)

Exhibit 4
Property Tax as a Percent of Personal Income Down Sharply



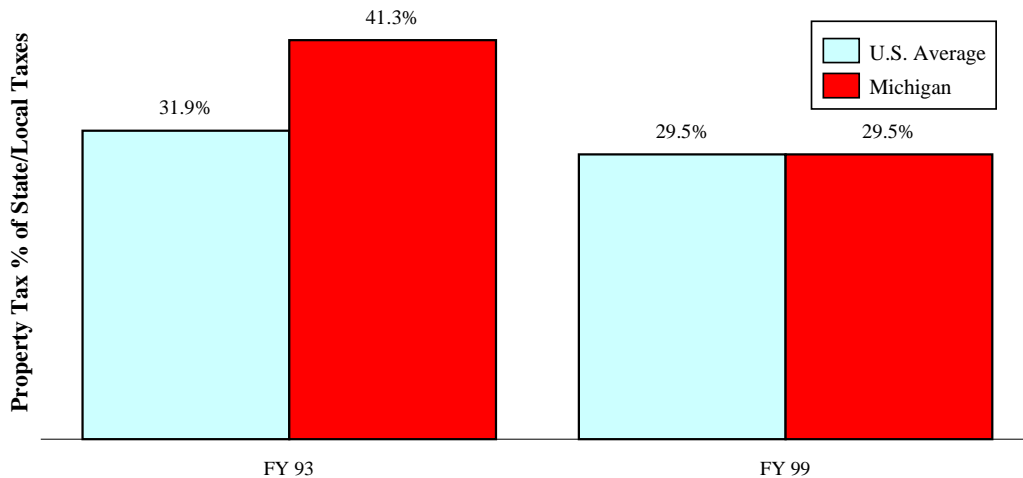
Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury, and Bureau of Economic Analysis, U.S. Department of Commerce.

SECTION 2: INTERSTATE PROPERTY TAX LEVY COMPARISONS

Proposal A dramatically reduced Michigan’s property tax burden. Prior to Proposal A, Michigan had one of the highest property tax burdens in the United States. In fiscal year (FY) 1993, Michigan ranked 7th among U.S. states with property taxes comprising 4.60 percent of personal income. In contrast, FY 1999 Michigan property taxes as a percent of personal income (3.22 percent) were only slightly above the national average of 3.16 percent.⁹ Among the 50 U.S. states in FY 1999, Michigan ranked 22nd. (See full-page Exhibits 6a and 6b.)

Proposal A substantially reduced Michigan governments’ overall reliance upon property taxes. Further, a strong economy helped boost growth in other taxes. As a result, property taxes’ share of total Michigan state and local own-source revenues fell from 28.6 percent (6.1 percentage points above the national average) to 20.5 percent (slightly below the national average) between FY 1993 and FY 1999. (See full-page Exhibits 7a and 7b.) Over the same period, Michigan property taxes as a share of state and local taxes fell from 41.3 percent (9.4 percentage points above the U.S. average) to 29.5 percent (matching the national average). Reflecting this move to the U.S. average, Michigan’s reliance on the property tax fell from 8th to 22nd (share of own source revenues) among U.S. states and from 5th to 23rd (share of own source taxes). See Exhibit 5.)

**Exhibit 5
Michigan Reliance on Property Taxes Falls**



Source: Bureau of Census, U.S. Dept. of Commerce.

⁹FY 1999 is the latest fiscal year for which combined state and local revenue figures are available from the U.S. Bureau of the Census, U.S. Department of Commerce (July 18, 2001, release date). The above figures represent FY 1999 property taxes (U.S. Census) divided by FY 1999 state personal income (Bureau of Economic Analysis, U.S. Department of Commerce). For 46 states, the state fiscal year runs from July 1 to June 30. The four exceptions are Alabama and Michigan (October 1 to September 30), New York (April 1 to March 31) and Texas (September 1 to August 31). The report’s analysis uses quarterly personal income data from the January 24, 2002 Bureau of Economic Analysis release.

Exhibit 6a
State and Local Property Tax Burden for FY 1993

State	FY 1993 Property Taxes (thousands)	FY 1993 Personal Income (millions)	Property Taxes as % of Income	Rank
Alabama	\$768,652	\$74,703	1.03 %	50
Alaska	673,113	14,441	4.66	6
Arizona	2,742,049	72,368	3.79	19
Arkansas	633,744	40,298	1.57	47
California	20,904,055	708,367	2.95	32
Colorado	2,541,764	77,067	3.30	25
Connecticut	4,219,389	95,182	4.43	12
Delaware	241,836	16,297	1.48	48
Florida	10,228,512	286,901	3.57	22
Georgia	4,026,189	134,766	2.99	28
Hawaii	603,125	28,427	2.12	40
Idaho	517,743	19,227	2.69	36
Illinois	10,762,627	270,035	3.99	15
Indiana	3,606,318	111,907	3.22	26
Iowa	2,182,471	53,633	4.07	14
Kansas	1,753,295	51,405	3.41	23
Kentucky	1,145,077	66,295	1.73	44
Louisiana	1,190,008	74,171	1.60	46
Maine	1,104,476	22,976	4.81	5
Maryland	3,613,523	121,631	2.97	29
Massachusetts	5,497,034	151,166	3.64	21
Michigan	9,246,788	201,015	4.60	7
Minnesota	3,843,498	98,955	3.88	18
Mississippi	1,021,327	39,502	2.59	37
Missouri	2,148,120	103,894	2.07	41
Montana	667,208	14,640	4.56	9
Nebraska	1,248,364	32,030	3.90	17
Nevada	681,349	31,342	2.17	39
New Hampshire	1,578,768	24,884	6.34	1
New Jersey	11,012,116	210,738	5.23	2
New Mexico	378,471	26,821	1.41	49
New York	22,413,158	455,697	4.92	4
North Carolina	2,962,701	134,813	2.20	38
North Dakota	355,733	11,397	3.12	27
Ohio	6,690,900	227,352	2.94	33
Oklahoma	939,861	57,335	1.64	45
Oregon	2,549,537	60,043	4.25	13
Pennsylvania	7,743,760	262,397	2.95	31
Rhode Island	966,150	21,665	4.46	11
South Carolina	1,833,679	63,315	2.90	34
South Dakota	476,496	13,047	3.65	20
Tennessee	1,890,943	97,448	1.94	43
Texas	13,895,659	350,876	3.96	16
Utah	862,522	30,851	2.80	35
Vermont	566,317	11,176	5.07	3
Virginia	4,251,962	143,795	2.96	30
Washington	3,869,992	115,417	3.35	24
West Virginia	581,747	29,839	1.95	42
Wisconsin	4,679,753	101,992	4.59	8
Wyoming	419,592	9,276	4.52	10
U.S. Total	\$188,731,471	\$5,472,811	3.45 %	

Sources:

- 1 - Tax data from Government Finances, Bureau of the Census, U.S. Dept of Commerce.
- 2 - Personal income data from Bureau of Economic Analysis, U.S. Dept of Commerce.

Exhibit 6b
State and Local Property Tax Burden for FY 1999

<u>State</u>	<u>FY 1999 Property Taxes (thousands)</u>	<u>FY 1999 Personal Income (millions)</u>	<u>Property Taxes as % of Income</u>	<u>Rank</u>
Alabama	\$1,191,792	\$99,680	1.20 %	50
Alaska	727,813	17,293	4.21	7
Arizona	3,584,155	116,306	3.08	25
Arkansas	1,401,967	55,056	2.55	35
California	25,424,960	963,702	2.64	33
Colorado	3,413,607	122,727	2.78	31
Connecticut	5,174,841	127,541	4.06	10
Delaware	348,517	22,379	1.56	49
Florida	13,900,952	412,432	3.37	20
Georgia	5,422,816	207,252	2.62	34
Hawaii	594,558	32,045	1.86	45
Idaho	815,660	27,790	2.94	28
Illinois	14,099,968	368,809	3.82	12
Indiana	5,177,129	152,486	3.40	19
Iowa	2,532,735	71,937	3.52	15
Kansas	2,115,021	69,105	3.06	26
Kentucky	1,666,329	89,717	1.86	44
Louisiana	1,620,130	98,581	1.64	46
Maine	1,546,856	30,085	5.14	2
Maryland	4,144,064	162,991	2.54	36
Massachusetts	7,300,559	210,999	3.46	16
Michigan	8,810,590	273,308	3.22	22
Minnesota	4,458,850	143,320	3.11	24
Mississippi	1,389,918	56,083	2.48	38
Missouri	3,305,361	141,413	2.34	39
Montana	891,131	19,172	4.65	5
Nebraska	1,567,009	44,339	3.53	14
Nevada	1,261,135	54,090	2.33	40
New Hampshire	2,014,400	36,421	5.53	1
New Jersey	14,336,025	284,204	5.04	4
New Mexico	587,849	37,348	1.57	48
New York	24,758,694	597,680	4.14	9
North Carolina	4,350,642	197,714	2.20	41
North Dakota	497,220	14,788	3.36	21
Ohio	9,334,354	298,387	3.13	23
Oklahoma	1,237,654	76,003	1.63	47
Oregon	2,558,189	86,996	2.94	27
Pennsylvania	9,659,064	337,058	2.87	30
Rhode Island	1,285,113	28,291	4.54	6
South Carolina	2,475,954	89,106	2.78	32
South Dakota	617,287	17,875	3.45	17
Tennessee	2,684,026	136,927	1.96	43
Texas	18,804,963	530,163	3.55	13
Utah	1,191,691	47,983	2.48	37
Vermont	765,688	15,071	5.08	3
Virginia	5,757,546	199,112	2.89	29
Washington	5,763,411	168,216	3.43	18
West Virginia	811,771	37,150	2.19	42
Wisconsin	5,524,611	140,617	3.93	11
Wyoming	522,697	12,432	4.20	8
U.S. Total	\$239,427,272	\$7,580,172	3.16 %	

Sources:

- 1 - Tax data from Government Finances, Bureau of the Census, U.S. Dept. of Commerce.
- 2 - Personal income data from Bureau of Economic Analysis, U.S. Dept. of Commerce.

Exhibit 7a
FY 1993 Property Tax Share of State and Local Revenues

	<u>Own Source Revenues</u>			<u>Taxes</u>		
	<u>State and Local</u>	<u>State</u>	<u>Local</u>	<u>State and Local</u>	<u>State</u>	<u>Local</u>
United States	22.5 %	1.7 %	48.3 %	31.9 %	2.2 %	76.1 %
Alabama	7.3	1.5	17.3	11.8	2.2	35.5
Alaska	10.2	1.3	44.2	22.8	3.0	83.6
Arizona	24.3	5.1	49.1	32.7	6.2	78.1
Arkansas	11.6	0.1	37.2	16.4	0.2	68.5
California	19.3	4.9	36.8	27.9	5.9	70.4
Colorado	21.6	0.2	41.9	33.5	0.2	66.9
Connecticut	30.9	0.0	83.8	38.6	0.0	98.9
Delaware	9.1	0.0	43.2	14.8	0.0	82.7
Florida	24.1	3.3	43.3	36.4	4.1	81.8
Georgia	20.0	0.3	38.3	29.2	0.4	71.0
Hawaii	12.3	0.0	55.1	17.3	0.0	82.5
Idaho	17.3	0.0	49.2	26.1	0.0	95.8
Illinois	29.8	1.2	59.7	39.3	1.5	82.0
Indiana	22.0	0.0	53.6	32.8	0.0	88.5
Iowa	24.1	0.0	57.1	35.2	0.0	94.7
Kansas	22.9	0.8	50.0	32.6	1.1	83.0
Kentucky	11.7	5.2	26.9	16.6	6.7	50.7
Louisiana	9.7	0.5	23.5	16.4	0.9	40.1
Maine	29.2	1.8	75.6	38.9	2.4	98.5
Maryland	21.7	2.2	46.2	28.4	2.9	61.4
Massachusetts	25.2	0.0	73.0	34.3	0.0	97.3
Michigan	28.6	1.8	61.2	41.3	2.4	93.7
Minnesota	21.4	0.1	49.0	31.6	0.1	95.5
Mississippi	16.4	0.6	40.1	25.2	0.8	94.0
Missouri	17.1	0.2	39.2	23.5	0.2	58.1
Montana	27.5	14.3	55.0	42.1	20.8	95.2
Nebraska	25.2	0.1	56.6	36.5	0.1	86.6
Nevada	15.1	1.8	31.9	21.8	2.1	67.8
New Hampshire	44.9	0.0	86.8	61.1	0.0	99.4
New Jersey	34.4	0.1	77.9	45.4	0.1	98.2
New Mexico	7.4	0.7	26.7	12.0	1.1	53.1
New York	25.7	0.0	46.9	33.4	0.0	62.6
North Carolina	15.6	1.0	39.0	21.6	1.2	71.2
North Dakota	18.2	0.2	56.2	29.1	0.3	91.7
Ohio	20.5	0.1	43.7	29.6	0.1	68.2
Oklahoma	11.1	0.0	29.8	16.4	0.0	57.1
Oregon	25.7	0.0	56.6	38.6	0.0	86.7
Pennsylvania	20.7	1.1	48.1	28.4	1.4	70.6
Rhode Island	29.8	0.5	86.1	40.2	0.7	98.8
South Carolina	18.8	0.2	46.8	29.1	0.3	90.5
South Dakota	26.5	0.0	59.9	40.2	0.0	79.9
Tennessee	15.1	0.0	34.8	21.7	0.0	62.6
Texas	27.1	0.0	52.5	39.4	0.0	81.5
Utah	16.9	0.0	44.9	25.6	0.0	74.4
Vermont	30.9	0.8	85.2	41.8	1.2	99.1
Virginia	22.0	0.1	51.4	31.7	0.2	72.3
Washington	21.2	13.5	32.9	30.3	16.8	61.3
West Virginia	12.5	0.1	40.9	18.3	0.1	82.0
Wisconsin	27.0	0.7	65.1	36.6	0.9	95.5
Wyoming	21.7	7.1	43.1	38.9	12.5	80.8

Source: Bureau of the Census, U.S. Dept. of Commerce.

Exhibit 7b
FY 1999 Property Tax Share of State and Local Revenues

	<u>Own Source Revenues</u>			<u>Taxes</u>		
	<u>State and Local</u>	<u>State</u>	<u>Local</u>	<u>State and Local</u>	<u>State</u>	<u>Local</u>
United States	20.6 %	1.8 %	44.9 %	29.5 %	2.3 %	72.8 %
Alabama	8.1	1.9	17.5	13.6	2.7	37.5
Alaska	11.7	1.0	44.9	41.3	5.4	79.3
Arizona	21.1	2.8	43.7	29.3	3.6	70.6
Arkansas	16.0	7.6	33.8	23.1	9.8	64.6
California	17.0	4.5	33.7	24.2	5.3	66.2
Colorado	19.2	0.0	37.8	28.2	0.0	61.5
Connecticut	28.7	0.0	82.4	34.8	0.0	98.3
Delaware	8.5	0.0	44.0	14.1	0.0	79.0
Florida	22.4	3.2	40.6	34.5	4.0	78.7
Georgia	17.8	0.3	36.2	25.2	0.3	59.5
Hawaii	10.8	0.0	52.0	15.2	0.0	79.6
Idaho	17.4	0.0	45.4	26.8	0.0	93.9
Illinois	28.1	0.8	58.0	37.1	1.0	82.9
Indiana	22.3	0.0	52.1	33.2	0.0	88.6
Iowa	21.6	0.0	50.9	33.0	0.0	90.3
Kansas	20.4	0.8	44.4	29.0	1.0	76.5
Kentucky	11.7	3.8	28.9	17.1	5.0	53.9
Louisiana	9.7	0.3	23.6	15.4	0.4	39.4
Maine	28.5	1.2	74.5	37.9	1.7	97.6
Maryland	18.8	2.0	40.6	25.0	2.6	55.2
Massachusetts	24.3	0.0	74.6	32.8	0.0	96.9
Michigan	20.5	5.6	48.2	29.5	7.2	89.8
Minnesota	18.3	0.1	48.0	25.9	0.1	94.5
Mississippi	14.5	0.0	37.4	22.8	0.0	91.8
Missouri	16.9	0.2	38.5	23.6	0.2	60.2
Montana	27.8	11.6	53.6	43.7	17.0	95.3
Nebraska	23.2	0.1	50.6	33.9	0.2	79.6
Nevada	16.6	2.1	33.2	23.8	2.4	63.3
New Hampshire	45.4	0.0	82.5	64.8	0.1	98.8
New Jersey	34.4	0.0	75.3	45.4	0.0	97.9
New Mexico	8.3	0.8	27.8	13.2	1.1	54.2
New York	22.8	0.0	41.2	30.1	0.0	57.0
North Carolina	14.6	0.0	35.8	21.5	0.0	74.6
North Dakota	19.1	0.1	53.6	29.8	0.2	88.1
Ohio	20.8	0.1	44.6	28.9	0.1	66.0
Oklahoma	10.7	0.0	26.7	15.9	0.0	52.7
Oregon	17.9	0.0	43.1	30.0	0.0	80.1
Pennsylvania	19.8	0.6	46.9	27.4	0.8	69.7
Rhode Island	30.4	0.0	83.8	40.2	0.0	98.6
South Carolina	17.0	0.1	40.9	27.3	0.1	84.9
South Dakota	24.9	0.0	55.9	37.3	0.0	78.9
Tennessee	15.4	0.0	32.0	22.8	0.0	59.0
Texas	25.9	0.0	51.7	38.2	0.0	79.8
Utah	14.3	0.0	38.0	21.8	0.0	65.7
Vermont	31.3	20.3	68.7	42.9	27.8	95.8
Virginia	20.3	0.2	49.9	29.4	0.2	71.7
Washington	21.9	13.9	33.7	31.8	17.5	62.4
West Virginia	12.8	0.1	42.5	19.0	0.1	82.8
Wisconsin	23.2	0.5	61.6	31.7	0.7	94.0
Wyoming	20.7	7.6	34.7	38.5	12.2	77.6

Source: Bureau of the Census, U.S. Dept. of Commerce.

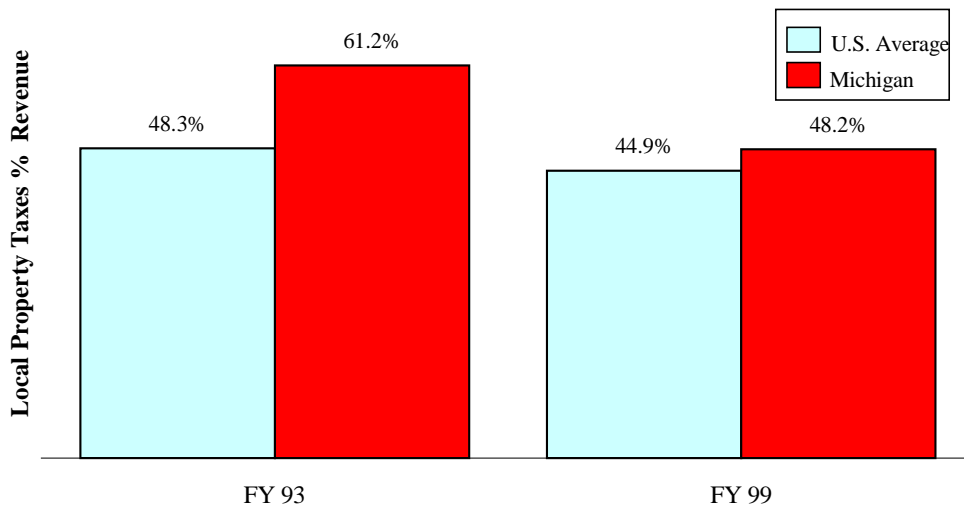
In most states, state governments levy an extremely small share of total property taxes. In FY 1999, 12 state governments levied no property taxes. In 29 of the 50 states, state government accounted for less than 1.0 percent of total FY 1999 property taxes levied. In FY 1993, the State of Michigan did not levy any general ad valorem property taxes, but did levy other property taxes. Thus, the State of Michigan accounted for 3.4 percent of Michigan's FY 1993 total property taxes, ranking 15th among the 50 states.¹⁰ Nationally, state government averaged 4.1 percent of property taxes in FY 1993.

With the enactment of the SET in 1994, the State of Michigan's share of the overall property tax levy rose substantially. In FY 1999, the State of Michigan accounted for 17.9 percent of property taxes levied in Michigan, substantially above the 4.9 percent national average. In FY 1999, Michigan ranked 7th in state government's property tax share, up from 15th in FY 1993 and 13.1 percentage points above the FY 1999 national average.

The State of Vermont accounted for the largest state share of combined state and local property taxes among states (50.4 percent), followed by Washington (37.4 percent) and Arkansas (32.4 percent).

After property tax reform, Michigan local units' reliance on property taxes more closely resembles the average state. In FY 1999, local property taxes comprised 48.2 percent of their own source revenues for Michigan's local units, compared with the 44.9 percent national average. (See Exhibit 8.) In FY 1999, Michigan local units ranked 19th among states in property taxes as a percent of revenues, compared with 9th in FY 1993.

Exhibit 8
Michigan's Local Government Reliance on Property Taxes
Still Above National Average



Source: Bureau of Census, U.S. Dept. of Commerce.

¹⁰While the State of Michigan did not levy any FY 1993 general ad valorem property tax, the State did levy three other major taxes on property that year (the State Utility Tax, Industrial Facilities Tax and an intangibles tax). Michigan's tax on intangible property (e.g., stocks, bonds, bank accounts) was phased out between 1994 and 1997 and fully repealed as of January 1, 1998.

Local property taxes still comprise a substantially larger share of local taxes in Michigan than they do nationally. In FY 1999, property taxes accounted for 89.8 percent of local taxes in Michigan, compared with only 72.8 percent nationally. Michigan ranked 14th in both FY 1993 and FY 1999 in property taxes' share of locally raised taxes. Unlike many states, Michigan has no local sales tax.

SECTION 3: PROPERTY TAXES BY TAXING UNIT TYPE

Property Tax Composition

Taxing Unit Type

By far, the property tax levy is Michigan's most decentralized tax. In 2000, one unit (the State) levied a sales or use tax; 23 units levied an income tax. In contrast, roughly 2,500 governmental units levied property taxes in the State of Michigan in 2000:¹¹

- The State (State Education Tax)
- 1,233 townships
- 552 local school districts¹²
- 272 cities¹³
- 260 villages¹⁴
- 83 counties
- 57 intermediate school districts
- Numerous authorities (e.g., Downtown Development Authorities, district libraries, transportation authorities)¹⁵
- 27 community college districts.¹⁶

Of total property taxes levied in 2000, school taxes (local school district, intermediate school district, community college, and SET) comprised more than half (58.4 percent). Counties accounted for 16.0 percent of property taxes. Cities accounted for 19.3 percent of the statewide property tax levy. Townships accounted for 5.6 percent of property taxes, while villages comprised 0.8 percent. (See Exhibit 9.)

¹¹With the exception of nine townships, one village and two local school districts, all municipalities and school districts levied property tax in 2000. Because taxing units overlap, the property tax system involves an interconnected system of taxing units. Taken together, there were over 3,400 different combinations of cities/townships, local school districts and villages across Michigan in 2000.

¹²Beginning in 2000, Bloomfield #1 local school district (Red School) was eliminated.

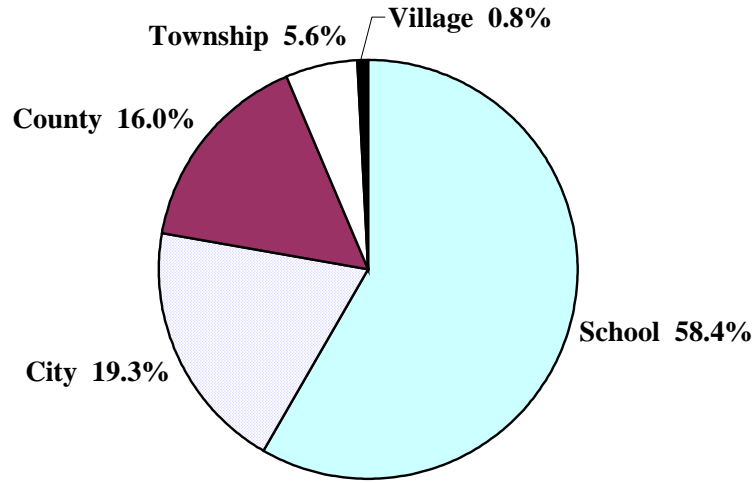
¹³Beginning in 2000, Stambaugh city, Iron River city and Mineral Hills village merged into a single city (Iron River city).

¹⁴Villages are wholly contained within one or more township.

¹⁵In the following discussion, authority tax levies are included as part of the township, city, village, and county tax levies.

¹⁶A substantial portion of the State is not contained within a community college district. Dearborn School District levies Henry Ford Community College's millage.

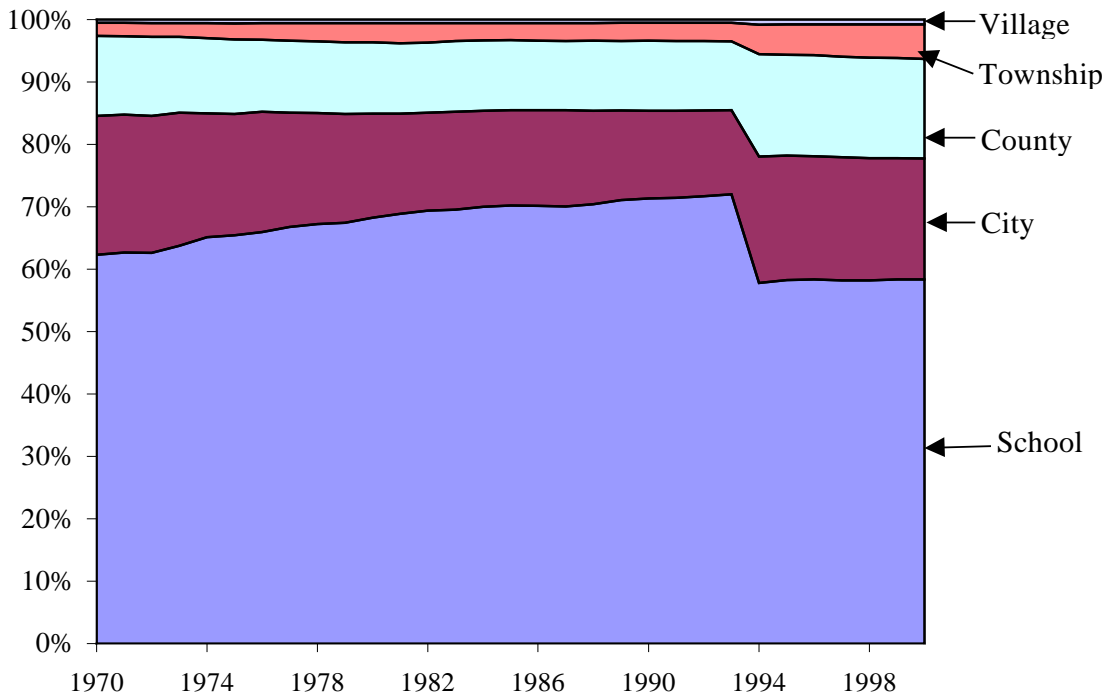
**Exhibit 9
Most CY 2000 Property Taxes for Schools**



Source: State Tax Commission.

Over the past 30 years, the distribution of the tax levy among taxing units has shifted. (See Exhibits 10a and 10b.)

**Exhibit 10a
School Share of Property Taxes Falls Sharply**



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 10b
Share of Michigan General Property Taxes, by Local Unit of Government

<u>Year</u>	<u>School</u>	<u>City</u>	<u>County</u>	<u>Township</u>	<u>Village</u>	<u>Total</u>
1970	62.3 %	22.3 %	12.8 %	2.1 %	0.5 %	100.0 %
1971	62.7	22.1	12.6	2.1	0.5	
1972	62.6	21.9	12.7	2.2	0.6	
1973	63.8	21.3	12.2	2.2	0.6	
1974	65.1	19.8	12.1	2.4	0.6	
1975	65.4	19.4	12.0	2.6	0.6	
1976	65.9	19.3	11.5	2.7	0.6	
1977	66.8	18.3	11.5	2.8	0.6	
1978	67.2	17.8	11.5	2.9	0.6	
1979	67.4	17.4	11.5	3.1	0.6	
1980	68.2	16.7	11.4	3.0	0.6	
1981	68.8	16.1	11.3	3.2	0.6	
1982	69.4	15.7	11.2	3.1	0.6	
1983	69.6	15.6	11.4	2.9	0.6	
1984	70.0	15.4	11.2	2.8	0.6	
1985	70.2	15.3	11.2	2.8	0.6	
1986	70.1	15.4	11.1	2.8	0.6	
1987	70.0	15.5	11.1	2.9	0.6	
1988	70.4	15.0	11.2	2.8	0.6	
1989	71.0	14.4	11.1	2.9	0.6	
1990	71.3	14.1	11.2	2.9	0.5	
1991	71.4	14.0	11.1	2.9	0.5	
1992	71.7	13.8	11.1	2.9	0.5	
1993	72.0	13.6	11.0	3.0	0.5	
1994	57.8	20.3	16.4	4.7	0.8	
1995	58.2	19.9	16.1	4.9	0.8	
1996	58.4	19.7	16.2	4.9	0.8	
1997	58.2	19.8	16.1	5.1	0.8	
1998	58.2	19.6	16.0	5.4	0.8	
1999	58.4	19.4	16.0	5.4	0.8	
2000	58.4	19.3	16.0	5.6	0.8	

Annual Average Changes

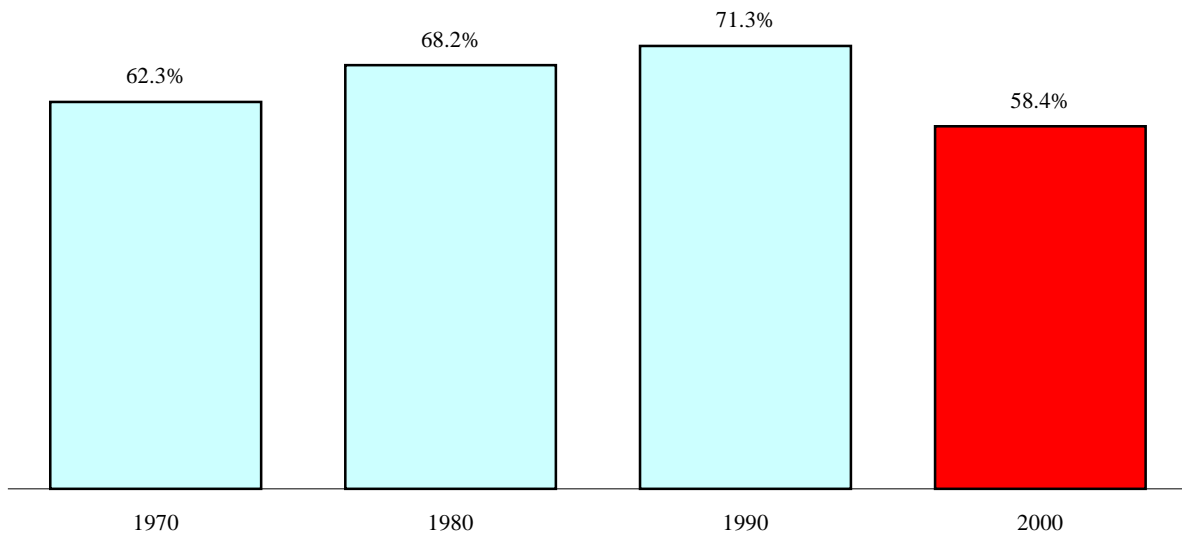
1970-79	5.1 %	-4.9 %	-1.3 %	1.0 %	0.1 %
1980-89	2.8	-2.3	-0.3	-0.1	0.0
1990-00	-12.9	5.3	4.8	2.5	0.3
1994-00	0.6	-1.0	-0.4	0.9	0.0
1970-00	-3.9 %	-3.0 %	3.2 %	3.5 %	0.3 %

Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

School Taxes

Taken together, Michigan's local school districts, intermediate school districts and community colleges gained an increasingly larger share of the State's property taxes in the 1970s. In the 1970s, schools' share of property taxes rose 5.1 percentage points from 62.3 percent to 67.4 percent. Schools' share of property taxes trended upward through 1993, growing to 72.0 percent of total property taxes. In 1994, school finance and property tax reform dramatically reduced schools' share of the property tax levy to 57.8 percent. By 2000, school taxes' share of the statewide levy rose slightly to 58.4 percent. (See Exhibit 11.)

Exhibit 11
Schools' Share of Property Taxes Falls With Proposal A



Source: State Tax Commission.

Local school district taxes and the SET comprised 46.8 percent of the statewide property tax levy in 2000 with the SET accounting for 15.3 percent of the total levy. In contrast, total local school district taxes had accounted for 64.4 percent of property taxes in 1993, the year prior to Proposal A.¹⁷

Local school *operating* taxes share of the property tax levy fell by one-third with school finance reform falling from 59.9 percent of statewide property taxes to 40.0 percent. Since 1994, local school operating taxes share of property taxes has declined to 36.6 percent. Millage rollbacks and

¹⁷The SET was first levied in 1994, as part of Proposal A's enactment.

the elimination of the local school district enhancement millage contributed to this decline.¹⁸ On the other hand, local school debt taxes have risen sharply in recent years. Since 1993, local school debt and sinking fund taxes have more than doubled, rising from \$428.3 million in 1993 to \$963.1 million in 2000.¹⁹ Local school debt and sinking fund taxes comprised 10.2 percent of the 2000 statewide property tax levy, up dramatically from 4.5 percent of property taxes in 1993, the year prior to property tax reform, and 6.8 percent in 1994.²⁰ (See Exhibit 12.)

Increased local school debt has manifested itself through increased borrowing from the School Bond Loan (SBL) program. The SBL program provides a credit enhancement mechanism for school district bonds issued for capital expenditure purposes and provides loans to school districts that need funds to pay debt service obligations. The program provides resources to K-12 school districts whose debt mill levy is insufficient to service debt obligations. The SBL program allows local school districts to increase bonding without raising local debt mills.²¹

¹⁸Under Article IX Section 31 of the Michigan Constitution and MCL 211.34d, the operating millage rate of each property tax unit is reduced if that unit's overall taxable value, excluding new construction, grows faster than inflation. In practice, a millage rate reduction fraction is applied to a unit's operating millage rate. The millage reduction fraction equals the ratio of last year's taxable value, excluding losses, grown by the inflation rate divided by the current year's taxable value, excluding additions. Prior to 1994, the millage rate reduction fraction in a given year could be greater than one, but the product of all years' reduction fractions could not exceed one. In this way, if property value grew slower than inflation in a given year, a unit's millage rate could be increased but could not rise above the rate initially levied. However, since 1994, the millage rate reduction fraction, even in a given year, may not exceed one. Thus, since 1994, once a millage rate reduction has been made it cannot be reversed without voter approval.

Millage rollbacks still occur despite the taxable value cap because of property transfers where taxable value returns to SEV.

Hold-harmless millage is subject to an additional School Code rollback provision. Under the Code, hold-harmless districts may not levy a higher hold-harmless millage rate than authorized for FY 1995, nor may their hold-harmless revenue per pupil exceed the authorized FY 1995 level.

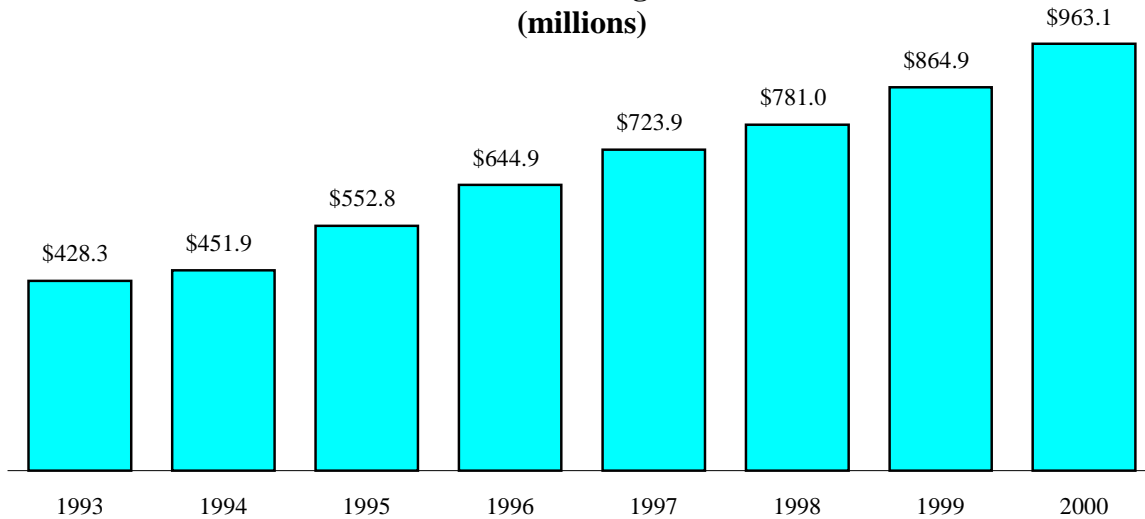
¹⁹Debt levies comprised 94 percent of combined 2000 debt and sinking fund taxes.

²⁰Figures for all years include debt and sinking fund taxes. The 1993 total also includes building and site taxes. For FY 2000, excluding sinking fund taxes, local school debt taxes comprised 9.2 percent of the total property tax levy.

²¹School districts that are accepted into the SBL program have their new bond issues qualified by the State. By qualifying the bonds, the State guarantees the bonded debt service and the qualified bonds benefit from the State's credit rating. The program also allows school districts to borrow from the State an amount sufficient to enable the district to pay principal and interest requirements on its outstanding qualified bonds.

To qualify for the program, the school district must levy a minimum of seven debt mills, must demonstrate a need for increased classroom space based on enrollment, and must complete repayment within certain statutory time frames. Bond proceeds from the SBL program may be used for new school buildings, renovation of existing buildings, land, playgrounds, buses, furniture, and technology. Bond proceeds may not be used for repairs, maintenance, salaries, or textbooks (i.e., school operating purposes).

Exhibit 12
School Debt Taxes Up Dramatically -
Annual Debt Millage Revenue
(millions)



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury, and Michigan Department of Education.

Since 1994, the value of qualified SBL bonds outstanding increased from \$4.1 billion to \$9.8 billion, a 139.5 percent increase. Over that time \$9.2 billion in bonds were issued while \$3.5 billion in bonds were retired. (See Exhibit 13.)

Exhibit 13
School Bond Loan Data
(millions)

<u>Calendar Year</u>	<u>Local School Bond Propositions</u>		<u>Qualified Bond Issued</u>	
	<u>No. Passed</u>	<u>Amount</u>	<u>Issued</u>	<u>Outstanding Balance</u>
1991	39	\$710.7	\$892.6	\$3,146.8
1992	28	309.1	905.6	3,536.5
1993	24	216.9	1,342.3	3,818.4
1994	34	499.0	637.9	4,081.4
1995	84	1,251.6	1,323.2	5,001.3
1996	83	1,295.2	1,614.6	6,270.8
1997	64	1,351.0	1,606.0	7,296.3
1998	44	798.9	2,064.0	8,176.4
1999	56	958.2	1,232.0	8,758.6
2000	57	1,399.3	1,382.6	9,773.8
Total, 1995-2000	388	\$7,054.1	\$9,222.4	
Total, 1984-2000	706	\$10,524.6	\$14,667.0	

Sources: Municipal Advisory Council of Michigan.
Michigan Department of Treasury, School Bond Loan Fund Program.

Between 1993 and 1995, the number of local school district bond proposals rose from 59 to 182. Since 1995, the number of proposals has fallen. However, in each year between 1996 and 2000, more than 100 qualified bond proposals were placed before the voters. More striking than the increase in the number of bond proposals is the increase in the aggregate dollar amount of the proposals approved by voters. Over the six-year period between 1995 and 2000, the dollar amount of local school bond proposals totaled \$7.05 billion.

Non-School Taxes

Between the early 1970s and early 1990s, cities' share of Michigan property taxes fell steadily. While accounting for 22.3 percent of property taxes in 1970, cities' share of property taxes fell to 13.6 percent of property taxes by 1993. Then, with the dramatic reduction in local school operating taxes, cities' share of total property taxes rose to 20.3 percent in 1994. Since 1994, cities share of the property tax levy has declined from 20.3 percent to 19.3 percent.

Township's share of property taxes rose steadily through the 1970s from 2.1 percent to 3.1 percent of property taxes. Townships' share of property taxes then changed little until 1994, when their share rose to 4.7 percent as schools' share declined. Between 1994 and 2000, townships' share of property taxes steadily rose from 4.7 percent to 5.6 percent of the statewide property tax levy.

Counties' share of property taxes remained relatively steady between 1970 and 1993, averaging 11.3 percent of property taxes, and then rose sharply to 16.4 percent in 1994 with the substantial reduction in school taxes. Since 1994, counties' share of the property tax levy has averaged 16.1 percent.

SECTION 4: PROPERTY TAX VALUE BY CLASSIFICATION

In Michigan, property is subdivided under two broad groupings: real property (broadly, land and buildings) and personal property (generally property not permanently affixed to a structure, e.g., machinery and equipment, furniture and fixtures).

In turn, real property is subdivided into six classifications: agricultural, commercial, industrial, residential, timber cut over, and developmental. Personal property is subdivided into five classifications: agricultural, commercial, industrial, residential, and utility.

Valuation

The value of most real property is determined through a combination of one or more of the following methods:

- **Cost Approach.** The cost approach uses the replacement or reproduction cost of a property, less depreciation. Depreciation includes physical, functional and economic depreciation.
- **Income Approach.** The income approach values property at the net present value of projected net operating income. Some approaches simply base projections on income in the previous year (or set of years). Others attempt to project income into the future. Income projections are highly sensitive to future expectations of price and market share. The income approach is also sensitive to the capitalization interest rate employed.
- **Comparable Sales Approach.** The comparable sales approach identifies sales of similar properties and uses their selling price to value a property.

All property must be valued according to its highest and best use, which is not necessarily the property's current use. Agricultural land, for example, may have substantially greater value if used for residential development.

Most real property appreciates over time. Under the cost approach, increases in replacement/reproduction cost may outweigh depreciation. Under the income approach, the net present value of the real property's income stream may increase as product prices rise, market conditions improve, or interest rates fall. Under the comparable sales approach, inflation or increased tightness in the real estate market may increase a property's value.

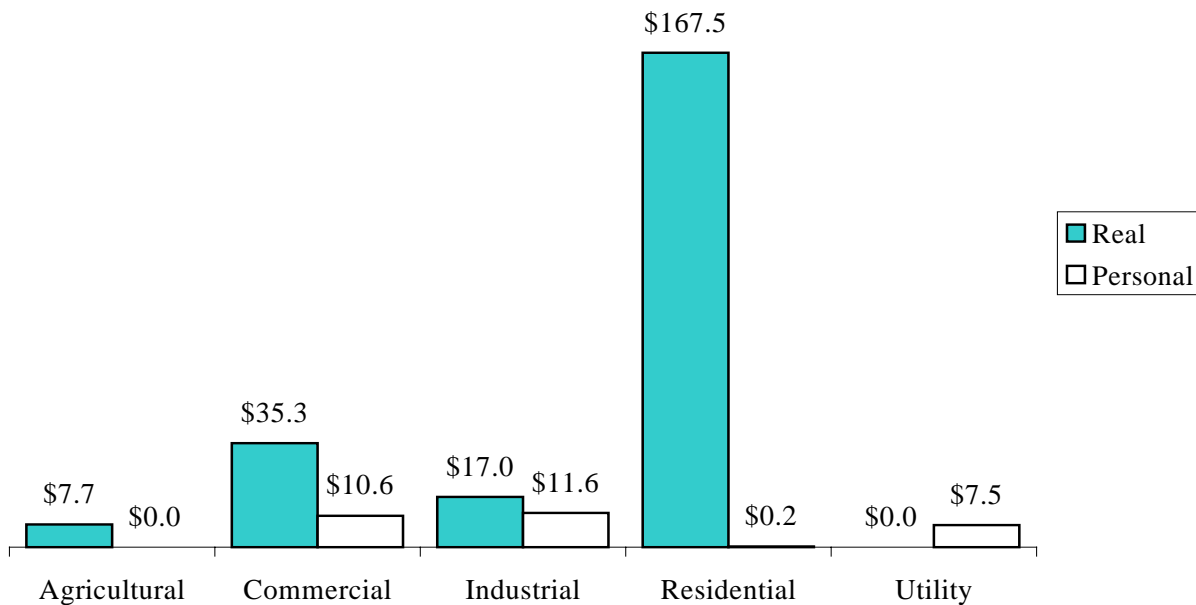
In contrast, personal property typically only depreciates. In Michigan, personal property value equals its acquisition cost less depreciation. Personal property value is depreciated by multiplying acquisition cost times a depreciation multiplier, using multiplier tables. All

depreciation multipliers are less than one. In 1999, The STC updated the personal property depreciation multiplier tables for use beginning in 2000.²²

Taxable Value Distribution by Classification

Residential property comprises the majority of statewide taxable value. (See Exhibit 14a.) In 2001, residential property accounted for 65.0 percent of statewide taxable value. Commercial property accounted for 17.8 percent of real and personal property, while industrial property accounted for 11.1 percent. Agricultural property accounted for 3.0 percent of overall taxable value, while utility property accounted for 2.9 percent of taxable value. (See Exhibit 14b.)

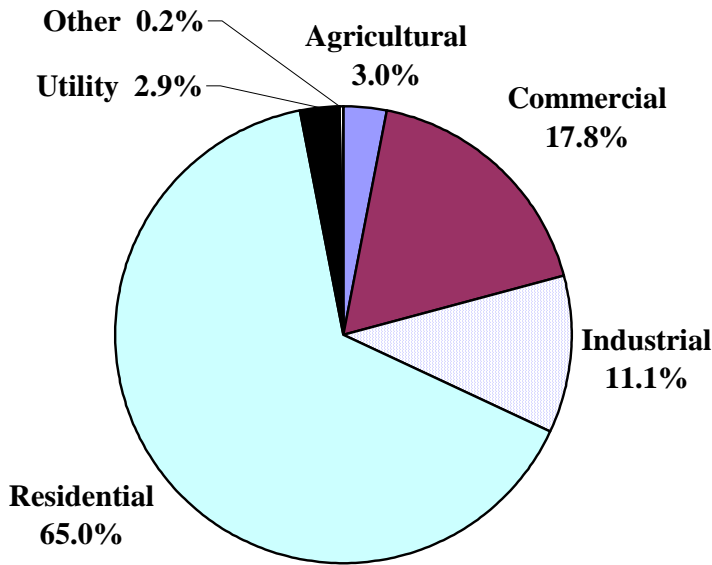
Exhibit 14a
Residential Property Comprised Majority of Taxable Value, 2001
(billions)



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

²²Overall, the updated multiplier tables reduced statewide personal property value. However, for some types of personal property and vintages, the updated multipliers exceeded the previous multiplier. Given this, it was possible for some personal property’s value to increase between 1999 (using the old tables) and 2000 (using the updated tables).

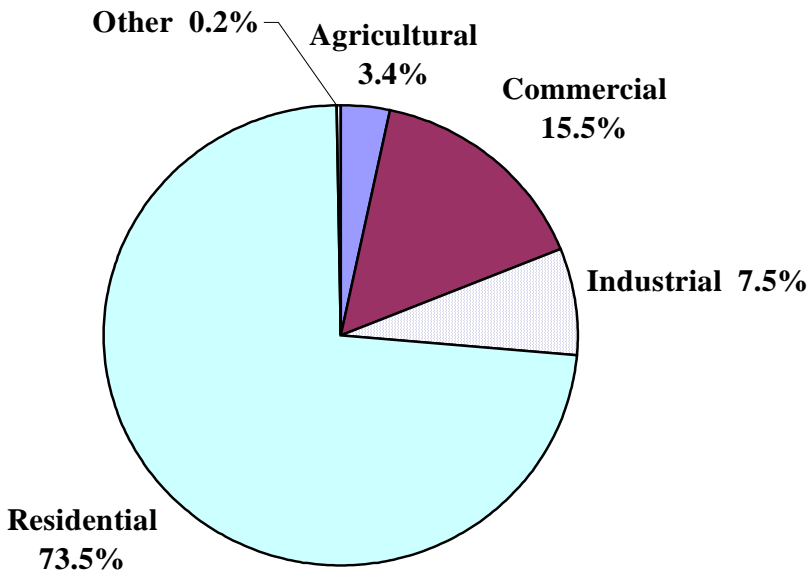
Exhibit 14b
Real and Personal Property Taxable Value, 2001



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

In 2001, real property accounted for 88.4 percent of statewide taxable value. Residential property accounted for 73.5 percent of statewide real taxable value. Commercial property comprised 15.5 percent of the total real taxable value, while industrial property accounted for 7.5 percent. Agricultural property comprised 3.4 percent of real property. (See Exhibit 15.)

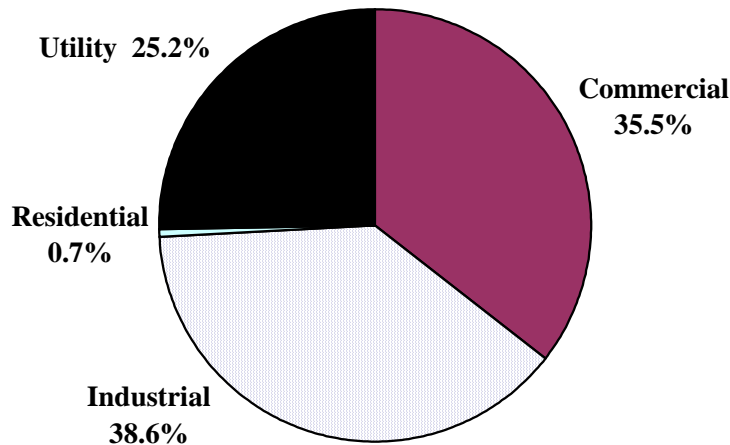
Exhibit 15
Real Property Taxable Value, 2001



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Commercial, industrial, and utility property account for nearly all the State's personal property value. In 2001, industrial property accounted for 38.6 percent of statewide personal property taxable value. Commercial property comprised 35.5 percent, and utility property accounted for 25.2 percent of personal property value. (See Exhibit 16.)

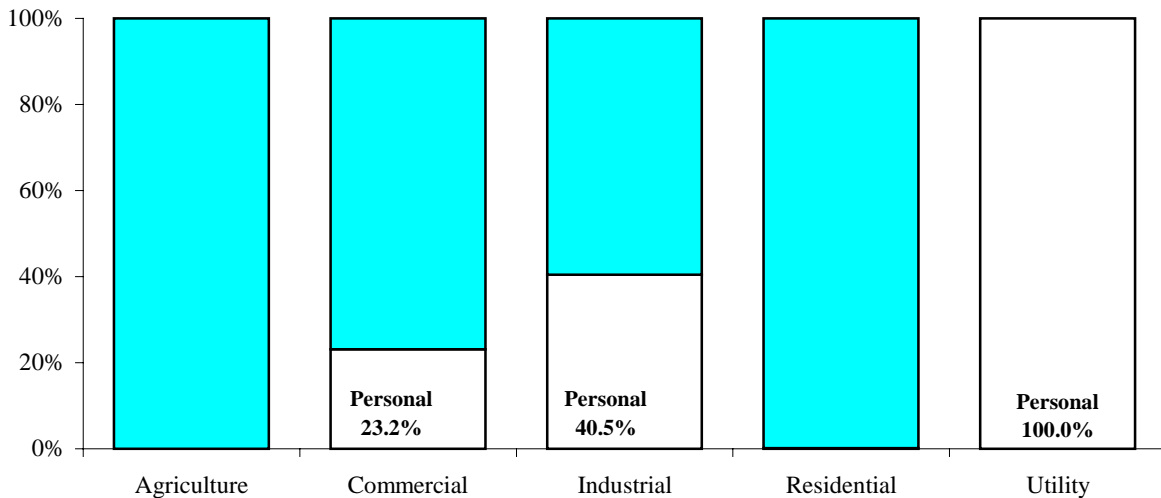
Exhibit 16
Personal Property Taxable Value, 2001



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

All property classified as utility property is personal property. Utility real property is classified as industrial real property. In 2001, personal property accounted for 23.2 percent of commercial taxable value and 40.5 percent of industrial taxable value. Agricultural and residential personal property are largely exempt from property taxation. (See Exhibit 17.)

Exhibit 17
Personal Property Value as Percent of Total Value, 2001

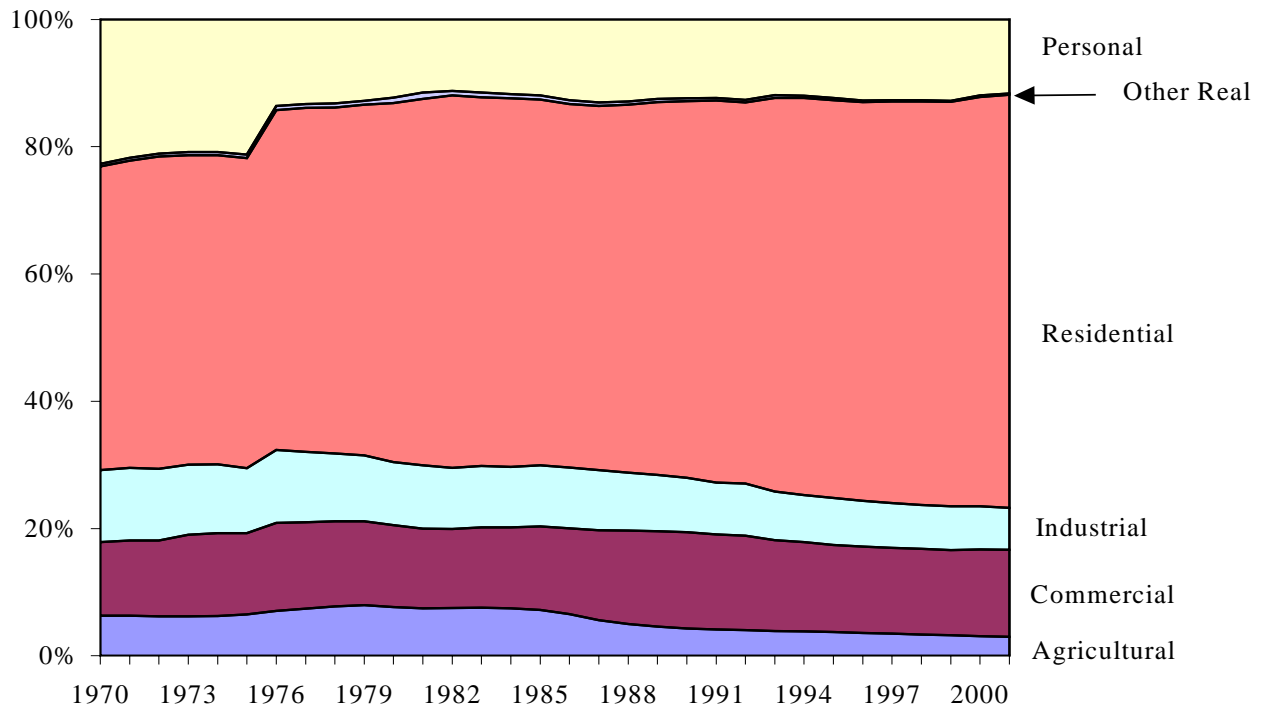


Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Changes in Composition Over Time

Over time, the composition of property value has shifted. A few key trends stand out. First, agricultural property's share of the property tax base has fallen substantially over the past 20 years. After having risen to 8.0 percent of overall SEV in 1979, agricultural real property's share of State property value has steadily declined. In 1994, agricultural real property's share of statewide property value equaled 3.9 percent. Between 1994 and 2001, agricultural real property's share of SEV declined only slightly to 3.8 percent. However, the cap on taxable value growth restrained agricultural taxable value growth more than any other property class. As a result, agricultural property's share of statewide taxable value fell to 3.0 percent. (See Exhibit 18a.)

Exhibit 18a
Residential Share Grows - Agricultural, Industrial Shares Decline -
Share of SEV/Taxable Value



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Industrial real property's share of property value has also steadily declined since 1970 as Michigan's reliance on the manufacturing sector has fallen and much industrial property is exempt and taxed under PA 198 of 1974. While having accounted for 11.3 percent of SEV in 1970, industrial real property comprised only 7.4 percent of SEV in 1994. Between 1994 and 2001, industrial real property's share of taxable value declined to 6.6 percent.

Strong residential property value growth has steadily increased residential property's share of property value. Residential real property accounted for slightly less than half of SEV in the early 1970s. However, by 1994, residential real property accounted for 62.4 percent of SEV. By 2001, residential real property comprised 67.0 percent of total SEV. While the cap on taxable

value growth restrained residential property's value growth, residential real property's share of taxable value has continued to grow. In 2001, residential real property accounted for 64.9 percent of statewide taxable value.

Between 1970 and 1975, personal property accounted for an average of 21.4 percent of total SEV. In 1976, inventories (formerly taxed as personal property) were exempted from the property tax.²³ With this exemption, personal property's share of SEV fell to 13.6 percent of SEV. Personal property's share of SEV bottomed at 11.2 percent in 1982. Between 1983 and 1999, personal property's share of taxable value fluctuated between 11.5 percent and 13.0 percent.

In 1999, the STC updated the personal property depreciation tables for use beginning in 2000. Personal property's share of taxable value fell from 12.7 percent to 11.9 percent in 2000 and 11.6 percent in 2001. Local units implemented the new tables for non-utility personal property. However, most units did not implement the new tables for utility personal property.²⁴ As a result, the post-1999 value data do not fully reflect the impact of the new tables had the tables been fully implemented. Shortly after the tables were updated, several local units filed a motion with the Michigan Tax Tribunal to have the new utility personal property depreciation multiplier tables ruled invalid. In April 2002, the Tribunal ruled that the new STC utility multiplier tables were valid. It is likely that the local units will appeal the decision to the Court of Appeals.

Exhibit 18b provides a table with statewide taxable value by classification for 1998 through 2001.

²³The personal property tax on inventories was one of seven taxes that the Single Business Tax (SBT) replaced in 1976. At that time, the tax on inventories accounted for 30 percent of the tax revenue that the SBT replaced.

²⁴Utility generation property is classified as real industrial property. Utility personal property includes utility poles and lines and gas pipelines.

Exhibit 18b
Taxable Value of Michigan Ad Valorem -
Real and Personal Property by Class
1998 - 2001
(millions)

	1998					1999				
	Taxable Value			Personal		Taxable Value			Personal	
	<u>Real</u>	<u>Personal</u>	<u>Total</u>	<u>Percent</u>		<u>Real</u>	<u>Personal</u>	<u>Total</u>	<u>Percent</u>	
Agriculture	\$7,231.7	\$0.5	\$7,232.2	0.0 %	\$7,334.1	\$0.6	\$7,334.6	0.0 %		
Timber Cutover	215.5	0.0	215.5	-	207.0	0.0	207.0	-		
Developmental	272.5	0.0	272.5	-	289.0	0.0	289.0	-		
Commercial	28,935.1	9,060.4	37,995.5	23.8	30,616.8	10,155.6	40,772.4	24.9		
Industrial	14,877.1	11,206.9	26,084.0	43.0	15,680.5	11,679.0	27,359.5	42.7		
Residential	136,440.8	138.0	136,578.8	0.1	144,918.8	158.9	145,077.7	0.1		
Utility	<u>0.0</u>	<u>6,863.6</u>	<u>6,863.6</u>	100.0	<u>0.0</u>	<u>7,068.6</u>	<u>7,068.6</u>	<u>100.0</u>		
Total	\$187,972.7	\$27,269.4	\$215,242.1	12.7 %	\$199,046.2	\$29,062.6	\$228,108.8	12.7 %		
	2000					2001				
	Taxable Value			Personal		Taxable Value			Personal	
	<u>Real</u>	<u>Personal</u>	<u>Total</u>	<u>Percent</u>		<u>Real</u>	<u>Personal</u>	<u>Total</u>	<u>Percent</u>	
Agriculture	\$7,464.1	\$0.5	\$7,464.6	0.0 %	\$7,685.7	\$0.5	\$7,686.2	0.0 %		
Timber Cutover	189.8	0.0	189.8	-	184.7	0.0	184.7	-		
Developmental	316.4	0.0	316.4	-	310.5	0.0	310.5	-		
Commercial	32,803.4	10,040.8	42,844.2	23.4	35,303.0	10,637.1	45,940.0	23.2		
Industrial	16,340.0	11,335.8	27,675.9	41.0	17,011.7	11,570.5	28,582.2	40.5		
Residential	154,838.6	176.7	155,015.3	0.1	167,456.2	194.6	167,650.8	0.1		
Utility	<u>0.0</u>	<u>7,210.9</u>	<u>7,210.9</u>	100.0	<u>0.0</u>	<u>7,535.4</u>	<u>7,535.4</u>	100.0		
Total	\$211,952.4	\$28,764.8	\$240,717.2	11.9 %	\$227,951.8	\$29,938.0	\$257,889.9	11.6 %		

Sources: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

SECTION 5: PROPERTY TAX VALUE BY COUNTY

Michigan's taxable value is largely concentrated in the State's southern Lower Peninsula. Four of the State's largest counties measured by total 2001 taxable value are located in southeast Lower Michigan: Oakland (18.5 percent of statewide taxable value), Wayne (15.4 percent), Macomb (8.8 percent), and Washtenaw (4.1 percent). Kent County in the western Lower Peninsula comprised 6.0 percent of 2001 statewide taxable value. Together, these five largest counties comprised 52.7 percent of the 2001 statewide taxable value.

The composition of taxable value varies widely across the State. Personal property's share of county taxable value is the highest in northern Lower Peninsula and western Upper Peninsula counties. In five counties, personal property accounted for more than 20.0 percent of county taxable value in 2001: Midland (35.2 percent), Kalkaska (22.6 percent), Delta (22.3 percent), Dickinson (20.8 percent), and Otsego (20.7 percent). The State's five largest counties accounted for 55.3 percent of the State's personal property taxable value. (See full-page Exhibit 19.) In 2001, personal property comprised more than 25 percent of taxable value in 88 local units. In 10 local units, personal property accounted for more than half of overall taxable value.

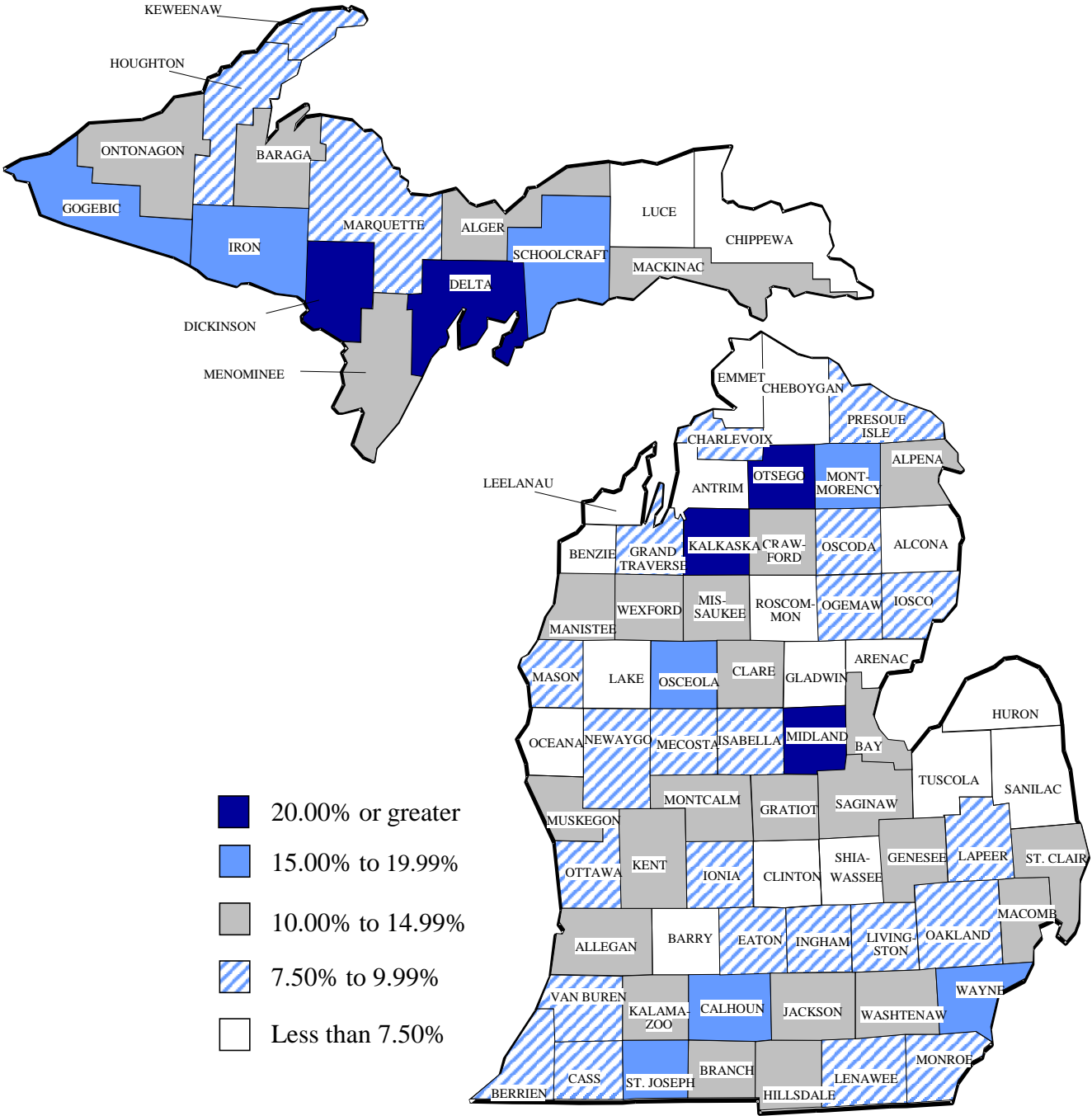
Agricultural taxable value is highly concentrated in the State's thumb area and the central and southern-most Lower Peninsula. In 2001, the seven counties with the greatest agricultural taxable value accounted for 26.0 percent of statewide agricultural taxable value but only 6.7 percent of overall taxable value: Huron, Lenawee, Sanilac, Tuscola, Saginaw, Allegan, and St. Clair. (See full-page Exhibit 20.) In contrast, the five largest counties in overall taxable value comprised only 7.2 percent of statewide agricultural taxable value.²⁵

In four counties, agricultural real property comprised more than one-quarter of total 2001 county taxable value: Huron (32.4 percent), Gratiot (28.4 percent), Sanilac (27.8 percent), and Tuscola (27.3 percent). Agricultural property comprised a relatively small share of county taxable value in several counties. In 47 counties, agricultural taxable value accounted for less than 5 percent of county taxable value in 2001.

Agricultural property comprises a substantial portion of many smaller local units' tax base. In 257 local units (all townships with less than \$80 million overall taxable value), agricultural property accounted for more than 25 percent of 2001 taxable value. Agricultural property comprised more than half of 58 townships' overall taxable value (all with less than \$50 million overall taxable value).

²⁵The four largest counties (excluding Washtenaw) comprised only 4.6 percent of statewide agricultural taxable value.

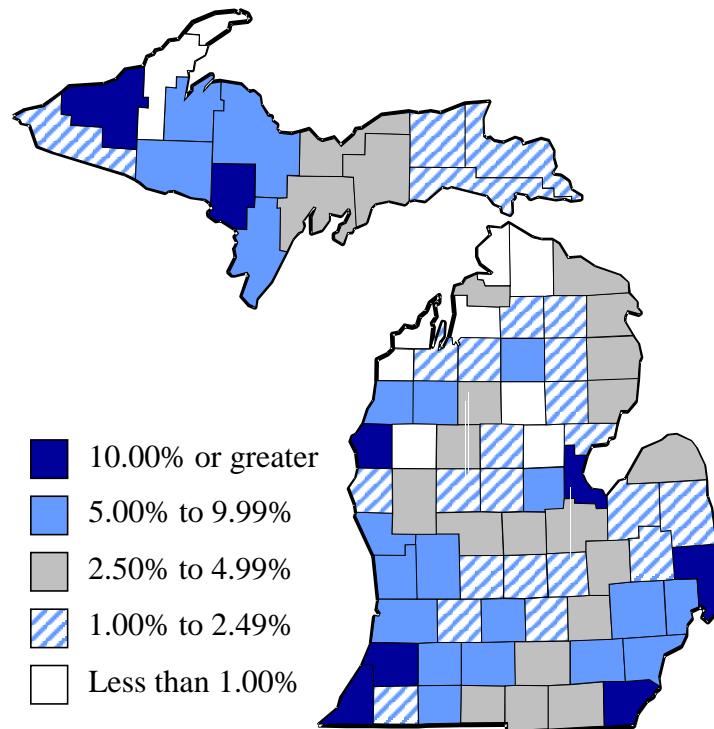
Exhibit 19 Taxable Value of Personal Property as a Percent of Total Value, 2001



Source: State Tax Commission.

Industrial real property's share of county taxable value is highest in counties bordering the Great Lakes, along the southern Lower Peninsula, and the western Upper Peninsula. In two counties, industrial real taxable value accounted for more than 20.0 percent of county taxable value in 2001: Mason (24.7 percent) and Monroe (24.4 percent). Michigan's five largest counties comprised 57.2 percent of statewide industrial real taxable value. (See Exhibit 21.)

Exhibit 21
Taxable Value of Industrial Property as a Percent of Total Value, 2001



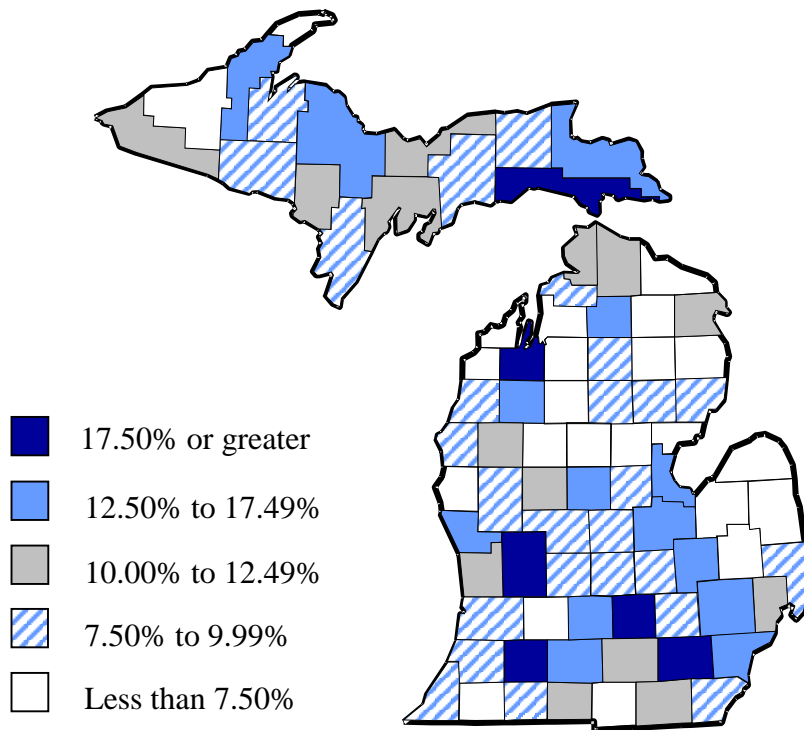
Source: State Tax Commission.

Industrial taxable value comprises a relatively small share of county taxable value in most counties. In 55 of the 83 counties, industrial real taxable value accounted for less than 5.0 percent of 2001 county taxable value.

Counties with the highest shares of commercial taxable value are located in the inland southern Lower Peninsula and eastern Upper Peninsula. Ingham County had the greatest commercial property share of county taxable value in 2001 (23.9 percent) followed by the northern counties Mackinac (19.3 percent) and Grand Traverse (19.0 percent). The five largest counties comprised 58.9 percent of statewide commercial taxable value. (See Exhibit 22.)

In 2001 residential taxable value accounted for the largest share of taxable value in all 83 counties. Residential taxable value accounted for less than half of total taxable value in only two counties: Gratiot County (a highly agricultural county) and Midland County (in which personal

Exhibit 22
Taxable Value of Commercial Property as a Percent of Total Value, 2001



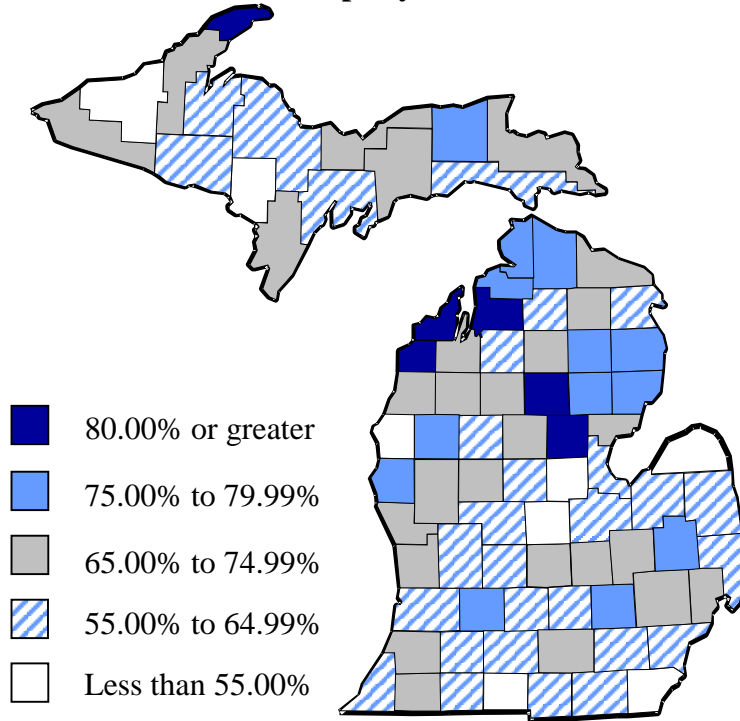
Source: State Tax Commission.

property comprised more than a one-third of county taxable value). Counties with the largest residential share of county value are largely located in the northern Lower Peninsula. Residential taxable value comprised more than 80.0 percent of 2001 county taxable value in six counties: Benzie (86.9 percent), Roscommon (86.1 percent), Antrim (85.3 percent), Leelenau (84.3 percent), Gladwin (84.0 percent), and Keewenaw (82.8 percent). (See Exhibit 23.)

In 2001, the five largest counties accounted for 52.6 percent of statewide residential taxable value.

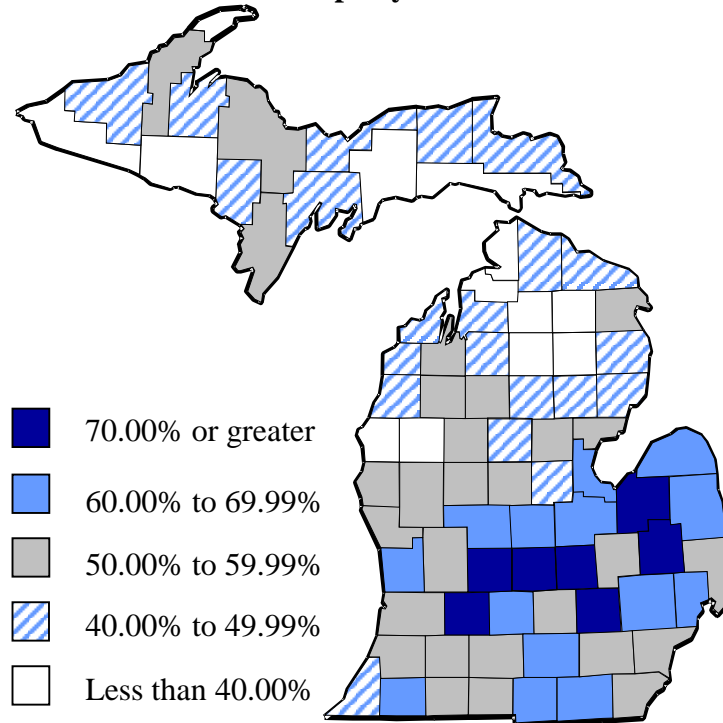
Homestead and qualified agricultural property accounts for the greatest share of county taxable value primarily in mid-Michigan and thumb counties. In seven counties, homestead and qualified agricultural property comprised more than 70.0 percent of 2001 county taxable value. Clinton County had the largest homestead and qualified agricultural property share (78.1 percent), followed by Tuscola County (77.6 percent) and Lapeer (74.9 percent) and Shiawassee (74.9 percent). The five largest counties comprised 53.9 percent of statewide homestead taxable value. (See Exhibit 24.)

Exhibit 23
Taxable Value of Residential Property as a Percent of Total Value, 2001



Source: State Tax Commission.

Exhibit 24
Taxable Value of Homestead Property as a Percent of Total Value, 2001



Source: State Tax Commission.

City and Township Composition Comparisons

Townships and cities differ substantially in their property composition. While agricultural property accounted for 5.5 percent of 2001 township taxable value, it accounted for almost no city taxable value. Townships also have a larger share of residential taxable value compared with cities. Residential property accounted for 71.9 percent of township taxable value in 2001, compared with 56.8 percent for cities.

On the other hand, cities have a substantially higher share of commercial, industrial, and personal taxable value compared with townships. In 2001, commercial property's share of city taxable value was more than double that for townships (19.0 percent vs. 9.2 percent). Similarly, personal property's share of city taxable value (15.7 percent) was nearly twice that for townships (8.2 percent). The gap between cities and townships in industrial property's share of taxable value is smaller, but still substantial. While industrial property accounted for 8.6 percent of city taxable value in 2001, it accounted for 4.9 percent of township taxable value.

Taxable Value Growth

Between 1994 and 2001, statewide taxable value growth averaged 5.6 percent annually. However, the range of that growth varied widely. Livingston County recorded the fastest taxable value growth between 1994 and 2001 with annual taxable value growth averaging 8.9 percent. Keweenaw County, the State's smallest county, reported the second greatest percentage increase with 8.5 percent average annual growth. Two counties reported average annual taxable value growth below 3.0 percent: Kalkaska (2.9 percent) and Ontonagon (2.6 percent). (See Exhibit 25.)

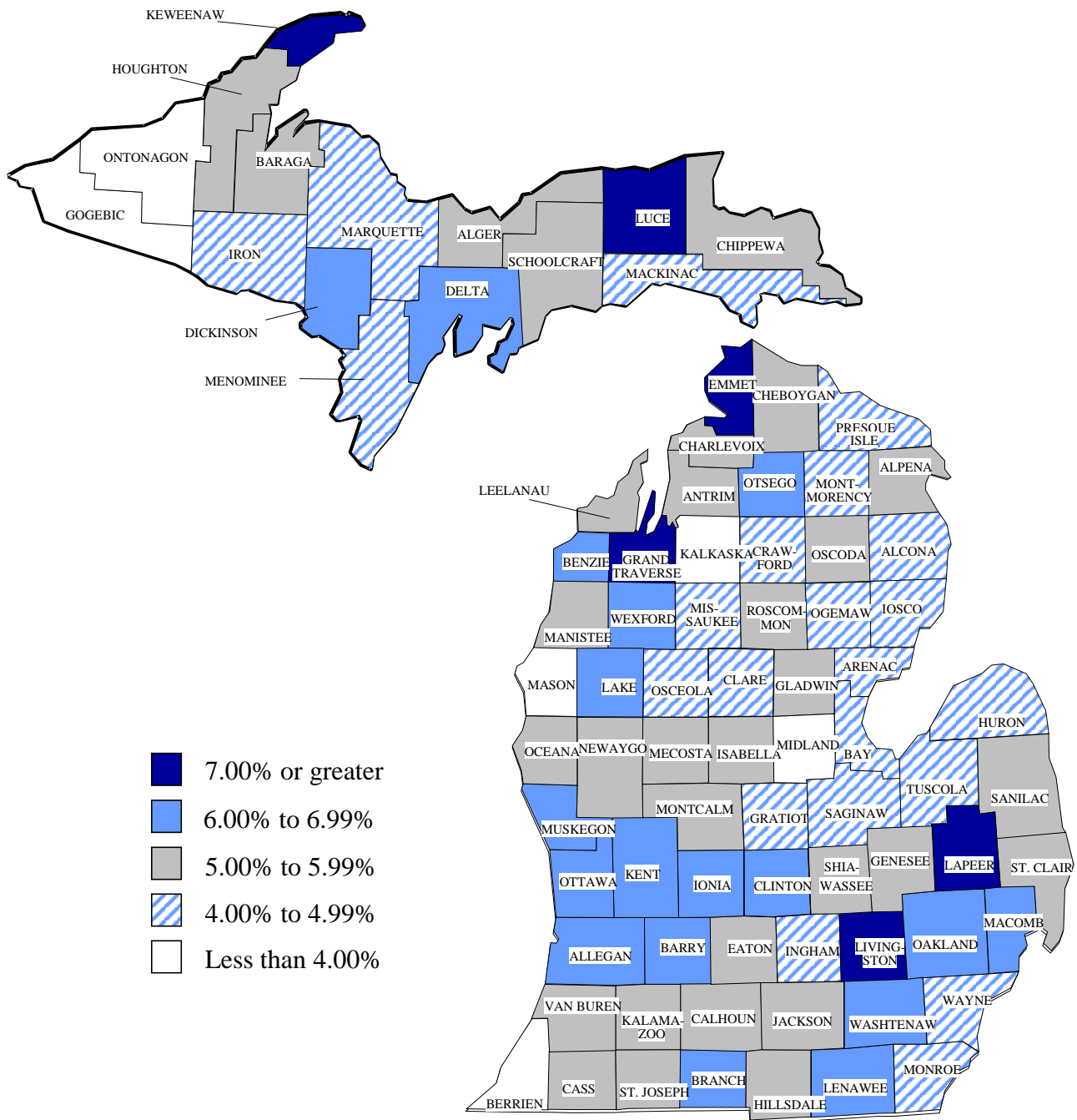
In 2001, statewide taxable value growth equaled 7.1 percent. In three counties, 2001 taxable value growth exceeded 10.0 percent: Keweenaw (15.0 percent), Emmet (11.0 percent), and Livingston (10.9 percent). Taxable value grew by at least 4.0 percent in all 83 counties in 2001.

The State's five largest counties accounted for slightly more than one-half of the State's taxable value growth between 1994 and 2001 (53.8 percent). The State's 10 largest counties accounted for slightly more than two-thirds of statewide taxable value growth (67.0 percent).²⁶

Between 1994 and 2001, township taxable value grew substantially faster than city taxable value. Over this period, townships grew at an annual rate of 6.6 percent, compared with 4.7 percent for cities. Residential property taxable value growth explains a substantial part of the difference. Townships saw substantially faster growth in residential taxable value than did cities. Cities, with relatively little land available for residential expansions, saw residential taxable value grow an average of 4.7 percent per year. On the other hand, townships, with substantial amounts of land available for development, recorded average annual residential taxable value growth of 7.4 over this period. Similarly, townships recorded substantially faster commercial taxable value growth compared to cities (6.3 percent vs. 4.8 percent average annual growth).

²⁶Uses 10 largest counties in 2001 taxable value. Between 1994 and 2001, Livingston County grew to become the 10th largest county and Monroe County fell from 10th to 12th.

Exhibit 25 1994-2001 Average Taxable Value Growth



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

As a result of faster growth, townships' share of statewide taxable value increased from 50.9 percent to 54.0 percent between 1994 and 2001. Since 1970, townships' share of statewide taxable value has risen 13.0 percentage points.

SECTION 6: PROPERTY TAX LEVY BY CLASSIFICATION

As a result of Proposal A, agricultural property and most residential property (homestead property) are subject to lower millage rates than are other property classifications (commercial, industrial, timber cutover, developmental, and personal property). Further, as the earlier discussion shows, a given property classification's taxable value is not evenly distributed throughout the State, across which millage rates vary. Thus, the distribution of property taxes across classifications differs from its taxable value distribution.

To address these variations, property taxes by classification were estimated for each township and city in Michigan. Exhibit 26a provides the State summary results for 2000.

Exhibit 26a
Property Tax Levies, 2000
(millions)

<u>Property Class</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>	<u>Share</u>
Agricultural	\$186.8	\$0.0	\$186.8	2.0 %
Commercial	1,669.6	522.5	2,192.1	23.1
Industrial	813.1	592.4	1,405.5	14.8
Residential	5,307.2	6.9	5,314.1	56.1
Utility Personal	0.0	352.2	352.2	3.7
Timber Cutover	7.9	0.0	7.9	0.1
Developmental	<u>14.4</u>	<u>0.0</u>	<u>14.4</u>	<u>0.2</u>
Total	\$7,999.0	\$1,474.1	\$9,473.0	100.0 %

Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

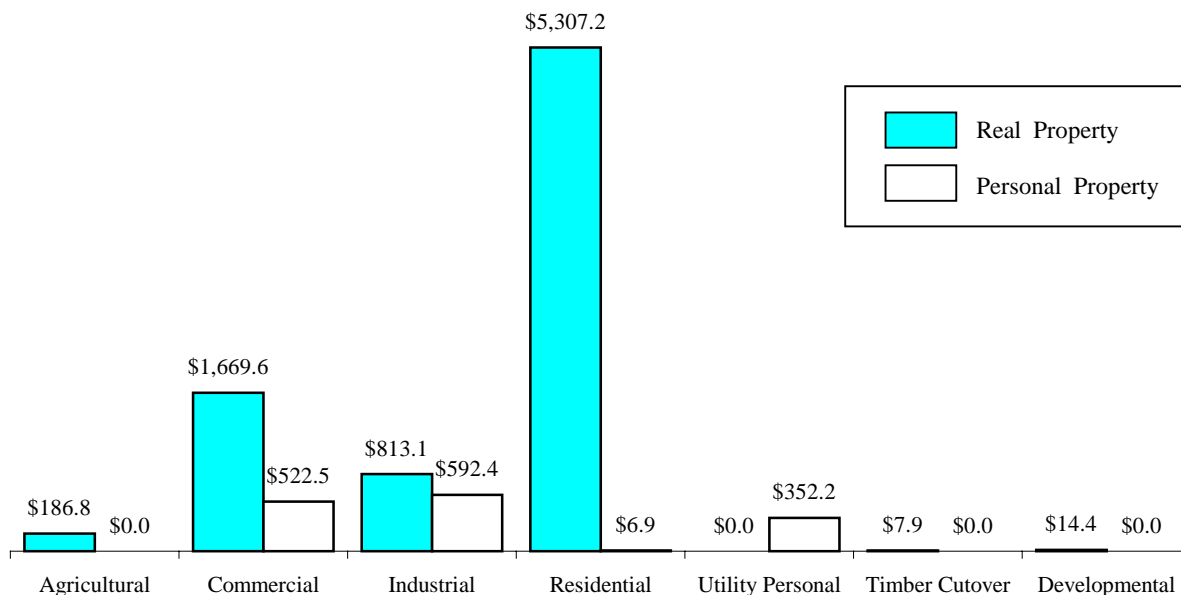
Note: Above figures are estimates based on fourth Monday in May taxable value figures. Thus, total differs slightly from STC publication *2000 Ad Valorem Property Tax Levy Report* and *2000 Commercial, Industrial and Utility Property Tax Report* that are based on December 1, 2000 values.

As with taxable value, residential property accounted for the majority of the 2000 State property tax levy. (See Exhibit 26b.) However, most residential property is exempt from the local school basic operating millage. Subject to lower tax rates (millage rates), agricultural and residential property accounted for a smaller portion of the statewide property tax levy than statewide taxable value. While residential property accounted for 64.4 percent of 2000 taxable value, it comprised an estimated 56.1 percent of the statewide property tax levy (8.3 percentage points less).

Nearly all agricultural property is exempt from the 18-mill local school basic operating tax. In addition, nearly all agricultural property is located in townships whose tax rates (millage rates) average substantially below city rates. Thus, while having accounted for 3.1 percent of the 2000

statewide taxable value, agricultural property accounted for 2.0 percent of the statewide property tax levy.

Exhibit 26b
Residential Property Comprised Majority of Property Taxes, 2000
(millions)



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

On the other hand, nearly all commercial and industrial property is subject to the local school basic operating millage rate. In addition, commercial and industrial property is disproportionately concentrated in cities, which tend to levy higher millages than townships. As a result, commercial and industrial property comprises a substantially larger share of the property tax levy than taxable value. Commercial property accounted for an estimated 23.1 percent of the 2000 statewide property tax levy, compared with its 17.8 percent share of taxable value. Similarly, industrial property accounted for 14.8 percent of the statewide property tax levy, while having accounted for 11.5 percent of the State’s taxable value. Utility personal property also comprised a larger share of the tax levy compared with its share of taxable value: 3.7 percent compared with 3.0 percent.

In general, business property accounts for a larger share of the statewide property tax levy than statewide taxable value. Between 1994 and 2000, commercial, industrial and utility personal property accounted for a 9.5 percentage point larger share of the statewide property tax levy than of statewide taxable value (32.9 percent vs. 42.4 percent). Business properties’ share of 2000 SEV was only 29.5 percent. Business property’s share of property taxes and the difference between its share of taxable value and taxes have remained relatively stable since Proposal A. (See Exhibit 27.)

Exhibit 27
Commercial, Industrial, Utility Property Share of Taxable Value and Tax Levy
(millions)

<u>Year</u>	<u>CIU Property</u>		<u>All Property</u>		<u>CIU Share</u>		<u>Difference</u>
	<u>Value</u>	<u>Taxes</u>	<u>Value</u>	<u>Taxes</u>	<u>Value</u>	<u>Taxes</u>	
1995	\$60,471	\$3,012	\$182,125	\$7,081	33.2%	42.5%	9.3% pts
1996	63,957	3,252	191,681	7,536	33.4	43.2	9.8
1997	67,176	3,393	202,616	7,953	33.2	42.7	9.5
1998	70,871	3,569	215,179	8,450	32.9	42.2	9.3
1999	75,114	3,788	228,096	8,933	32.9	42.4	9.5
2000	77,681	3,948	240,647	9,462	32.3	41.7	9.4
Average					32.9%	42.4%	9.5% pts

Source: State Tax Commission.

As with taxable value, the composition of the 2000 property tax levy varied widely across counties. (See full-page Exhibit 28.) Agricultural property comprised more than 20.0 percent of countywide property taxes in three counties, all in Michigan's thumb area: Huron County (24.2 percent), Tuscola County (22.3 percent), and Sanilac County (20.8 percent). Agricultural property comprised less than 5.0 percent of the tax levy in 54 counties. Among the five largest counties, agricultural property accounted for more than 1.0 percent of the property tax levy only in Washtenaw County (1.3 percent).

Personal property accounted for more than 20.0 percent of the 2000 tax levy in 12 counties. In seven of these 12 counties, industrial personal property accounted for the largest share of the personal property tax levy, while utility personal property comprised the largest estimated share of the personal property tax levy in the other five counties. In Midland County, personal property paid an estimated 42.8 percent of the property tax levy. Among the five largest counties in terms of tax levy (Wayne, Oakland, Macomb, Kent, and Washtenaw), personal property's share of the property tax levy was the highest in Wayne County (20.5 percent) and the smallest in Oakland County (12.5 percent).

Commercial property (real and personal) accounted for more than 20.0 percent of the 2000 tax levy in 27 counties. In two counties, commercial property accounted for more than 30.0 percent of the countywide 2000 tax levy: Ingham County (35.7 percent) and Grand Traverse County (30.8 percent). Among the five largest counties, commercial property's share nearly equaled or exceeded 20.0 of the property tax levy, ranging between Kent County (28.5 percent) and Macomb County (19.4 percent).

Industrial property (real and personal) accounted for more than 20.0 percent of the 2000 tax levy in nine counties. In two counties, industrial property accounted for more than 30.0 percent of the

Exhibit 28
Estimated 2000 Property Tax Levy by Property Classification -
Real and Personal Property

Share of Property Tax Levy on Real and Personal Property					
	<u>Agricultural</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Residential</u>	<u>Utility</u>
Alcona	3.6%	6.2%	6.7%	74.0%	2.4%
Alger	0.7	16.0	12.9	65.8	4.5
Allegan	6.9	15.7	17.3	55.8	3.9
Alpena	5.7	20.0	11.0	54.7	5.5
Antrim	2.4	10.3	2.4	82.7	2.1
Arenac	8.4	13.2	4.0	69.8	4.1
Baraga	2.1	11.8	14.4	56.8	8.1
Barry	7.0	11.9	5.8	71.7	3.4
Bay	5.3	21.3	20.0	50.2	3.1
Benzie	1.5	11.4	1.5	83.2	2.0
Berrien	2.8	17.1	17.8	58.5	3.8
Branch	13.1	23.4	10.6	49.6	3.3
Calhoun	3.5	22.9	20.1	49.6	3.8
Cass	10.5	9.8	7.0	68.2	4.4
Charlevoix	1.5	12.6	8.1	74.3	2.8
Cheboygan	1.5	21.4	1.6	71.6	2.7
Chippewa	2.3	28.2	3.9	62.2	3.4
Clare	2.6	14.1	2.2	66.5	14.6
Clinton	8.5	16.7	4.4	66.6	2.8
Crawford	0.9	14.1	18.8	59.4	5.3
Delta	1.3	19.1	18.7	52.9	8.0
Dickinson	1.0	20.7	24.2	46.5	6.5
Eaton	4.2	27.5	9.4	56.4	2.2
Emmet	1.2	16.8	2.4	77.0	2.4
Genesee	1.0	27.5	14.5	53.7	3.3
Gladwin	4.2	8.9	2.7	80.4	3.8
Gogebic	0.5	19.8	3.4	58.8	15.7
Grand Traverse	1.5	30.8	5.8	59.6	2.2
Gratiot	19.6	17.0	13.5	43.3	6.6
Hillsdale	13.3	14.2	14.6	54.6	3.1
Houghton	2.2	25.7	2.3	63.3	4.5
Huron	24.2	13.0	8.6	51.0	3.2
Ingham	1.5	35.7	5.5	55.1	2.1
Ionia	12.9	16.7	8.3	58.6	3.3
Iosco	2.2	14.3	8.0	72.2	2.8
Iron	1.0	13.2	11.1	53.7	16.1
Isabella	7.7	28.8	5.4	52.7	4.7
Jackson	4.2	21.5	10.5	58.6	4.7
Kalamazoo	1.1	27.9	18.5	49.9	2.5
Kalkaska	3.2	11.5	4.2	56.5	24.0
Kent	0.7	28.5	18.5	49.9	2.4
Keweenaw	1.2	10.9	0.3	84.8	2.0

Exhibit 28 - Continued

Share of Property Tax Levy on Real and Personal Property

	<u>Agricultural</u>	<u>Commercial</u>	<u>Industrial</u>	<u>Residential</u>	<u>Utility</u>
Lake	3.3%	15.6%	0.2%	75.5%	2.8%
Lapeer	6.7	13.7	6.9	67.1	5.1
Leelanau	4.9	10.5	0.3	82.7	1.6
Lenawee	9.4	20.4	9.4	57.1	3.4
Livingston	1.8	16.2	9.8	68.4	3.7
Luce	2.4	15.8	6.0	74.5	1.2
Mackinac	1.0	26.6	2.9	58.8	9.3
Macomb	0.3	19.4	19.6	57.9	2.7
Manistee	2.6	12.9	14.8	61.8	7.9
Marquette	0.5	24.0	12.8	55.8	5.1
Mason	2.9	12.7	34.9	46.8	2.8
Mecosta	7.1	17.2	6.3	62.3	7.1
Menominee	5.4	15.7	14.4	59.1	4.3
Midland	1.3	11.8	24.3	37.1	25.4
Missaukee	12.0	7.8	8.1	59.7	12.4
Monroe	3.1	13.0	40.2	38.9	4.6
Montcalm	10.1	15.5	11.2	57.2	5.7
Montmorency	2.4	7.5	20.3	66.9	2.5
Muskegon	1.3	22.0	15.1	57.9	3.7
Newaygo	5.9	13.7	11.0	65.0	4.5
Oakland	0.1	27.3	10.9	59.2	2.1
Oceana	8.2	10.8	4.9	72.9	3.3
Ogemaw	4.7	15.1	4.7	70.7	4.7
Ontonagon	6.0	11.6	21.9	48.3	5.3
Osceola	9.9	9.0	17.5	51.5	11.0
Oscoda	2.1	12.3	4.3	73.8	4.6
Otsego	1.7	27.7	5.2	48.8	16.6
Ottawa	2.6	20.6	17.1	57.2	2.4
Presque Isle	6.2	10.1	9.3	68.0	2.6
Roscommon	0.8	12.4	0.3	84.0	2.5
Saginaw	4.8	27.6	12.9	50.5	4.0
Saint Clair	3.4	14.5	24.6	49.8	7.7
Saint Joseph	7.9	18.5	19.3	49.0	5.3
Sanilac	20.8	13.7	6.4	55.6	3.4
Schoolcraft	1.6	15.2	11.1	58.1	12.8
Shiawassee	10.1	18.9	6.2	61.4	3.4
Tuscola	22.3	13.4	6.0	52.8	5.1
Van Buren	6.0	12.6	16.8	60.4	4.3
Washtenaw	1.3	27.2	12.0	56.6	2.5
Wayne	0.0	24.7	18.6	52.6	4.1
Wexford	3.2	21.7	13.7	57.7	3.6
State Average	2.0%	23.1%	14.8%	56.1%	3.7%

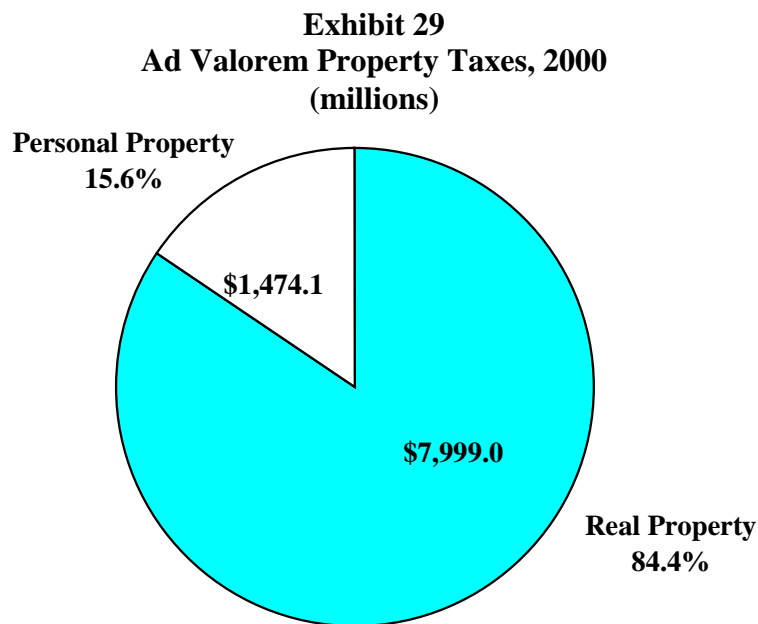
Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

2000 levy: Monroe County (40.2 percent) and Mason County (34.9 percent). On the other hand, industrial property comprised less than 5.0 percent of the 2000 property tax levy in 20 counties.

Residential property accounted for the largest share of the 2000 property tax levy in all but one county (Monroe, in which commercial property's share of taxes slightly exceeded residential property's share). Residential property comprised more than half of the property tax levy in 70 of the 83 counties. Residential property's share of the property tax levy ranged between 37.1 percent (Midland County) and 84.8 percent (Keewenaw County). In six counties, residential property accounted for more than 80.0 percent of the property tax levy.

In two counties, utility personal property accounted for more than 20.0 percent of the 2000 countywide property tax levy: Midland County (25.4 percent) and Kalkaska County (24.0 percent). Among the five largest counties, utility personal property accounted for the largest share of the property tax levy in Wayne County (4.1 percent) and the smallest share in Oakland County (2.1 percent).

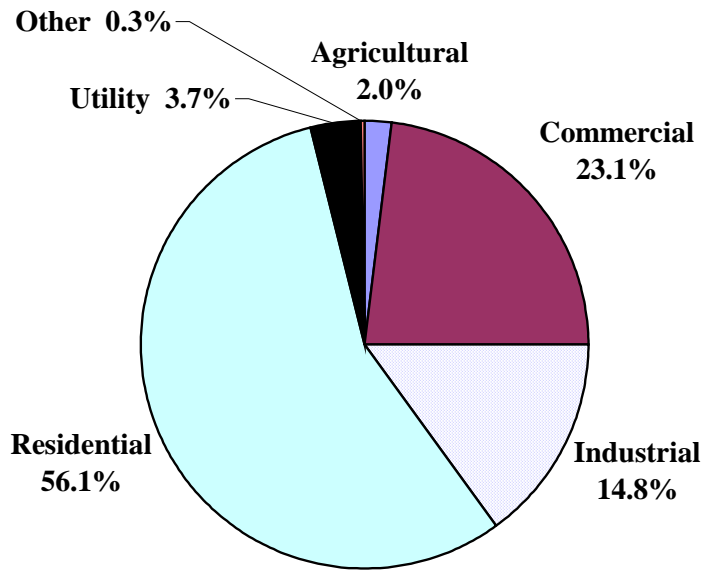
Real property accounted for an estimated 84.4 percent of the 2000 property tax levy. (See Exhibit 29.) Residential property accounted for the majority of State property taxes on real property, 66.3 percent. (See Exhibit 30.) Commercial property accounted for 20.9 percent of the State property taxes on real property, while industrial property accounted for 10.2 percent. Agricultural property comprised 2.3 percent of the statewide levy on real property. (See Exhibit 31a.)



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

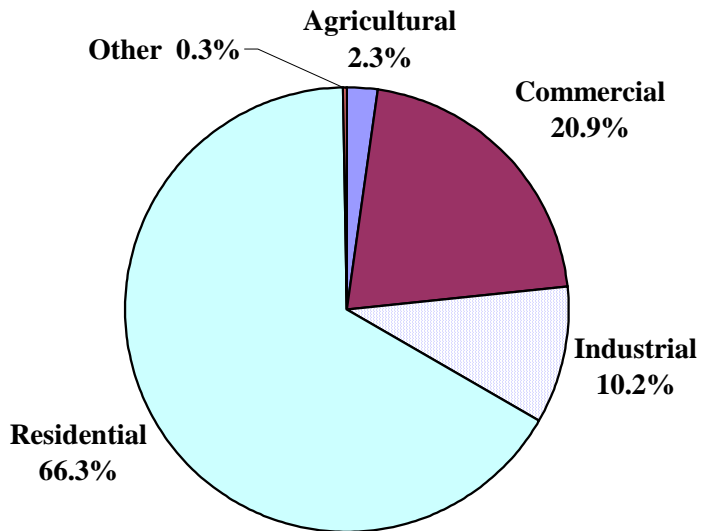
Personal property comprised 15.6 percent of the 2000 property tax levy. Commercial, industrial, and utility property accounted for nearly the entire personal property tax levy. Industrial property accounted for the largest share of the 2000 property tax levy on personal property (40.2 percent). Commercial property accounted for 35.4 percent of personal property taxes, while

Exhibit 30
Ad Valorem Property Taxes, Real and Personal, 2000



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

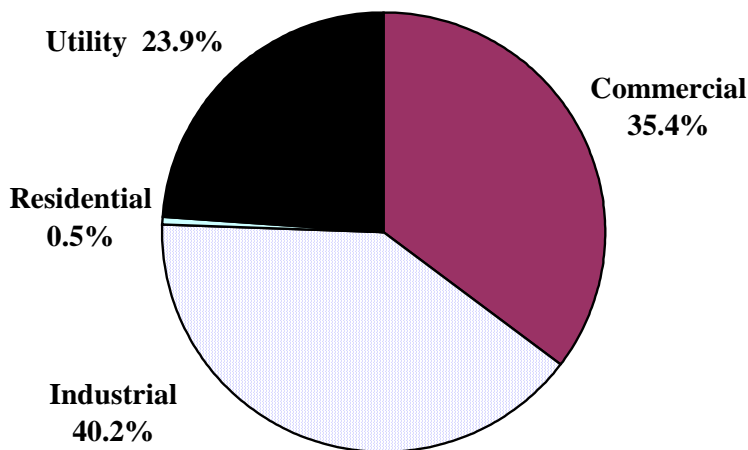
Exhibit 31a
Ad Valorem Real Property Taxes, 2000



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

utility property comprised 23.9 percent. Agricultural and residential property are essentially exempt from the personal property tax. (See Exhibit 31b.)

Exhibit 31b
Ad Valorem Personal Property Taxes, 2000



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

County Comparisons

The statewide tax levy is even slightly more concentrated than State taxable value. The five largest counties comprised 56.2 percent of the statewide 2000 property tax levy, compared with their 52.7 percent share of taxable value. Comprising roughly equal shares of the statewide property tax levy, Wayne County (19.3 percent) and Oakland County (18.5 percent) accounted for more than one-third of property taxes levied. Including Macomb, Kent, and Washtenaw counties, the five largest counties accounted for 56.2 percent of 2000 State property taxes. The 10 largest counties comprised 68.5 percent of taxes levied statewide. (See full-page Exhibit 32.)

In 1999, general ad valorem property taxes as a percent of county personal income ranged between 2.3 percent and 6.6 percent.²⁷ In contrast, property taxes as a share of personal income had ranged from 3.0 percent to 8.3 percent in 1993, the year prior to Proposal A. Property taxes as a share of personal income declined in 82 of Michigan's 83 counties between 1993 and 1999. Five counties reported declines greater than 2.0 percentage points over this time. The median county property taxes share of income fell from 5.0 percent to 3.6 percent. (See full-page Exhibit 33.)

²⁷1999 is the latest year for which county personal income data are available.

Exhibit 32
2000 Real and Personal Property Taxes by County
(dollars in thousands)

<u>County</u>	<u>CIU Property</u>	<u>CIU Share</u>	<u>All Property</u>	<u>State Share</u>
Alcona	\$2,243	15.5%	\$14,479	0.2%
Alger	2,403	32.9	7,298	0.1
Allegan	36,234	37.0	97,806	1.0
Alpena	8,435	37.0	22,807	0.2
Antrim	5,457	16.6	32,867	0.3
Arenac	2,985	21.3	13,989	0.1
Baraga	2,185	34.8	6,274	0.1
Barry	7,719	21.1	36,542	0.4
Bay	39,587	44.4	89,122	0.9
Benzie	2,865	14.9	19,178	0.2
Berrien	52,002	38.7	134,333	1.4
Branch	11,631	37.1	31,353	0.3
Calhoun	54,078	46.9	115,266	1.2
Cass	7,098	21.3	33,326	0.4
Charlevoix	10,183	23.8	42,869	0.5
Cheboygan	6,559	25.8	25,455	0.3
Chippewa	8,774	35.0	25,038	0.3
Clare	6,706	31.0	21,665	0.2
Clinton	11,180	23.9	46,683	0.5
Crawford	5,257	38.4	13,692	0.1
Delta	13,141	45.7	28,728	0.3
Dickinson	13,608	51.5	26,427	0.3
Eaton	33,639	39.1	86,017	0.9
Emmet	12,665	21.6	58,506	0.6
Genesee	136,710	45.1	303,121	3.2
Gladwin	3,086	15.3	20,105	0.2
Gogebic	5,201	39.3	13,230	0.1
Grand Traverse	33,963	38.9	87,394	0.9
Gratiot	7,582	37.1	20,413	0.2
Hillsdale	9,244	31.9	28,945	0.3
Houghton	6,025	32.8	18,346	0.2
Huron	9,238	25.1	36,865	0.4
Ingham	114,437	43.3	264,540	2.8
Ionia	8,238	28.4	29,026	0.3
Iosco	5,832	25.2	23,138	0.2
Iron	4,706	40.6	11,586	0.1
Isabella	13,972	39.0	35,843	0.4
Jackson	36,822	36.8	100,068	1.1
Kalamazoo	107,681	49.0	219,794	2.3
Kalkaska	6,687	39.9	16,770	0.2
Kent	264,715	49.3	536,758	5.7
Keweenaw	317	14.2	2,231	0.0

Exhibit 32 - Continued

<u>County</u>	<u>CIU Property</u>	<u>CIU Share</u>	<u>All Property</u>	<u>State Share</u>
Lake	\$2,272	18.7%	\$12,144	0.1%
Lapeer	14,712	25.9	56,775	0.6
Leelanau	4,108	12.4	33,143	0.4
Lenawee	25,458	33.1	76,810	0.8
Livingston	44,381	29.8	149,046	1.6
Luce	791	22.9	3,447	0.0
Mackinac	7,642	40.8	18,725	0.2
Macomb	322,512	41.8	771,494	8.2
Manistee	9,253	35.8	25,871	0.3
Marquette	18,607	42.2	44,048	0.5
Mason	18,193	50.5	36,017	0.4
Mecosta	8,246	30.6	26,950	0.3
Menominee	5,124	34.3	14,935	0.2
Midland	71,934	61.5	116,969	1.2
Missaukee	3,272	28.3	11,541	0.1
Monroe	97,298	57.8	168,443	1.8
Montcalm	12,328	32.6	37,841	0.4
Montmorency	3,394	30.3	11,190	0.1
Muskegon	46,832	40.7	115,040	1.2
Newaygo	9,782	29.0	33,724	0.4
Oakland	705,838	40.2	1,754,686	18.5
Oceana	4,397	19.0	23,160	0.2
Ogemaw	4,426	24.5	18,066	0.2
Ontonagon	2,602	39.4	6,601	0.1
Osceola	6,322	37.8	16,721	0.2
Oscoda	1,683	21.3	7,888	0.1
Otsego	14,632	49.5	29,568	0.3
Ottawa	84,592	40.2	210,362	2.2
Presque Isle	2,664	22.2	11,993	0.1
Roscommon	4,051	15.3	26,501	0.3
Saginaw	59,268	44.4	133,356	1.4
Saint Clair	77,020	46.8	164,489	1.7
Saint Joseph	19,367	43.1	44,946	0.5
Sanilac	7,268	23.6	30,834	0.3
Schoolcraft	2,743	38.7	7,081	0.1
Shiawassee	11,366	28.5	39,866	0.4
Tuscola	7,868	24.6	31,968	0.3
Van Buren	21,603	33.8	63,959	0.7
Washtenaw	177,785	41.7	426,613	4.5
Wayne	865,338	47.4	1,826,174	19.3
Wexford	9,894	39.0	25,386	0.3
State Total	\$3,947,953	41.7%	\$9,462,264	100.0%

Source: State Tax Commission.

Exhibit 33
Real and Personal Property Taxes as a Percentage of Personal Income

<u>County</u>	<u>1993</u>	<u>1999</u>	<u>Change 1993-1999</u>
Alcona	7.5%	6.5%	-1.0%
Alger	5.4	4.0	-1.4
Allegan	4.9	3.5	-1.3
Alpena	4.0	3.2	-0.8
Antrim	8.3	6.0	-2.3
Arenac	5.2	4.3	-0.9
Baraga	4.6	3.6	-1.0
Barry	4.2	2.4	-1.8
Bay	4.4	3.1	-1.3
Benzie	6.6	5.4	-1.2
Berrien	4.4	3.3	-1.1
Branch	4.7	3.1	-1.6
Calhoun	4.5	3.2	-1.2
Cass	4.5	2.9	-1.6
Charlevoix	8.2	6.1	-2.1
Cheboygan	6.3	4.5	-1.8
Chippewa	4.4	3.6	-0.8
Clare	5.5	3.7	-1.8
Clinton	4.6	2.7	-1.9
Crawford	6.6	5.3	-1.3
Delta	4.2	3.4	-0.8
Dickinson	4.7	4.1	-0.5
Eaton	4.7	3.2	-1.5
Emmet	6.5	6.6	0.1
Genesee	4.1	2.7	-1.4
Gladwin	5.6	3.9	-1.7
Gogebic	4.7	3.6	-1.1
Grand Traverse	5.3	3.8	-1.5
Gratiot	3.9	2.3	-1.6
Hillsdale	4.2	2.7	-1.5
Houghton	3.0	2.5	-0.4
Huron	5.9	3.8	-2.1
Ingham	5.0	3.4	-1.6
Ionia	3.7	2.4	-1.4
Iosco	5.3	4.1	-1.1
Iron	6.3	4.3	-2.0
Isabella	3.7	2.7	-1.0
Jackson	4.1	2.6	-1.6
Kalamazoo	4.6	3.3	-1.3
Kalkaska	6.8	5.9	-1.0
Kent	4.6	3.0	-1.6
Keweenaw	5.3	5.1	-0.2

Exhibit 33 - Continued

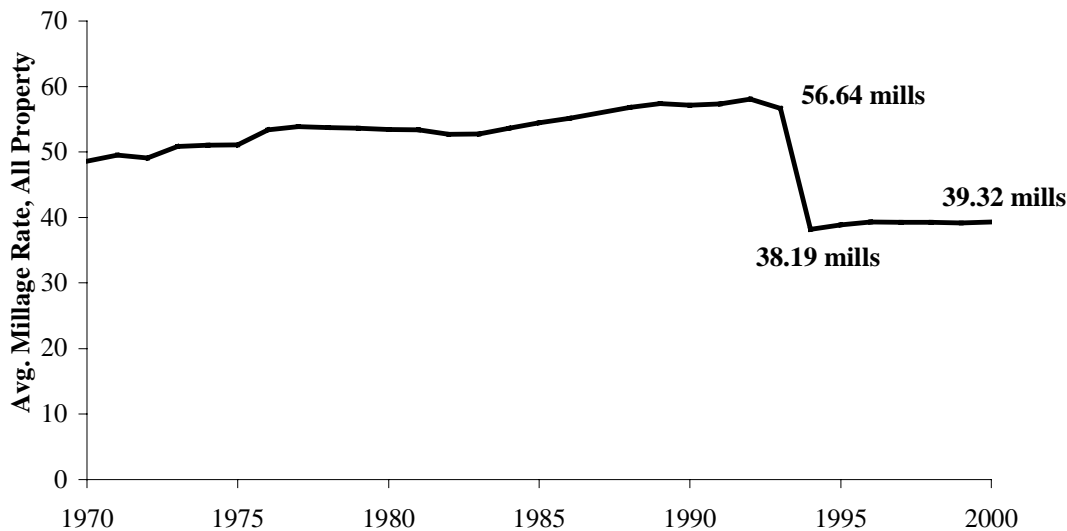
<u>County</u>	<u>1993</u>	<u>1999</u>	<u>Change 1993-1999</u>
Lake	7.6%	6.6%	-1.1%
Lapeer	4.2	2.5	-1.7
Leelanau	6.7	5.5	-1.1
Lenawee	4.6	2.8	-1.8
Livingston	5.1	2.8	-2.4
Luce	3.1	2.7	-0.4
Mackinac	7.1	6.5	-0.6
Macomb	4.9	3.1	-1.7
Manistee	6.2	5.0	-1.3
Marquette	3.5	3.1	-0.4
Mason	7.0	5.9	-1.2
Mecosta	4.8	3.6	-1.2
Menominee	4.1	2.6	-1.5
Midland	5.9	4.3	-1.5
Missaukee	6.1	4.2	-1.9
Monroe	6.4	4.1	-2.3
Montcalm	4.5	3.4	-1.1
Montmorency	6.6	6.3	-0.3
Muskegon	4.4	3.0	-1.5
Newaygo	5.1	3.5	-1.6
Oakland	4.7	3.2	-1.5
Oceana	5.4	4.5	-0.9
Ogemaw	5.8	4.7	-1.2
Ontonagon	5.1	4.2	-0.9
Osceola	5.2	3.7	-1.5
Oscoda	6.2	5.4	-0.8
Otsego	6.3	5.1	-1.2
Ottawa	4.6	3.1	-1.5
Presque Isle	5.7	4.4	-1.3
Roscommon	7.1	5.4	-1.7
Saginaw	4.0	2.5	-1.5
Saint Clair	5.5	3.8	-1.7
Saint Joseph	4.1	2.9	-1.2
Sanilac	4.6	3.0	-1.6
Schoolcraft	5.4	3.9	-1.5
Shiawassee	3.6	2.5	-1.1
Tuscola	4.0	2.5	-1.5
Van Buren	5.0	4.0	-1.1
Washtenaw	5.1	3.5	-1.5
Wayne	4.3	3.1	-1.2
Wexford	5.1	3.7	-1.4
State Median	5.0%	3.6%	-1.4%

Source: State Tax Commission and Bureau of Economic Analysis, U.S. Department of Commerce.

SECTION 7: PROPERTY MILLAGE RATES

Between 1970 and 1993, the statewide average millage rate rose from 48.62 mills to 56.64 mills, a 16.5 percent increase. The majority of this increase occurred in the mid-1970s and mid-to-late 1980s. Annual millage rate changes ranged between 2.25 mills in 1976 (the year inventories were exempted from the property tax base) and -1.45 mills in 1993. Millage rollbacks following the 1992 assessment freeze contributed to this sharp decline. In 1994, the statewide average millage rate fell to 38.19 mills (32.6 percent decline) with the implementation of property and school finance reform. The 38.19 millage rate was the lowest statewide average millage rate since 1964. The sharp millage rate decline accounted for the sharp decline in property taxes in 1994. (See Exhibit 34.)

Exhibit 34
Property Tax Cut Due to Lower Millage Rates



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

In 1994 the statewide average millage rate levied for local school operating purposes for all property (a weighted average of homestead and nonhomestead property) fell 18.65 mills, a 55.0 percent decline. (See full-page Exhibit 35.) Since 1994, the statewide local school operating rate has fallen 9.2 percent. This decline is primarily attributable to three factors:

1. The local school enhancement millage, levied by several school districts in 1994, could not be levied after 1996.
2. Millage rollbacks have reduced local school operating millage rates (both basic operating and hold-harmless).
3. The share of homestead property which is exempt from the local school basic operating millage rate has grown.

Exhibit 35
Average Statewide Millage Rates, All Property ⁽¹⁾

Purpose	1993	1994	1995	1996	1997	1998	1999	2000	Change, 1993-1994		Change, 1994-2000		Change, 1993-2000	
									Mills	Percent	Mills	Percent	Mills	Percent
County	6.22	6.27	6.28	6.36	6.32	6.30	6.28	6.27	0.05	0.8%	0.00	0.0%	0.05	0.8%
Township	3.36	3.56	3.68	3.74	3.87	4.02	3.99	4.09	0.20	6.0%	0.53	14.9%	0.73	21.7%
City	15.45	15.75	15.95	16.06	16.18	16.23	16.17	16.36	0.30	1.9%	0.61	3.9%	0.91	5.9%
Village	<u>11.94</u>	<u>12.13</u>	<u>12.34</u>	<u>12.54</u>	<u>12.57</u>	<u>12.22</u>	<u>12.37</u>	<u>12.20</u>	<u>0.19</u>	<u>1.6%</u>	<u>0.07</u>	<u>0.6%</u>	<u>0.26</u>	<u>2.2%</u>
Total Non-School	15.89	16.13	16.23	16.37	16.40	16.41	16.30	16.37	0.24	1.5%	0.24	1.5%	0.48	3.0%
Local School Operating	33.91	9.26	9.26	9.28	8.79	8.74	8.59	8.41	-24.65	-72.7%	-0.85	-9.2%	-25.50	-75.2%
Local School Debt ⁽²⁾	2.54	2.56	3.03	3.27	3.57	3.63	3.80	4.01	0.02	0.8%	1.45	56.6%	1.47	57.9%
ISD/Comm College ⁽³⁾	4.30	4.24	4.36	4.40	4.48	4.48	4.47	4.51	-0.06	-1.4%	0.27	6.4%	0.21	4.9%
State Education Tax (SET)	0.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	NA	0.00	0.0%	6.00	NA
Total School	<u>40.75</u>	<u>22.06</u>	<u>22.65</u>	<u>22.95</u>	<u>22.85</u>	<u>22.86</u>	<u>22.86</u>	<u>22.95</u>	<u>-18.69</u>	<u>-45.9%</u>	<u>0.89</u>	<u>4.0%</u>	<u>-17.80</u>	<u>-43.7%</u>
TOTAL MILLS	56.64	38.19	38.88	39.32	39.25	39.27	39.16	39.32	-18.45	-32.6%	1.13	3.0%	-17.32	-30.6%
Local School Operating and SET	33.91	15.26	15.26	15.28	14.79	14.74	14.59	14.41	-18.65	-55.0%	-0.85	-5.6%	-19.50	-57.5%

(1) Does not include special assessments.

(2) Includes sinking fund mills for all years. Includes 1993 building and site mills.

(3) Includes intermediate school district and community college debt mills.

Source: 1993-2000 county, township, city, village mills; 1993, 1995-2000 total school and total mills: State Tax Commission.

Other mills from Office of Revenue and Tax Analysis, Michigan Department of Treasury.

While the statewide local school operating rate fell, the statewide local school debt millage rate rose sharply. Between 1994 and 2000, the statewide average local school debt millage rate rose from 2.56 mills to 4.01 mills, a 56.6 percent increase.

The statewide township millage rate climbed steadily through most of the period between 1994 and 2000. As a result, the average township millage rate increased 14.9 percent over this period. The statewide average millage rates levied by cities and by villages have risen slightly since 1994, rising 3.9 percent and 0.6 percent, respectively. The statewide average county millage rate was largely unchanged compared with 1994.

Homestead and Nonhomestead Property

Property tax reform separated property into homestead and nonhomestead classes for tax purposes. Homestead property is property that a taxpayer declares as his or her primary residence. Qualified agricultural property is taxed like homestead property. All other property such as businesses or vacation homes are nonhomestead property. Nonhomestead property is subject to a local school basic operating millage rate of up to 18 mills, subject to voter approval.

While the statewide average millage rate for all property declined substantially from 1993 to 2000 (17.32 mills, 30.6 percent), the reduction for homestead property was much greater (25.10 mills, 44.3 percent) than the nonhomestead property reduction (6.54 mills, 11.5 percent).²⁸ (See Exhibit 36.) Most homeowners no longer pay any school operating tax to local school districts. In contrast, most nonhomestead property owners must pay the 18-mill local school basic operating millage.

Exhibit 36
Estimated Statewide Average Millage Rates

	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
All Property	56.64	38.19	38.88	39.32	39.25	39.27	39.16	39.32
Homestead	NA	30.22	31.00	31.36	31.36	31.43	31.40	31.54
Nonhomestead	NA	48.17	48.79	49.54	49.63	49.68	49.76	50.10

Sources: State Tax Commission: All Property Rates, 1993, 1995-2000.

Office of Revenue and Tax Analysis: 1994 all property rate and homestead and nonhomestead rate estimates.

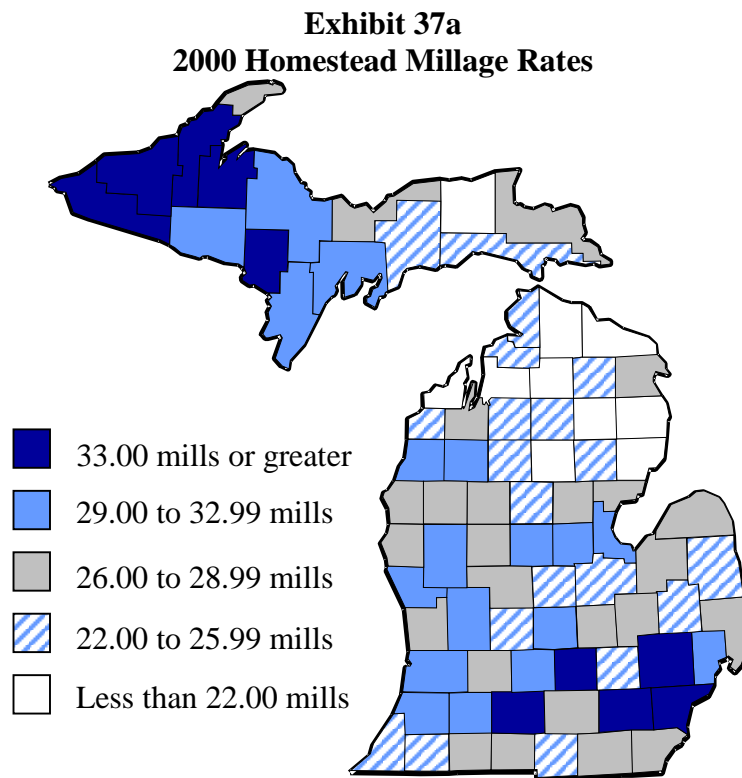
²⁸Both the above homestead and nonhomestead property millage rate reductions use the 1993 all property rate. Because there was no homestead property classification prior to 1994, the rate paid by properties that would have been classified homestead cannot be calculated directly. A relatively complete match between the 2000 property values and 1993 millage rates indicates that the homestead property rate reduction was approximately 1.25-mills smaller and that the nonhomestead property rate reduction was about 0.40-of-a-mill larger.

Between 1994 and 2000, the statewide average millage rate for homestead property increased by 1.32 mills while the nonhomestead rate rose 1.93 mills. Because homestead property value has grown more rapidly than nonhomestead property value, the statewide average rate (the weighted homestead and nonhomestead rate) rose less than either of the two separate rates (1.13 mills).

Not only has homestead taxable value growth outpaced nonhomestead taxable value growth, taxable value has also grown more rapidly in areas with lower millage rates (e.g., townships). As a means to control for the impact of the shifting mix of homestead and nonhomestead property and geography, 1994 millage rates for the 3,450 township/city-local school district-village combinations were paired with the 2000 property value mix. This analysis indicates that in the absence of such shifts the statewide average millage rate would have risen 2.00 mills. This implies that these shifts reduced the 2000 statewide millage rate by 0.87 mills. Of this 0.87 mill reduction, faster homestead growth accounted for approximately half of the reduction, and faster growth in lower millage rate areas contributed the other half.

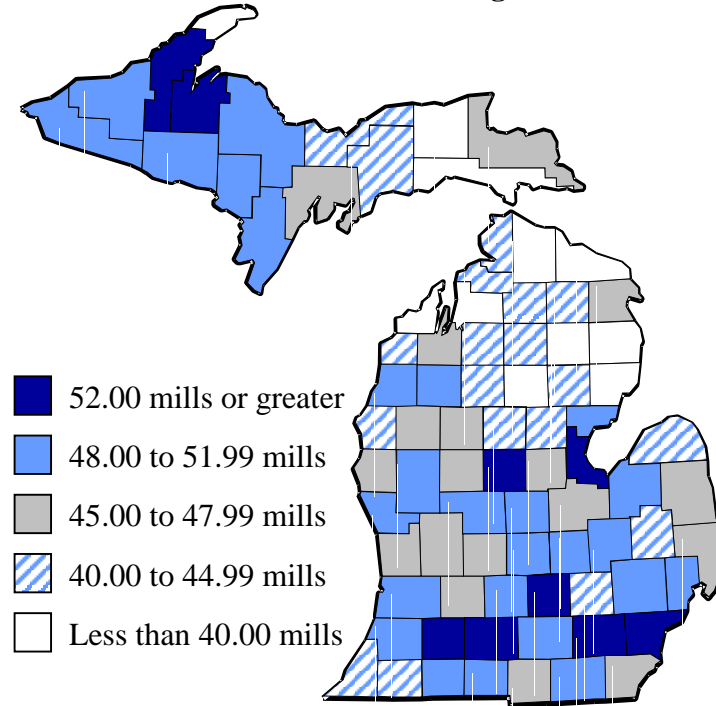
Average 2000 Homestead and Nonhomestead Millage Rates by County

Average 2000 homestead millage rates varied widely across counties, ranging between 18.15 mills and 40.46 mills. Average nonhomestead millage rates ranged between 32.63 mills and 60.83 mills. The median county rates (27.29 mills and 46.66 mills) are substantially below the statewide weighted averages of 31.54 mills and 50.10 mills. This occurs because smaller (lower taxable value) counties tend to have lower millage rates than larger counties (higher taxable value). (See Exhibits 37a and 37b.)



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 37b
2000 Nonhomestead Millage Rates



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Nearly all homeowners benefited from the sharp millage reduction following property tax reform. Between 1993 and 2000, the average homestead millage rate fell in all 83 counties. (See full-page Exhibit 38.) However, average county homestead millage rate declines varied widely. Genesee County saw the largest homestead millage rate reduction between 1993 and 2000 (32.64 mills), while Leelenau County saw the smallest decline (8.65 mills). Fifty-five counties saw homestead millage rate declines exceeding 20.0 mills.

Compared with 1993, the average nonhomestead millage rate declined in 66 counties. Average nonhomestead millage rate changes between 1993 and 2000 ranged between a 12.52 mill decline in Ingham County and a 5.13 mill increase in Alcona County. Thirty counties saw a nonhomestead millage rate reduction of greater than 5.00 mills, while only two counties saw an increase exceeding 5.00 mills.

Between 1994 and 2000, the average millage rate increased in 69 of the 83 counties. The median millage rate change was 1.5 mills. (See Exhibit 39a.) Controlling for homestead and nonhomestead mix and geographic mix changes, average county millage rates rose in 76 counties between 1994 and 2000. Counties in the western Lower Peninsula and sections of the Upper Peninsula saw the largest millage rate increases. (See Exhibit 39b.) Among the 76 counties with an adjusted rate increase, local school taxes accounted for the majority of the increase in 46 counties. The median adjusted millage change was 2.3 mills. Adjusted millage rate changes ranged between a 7.0 mill increase (Oceana County) and a 1.4 mill decrease (Branch County).

Exhibit 38
Average Millage Rates by County -
Pre- and Post-Proposal A

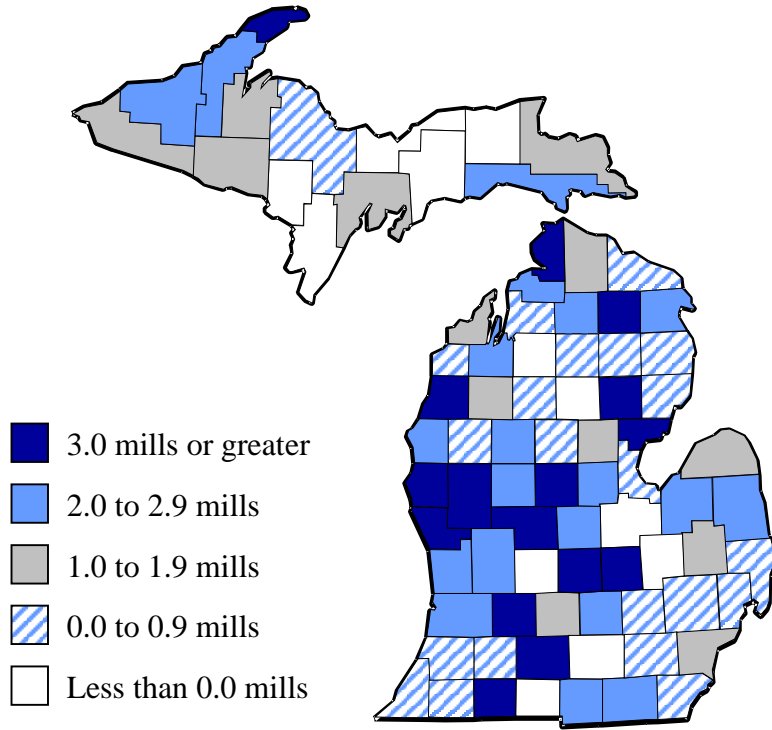
<u>County</u>	<u>1993 Rate</u>	<u>2000 Rates</u>		<u>Homestead Difference</u>		<u>Nonhomestead Difference</u>	
		<u>Homestead</u>	<u>Non-homestead</u>	<u>Mills</u>	<u>Percent</u>	<u>Mills</u>	<u>Percent</u>
Alcona	31.32	18.15	36.45	-13.17	-42.0%	5.13	16.4%
Alger	51.46	26.43	44.90	-25.03	-48.6	-6.56	-12.7
Allegan	52.40	29.52	50.11	-22.88	-43.7	-2.29	-4.4
Alpena	47.42	27.59	46.62	-19.83	-41.8	-0.80	-1.7
Antrim	37.45	21.50	39.52	-15.95	-42.6	2.07	5.5
Arenac	43.26	28.33	48.37	-14.93	-34.5	5.11	11.8
Baraga	54.21	37.25	52.57	-16.96	-31.3	-1.64	-3.0
Barry	52.13	26.20	46.34	-25.93	-49.7	-5.79	-11.1
Bay	57.24	32.81	52.54	-24.43	-42.7	-4.70	-8.2
Benzie	38.90	22.72	40.02	-16.18	-41.6	1.12	2.9
Berrien	42.61	24.66	40.07	-17.95	-42.1	-2.54	-6.0
Branch	56.78	28.44	50.11	-28.34	-49.9	-6.67	-11.7
Calhoun	65.35	34.88	56.76	-30.47	-46.6	-8.59	-13.1
Cass	49.93	24.66	43.83	-25.27	-50.6	-6.10	-12.2
Charlevoix	43.57	25.10	43.88	-18.47	-42.4	0.31	0.7
Cheboygan	40.30	20.32	39.19	-19.98	-49.6	-1.11	-2.8
Chippewa	49.15	28.26	47.52	-20.89	-42.5	-1.63	-3.3
Clare	46.04	23.07	41.95	-22.97	-49.9	-4.09	-8.9
Clinton	57.56	29.47	48.91	-28.09	-48.8	-8.65	-15.0
Crawford	43.54	23.78	42.81	-19.76	-45.4	-0.73	-1.7
Delta	55.65	29.54	45.49	-26.11	-46.9	-10.16	-18.3
Dickinson	57.48	33.51	49.70	-23.97	-41.7	-7.78	-13.5
Eaton	59.83	32.32	51.07	-27.51	-46.0	-8.76	-14.6
Emmet	36.77	24.21	41.27	-12.56	-34.2	4.50	12.2
Genesee	61.59	28.95	49.42	-32.64	-53.0	-12.17	-19.8
Gladwin	48.70	26.03	44.91	-22.67	-46.6	-3.79	-7.8
Gogebic	55.64	34.90	49.76	-20.74	-37.3	-5.88	-10.6
Grand Traverse	48.44	26.81	46.07	-21.63	-44.7	-2.37	-4.9
Gratiot	54.37	25.71	49.61	-28.66	-52.7	-4.76	-8.8
Hillsdale	50.95	24.69	46.56	-26.26	-51.5	-4.39	-8.6
Houghton	55.17	34.55	52.64	-20.62	-37.4	-2.53	-4.6
Huron	44.36	26.10	44.76	-18.26	-41.2	0.40	0.9
Ingham	72.27	40.46	59.75	-31.81	-44.0	-12.52	-17.3
Ionia	53.80	25.60	46.67	-28.20	-52.4	-7.13	-13.3
Iosco	39.48	21.28	38.77	-18.20	-46.1	-0.71	-1.8
Iron	57.55	32.50	48.11	-25.05	-43.5	-9.44	-16.4
Isabella	53.43	29.27	52.15	-24.16	-45.2	-1.28	-2.4
Jackson	59.42	28.69	48.80	-30.73	-51.7	-10.62	-17.9
Kalamazoo	62.00	31.24	53.82	-30.76	-49.6	-8.18	-13.2
Kalkaska	41.89	24.18	41.29	-17.71	-42.3	-0.60	-1.4
Kent	54.76	29.19	47.39	-25.57	-46.7	-7.37	-13.5
Keweenaw	38.40	26.94	39.24	-11.46	-29.8	0.84	2.2

Exhibit 38 - Continued

<u>County</u>	<u>1993 Rate</u>	<u>2000 Rates</u>		<u>Homestead Difference</u>		<u>Nonhomestead Difference</u>	
		<u>Homestead</u>	<u>Non- homestead</u>	<u>Mills</u>	<u>Percent</u>	<u>Mills</u>	<u>Percent</u>
Lake	46.45	27.85	45.03	-18.60	-40.0%	-1.42	-3.1%
Lapeer	50.21	22.94	44.09	-27.27	-54.3	-6.12	-12.2
Leelanau	27.99	19.34	32.63	-8.65	-30.9	4.64	16.6
Lenawee	56.58	28.32	48.19	-28.26	-49.9	-8.39	-14.8
Livingston	52.56	23.95	43.94	-28.61	-54.4	-8.62	-16.4
Luce	45.07	21.47	38.17	-23.60	-52.4	-6.90	-15.3
Mackinac	33.71	22.51	36.84	-11.20	-33.2	3.13	9.3
Macomb	59.79	30.04	48.07	-29.75	-49.8	-11.72	-19.6
Manistee	48.28	30.68	48.72	-17.60	-36.5	0.44	0.9
Marquette	51.88	29.27	48.00	-22.61	-43.6	-3.88	-7.5
Mason	43.11	27.19	43.82	-15.92	-36.9	0.71	1.6
Mecosta	48.59	26.49	46.21	-22.10	-45.5	-2.38	-4.9
Menominee	57.02	29.08	49.92	-27.94	-49.0	-7.10	-12.5
Midland	46.96	29.81	47.30	-17.15	-36.5	0.34	0.7
Missaukee	47.12	25.83	44.12	-21.29	-45.2	-3.00	-6.4
Monroe	49.25	27.29	47.61	-21.96	-44.6	-1.64	-3.3
Montcalm	52.06	28.62	49.32	-23.44	-45.0	-2.74	-5.3
Montmorency	36.97	22.31	40.04	-14.66	-39.7	3.07	8.3
Muskegon	58.23	30.31	50.71	-27.92	-47.9	-7.52	-12.9
Newaygo	53.55	31.14	51.54	-22.41	-41.8	-2.01	-3.8
Oakland	55.17	33.92	48.88	-21.25	-38.5	-6.29	-11.4
Oceana	46.01	28.82	46.26	-17.19	-37.4	0.25	0.5
Ogemaw	42.63	24.98	43.92	-17.65	-41.4	1.29	3.0
Ontonagon	54.16	33.34	49.95	-20.82	-38.4	-4.21	-7.8
Osceola	50.42	27.12	46.66	-23.30	-46.2	-3.76	-7.5
Oscoda	40.06	21.73	39.74	-18.33	-45.8	-0.32	-0.8
Otsego	38.67	21.52	41.91	-17.15	-44.3	3.24	8.4
Ottawa	49.06	26.65	45.75	-22.41	-45.7	-3.31	-6.7
Presque Isle	39.95	20.73	38.28	-19.22	-48.1	-1.67	-4.2
Roscommon	40.65	21.48	39.02	-19.17	-47.2	-1.63	-4.0
Saginaw	54.34	25.76	45.35	-28.58	-52.6	-8.99	-16.5
Saint Clair	50.34	27.79	46.84	-22.55	-44.8	-3.50	-7.0
Saint Joseph	52.07	27.30	49.52	-24.77	-47.6	-2.55	-4.9
Sanilac	47.79	25.36	46.48	-22.43	-46.9	-1.31	-2.7
Schoolcraft	52.24	23.94	42.79	-28.30	-54.2	-9.45	-18.1
Shiawassee	53.29	27.71	50.01	-25.58	-48.0	-3.28	-6.2
Tuscola	52.53	27.07	50.78	-25.46	-48.5	-1.75	-3.3
Van Buren	53.25	31.34	50.03	-21.91	-41.1	-3.22	-6.0
Washtenaw	59.97	37.29	53.59	-22.68	-37.8	-6.38	-10.6
Wayne	67.77	39.45	60.83	-28.32	-41.8	-6.94	-10.2
Wexford	56.78	31.64	51.66	-25.14	-44.3	-5.12	-9.0
State Average	56.64	31.54	50.10	-25.10	-44.3%	-6.54	-11.5%
State Median	50.95	27.29	46.66				

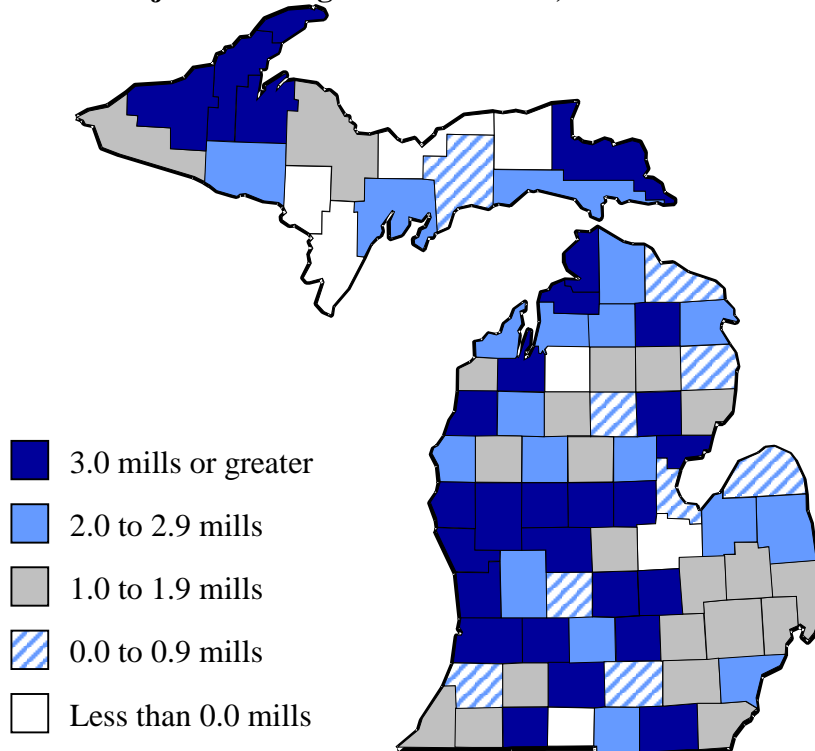
Source: 1993 average millage rates from State Tax Commission; 2000 average millage rates from Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 39a
Millage Rate Increases, 1994-2000



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 39b
Adjusted Millage Rate Increases, 1994 - 2000

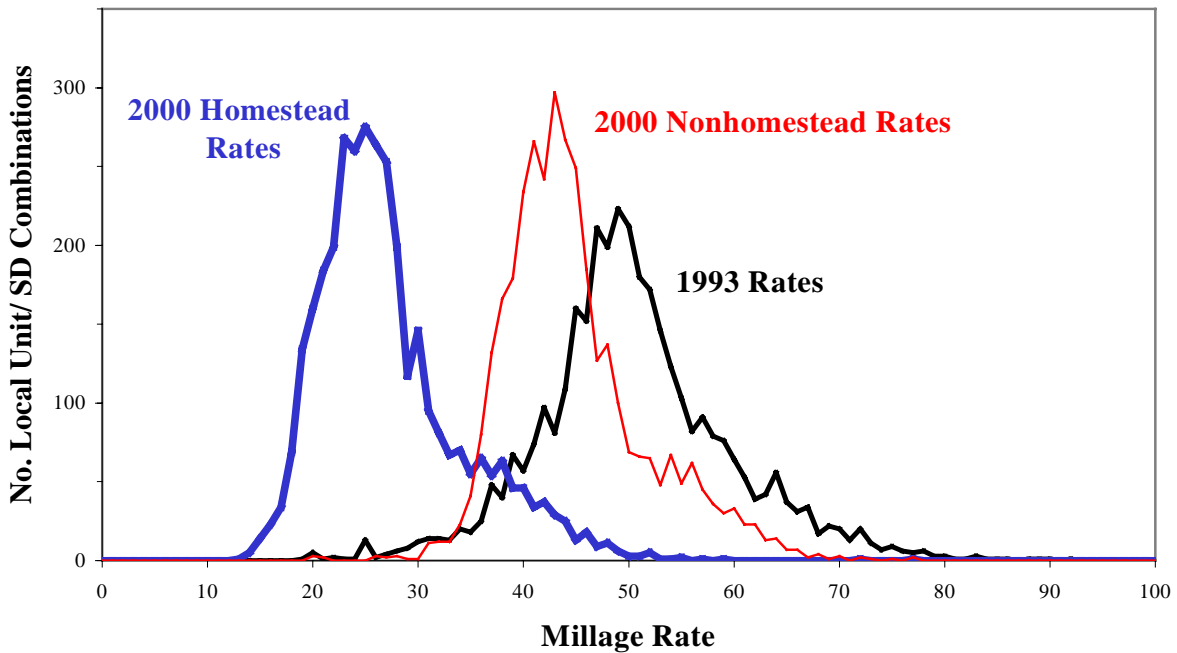


Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Proposal A not only lowered millage rates in most areas of the State; Proposal A also reduced the variance in millage rates. As Exhibit 40 shows, the distribution of total millage rates among local unit/school district/village combinations between 1993 and 2000 both moved to the left (towards lower millage rates) and became less diffuse (indicating less variability). As Exhibits 41a and 41b show, this is a direct result of the 1994 millage rate cuts and reduced variability in local school millage rates across districts. Between 1994 and 2000, the distribution of millage rates has shifted to the right, indicating that, in general, millage rates have increased in most areas over this time period. (See Exhibit 42a and 42b.)

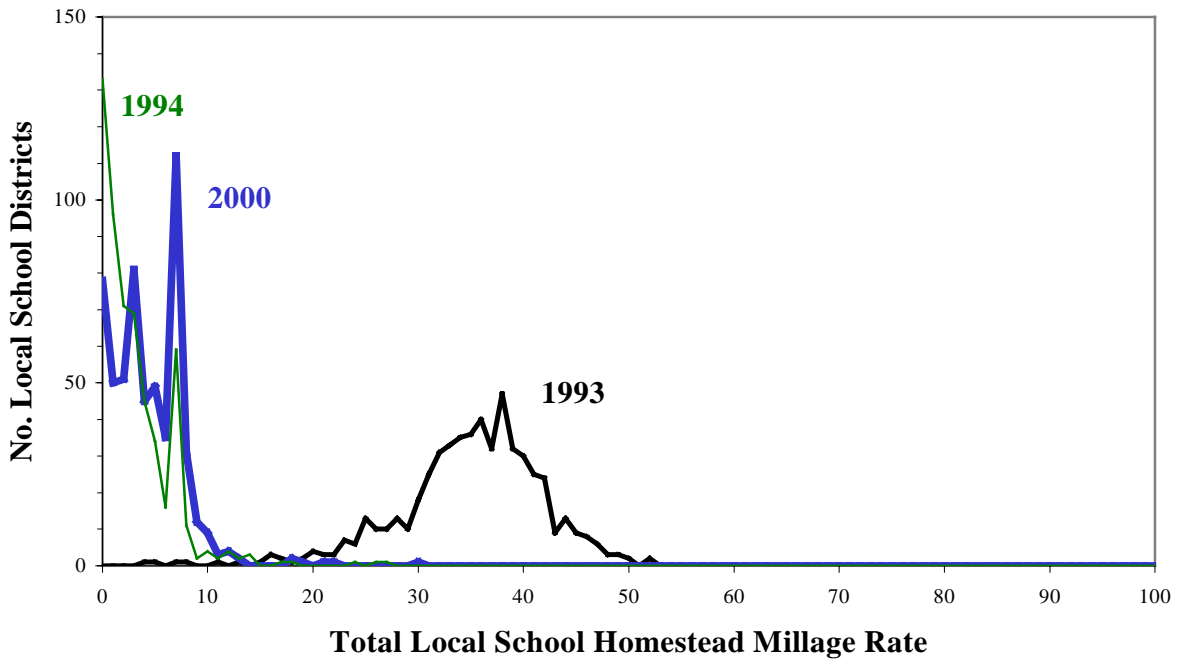
Between 1994 and 2000, the local school debt millage rate increased in 301 of the 554 local school districts. In 98 districts, debt millage rates rose by 4.0 mills or more. The debt millage rate remained unchanged in 114 local school districts and declined in 139. Among the 301 districts with a debt millage increase, the median debt millage increase was 2.85 mills compared with a median debt millage decrease of 0.75 of a mill among the 139 districts reporting declines. (See Exhibit 43.)

Exhibit 40
2000 Millage Rates Lower and Less Variance



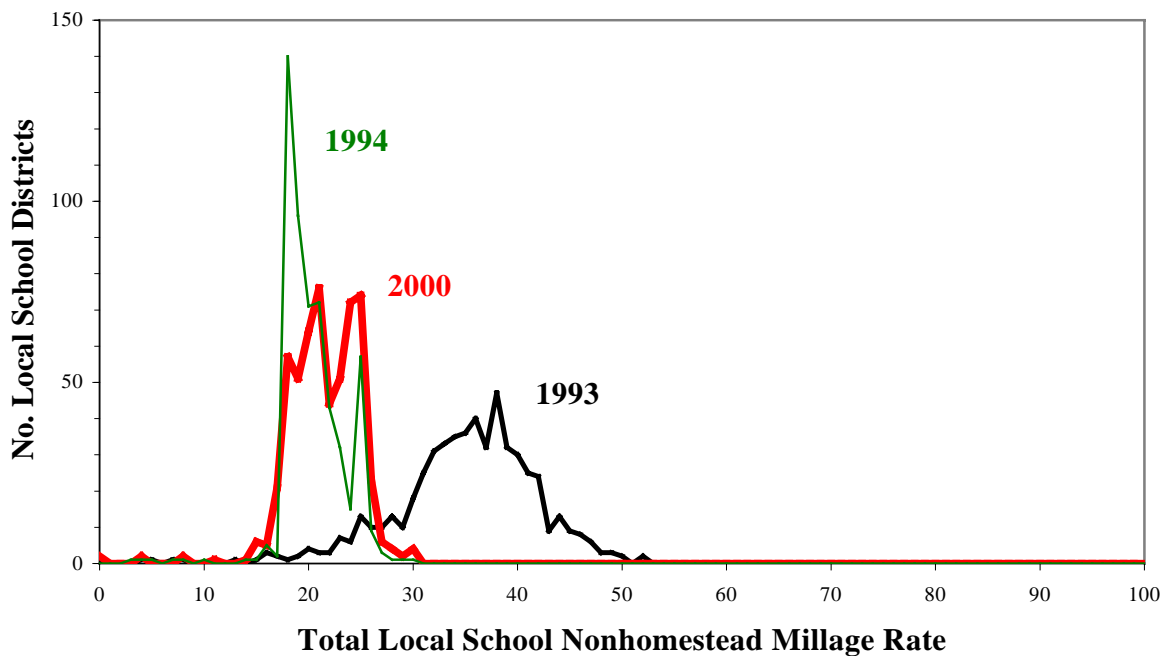
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 41a
2000 Total Homestead Local School District Millage Rates -
Lower and Less Variance Than 1993 But Up From 1994



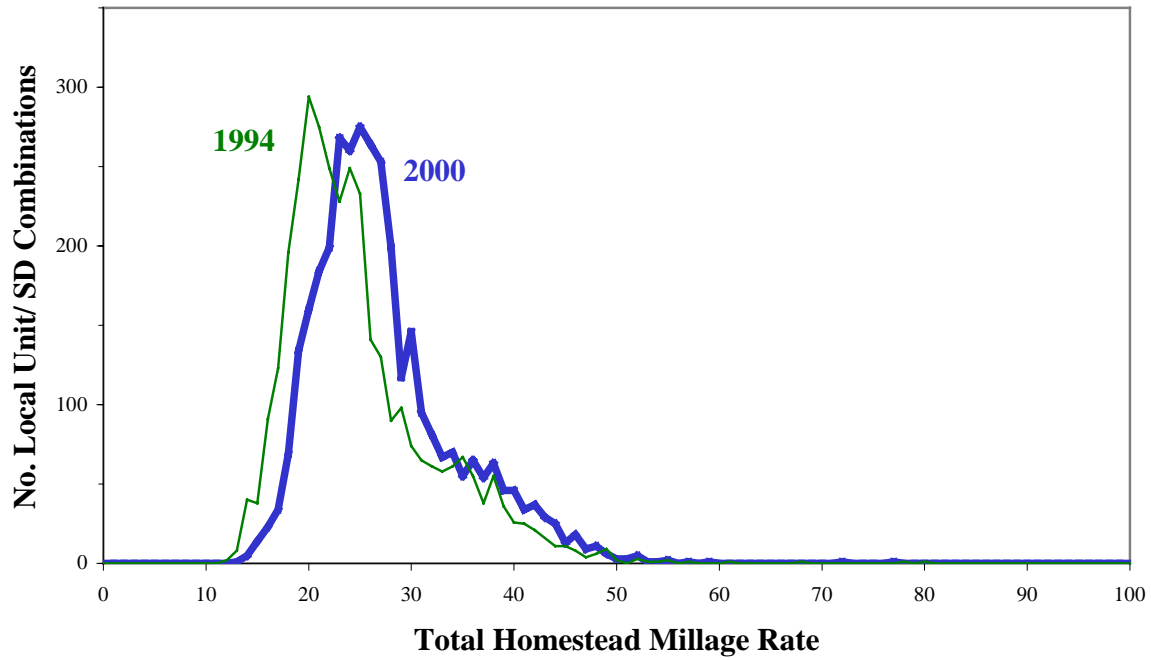
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 41b
2000 Total Nonhomestead Local School District Millage Rates -
Lower and Less Variance Than 1993 But Up From 1994



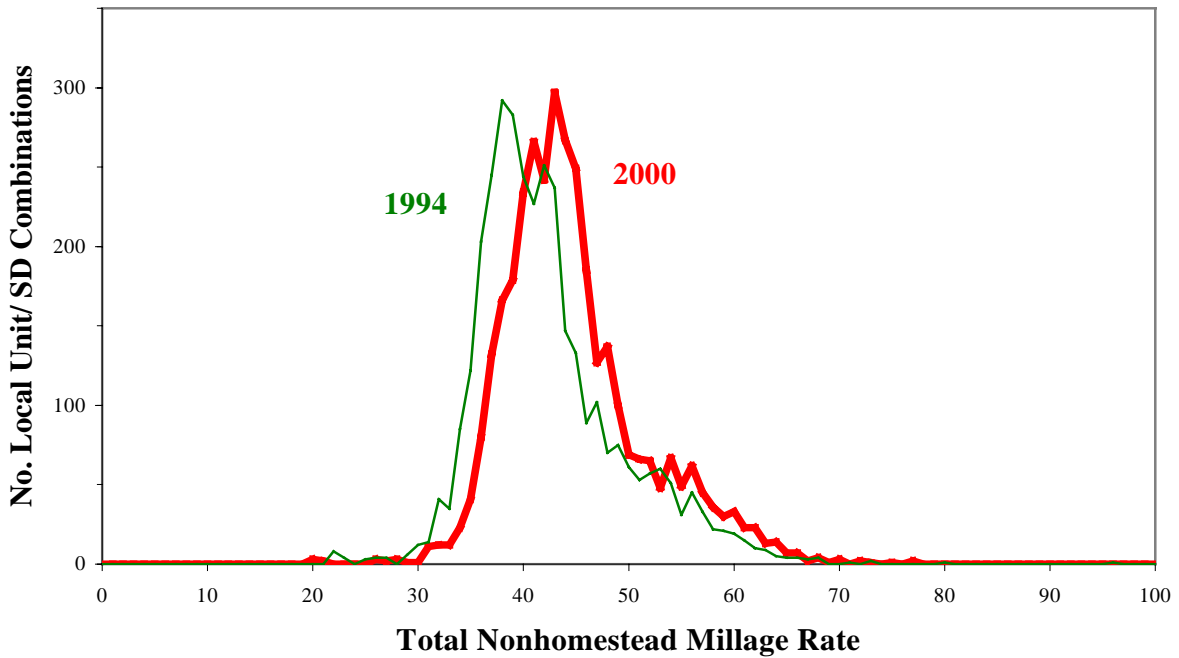
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 42a
Overall Homestead Millage Rates Rise Between 1994 and 2000



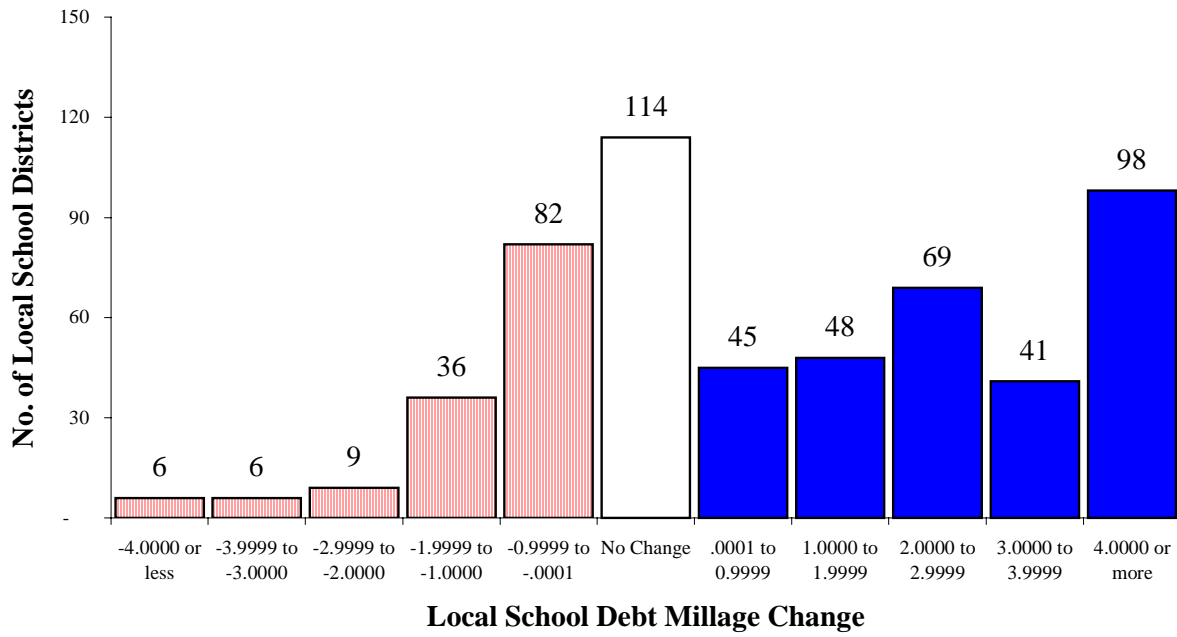
Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 42b
Overall Nonhomestead Millage Rates Rise Between 1994 and 2000



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Exhibit 43
Local School Debt Millage Increases in 301 Districts
1994-2000



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury, and Michigan Department of Education.

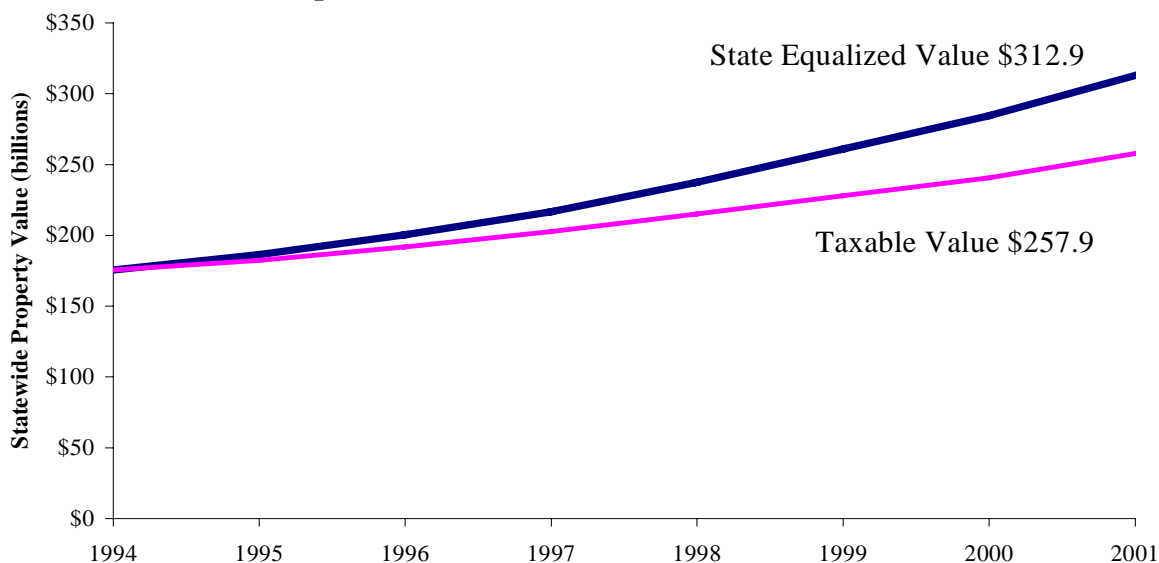
SECTION 8: TAXABLE VALUE CAP

Before Proposal A, property taxes were levied on a property's SEV. SEV is equal to 50 percent of the true cash value of the property. Proposal A of 1994 amended the Michigan Constitution to provide that beginning in calendar year 1995 Michigan property taxes are levied on taxable value, not SEV. Proposal A provided that the taxable value of a residence or business cannot increase in any one year by more than 5 percent or the rate of inflation, whichever is less (excluding the value of new constructions and additions).²⁹ For example, if the true cash value of a property increased by 8 percent, SEV would also increase by 8 percent. However, taxable value would increase by 5 percent or the rate of inflation, whichever was less. Since 1994, inflation has ranged between 1.6 percent and 3.2 percent. Thus, annual taxable value increases on most existing property have been substantially below 5.0 percent.

Except for agricultural property for continued agricultural use, the tax base reverts to SEV in the year after a property is transferred. Then, in subsequent years, the property's taxable value growth is capped until the property is transferred again.

Since 1994, the gap between SEV and taxable value has grown sharply. By calendar year 2001, statewide taxable value was \$55.0 billion (17.6 percent) less than SEV. Exhibit 44 provides a history of the growing gap between SEV and taxable value.

Exhibit 44
Gap Between SEV and Taxable Value Grows

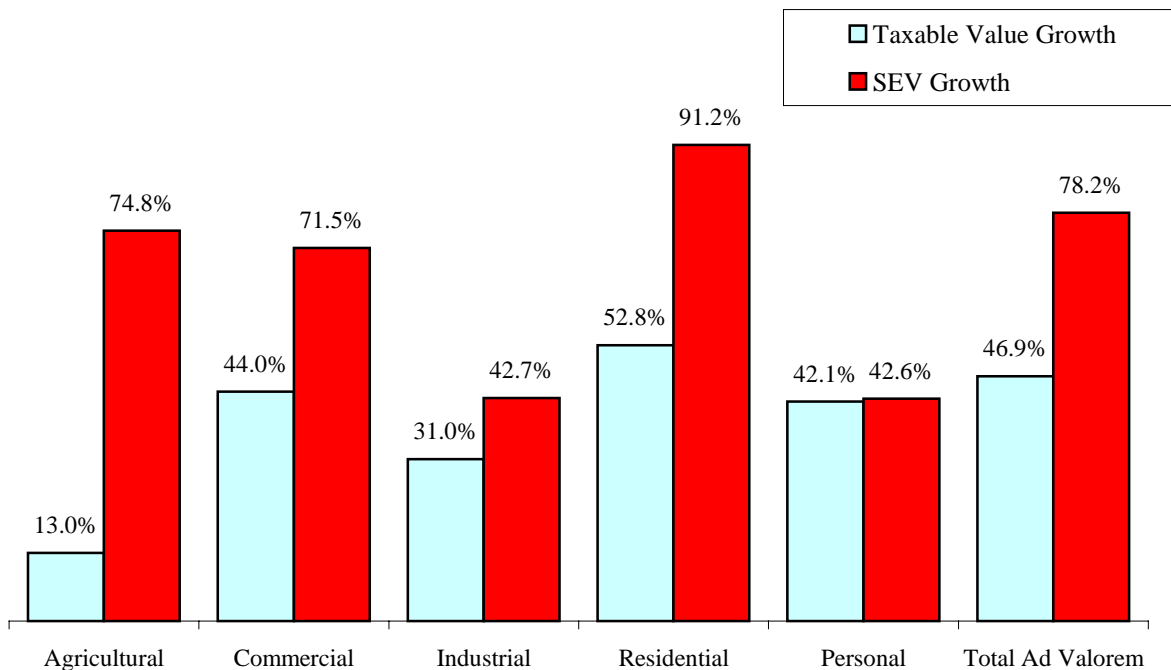


Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

²⁹More specifically, the taxable value cap limits a property's taxable value growth in a given calendar year (e.g., 2001) to 5 percent or inflation in the previous fiscal year (e.g., FY 2000). The annual inflation rate is calculated by dividing the average U.S. CPI for all urban consumers for the relevant fiscal year (e.g., FY 2000) by the average U.S. CPI from the previous fiscal year (e.g., FY 1999).

The impact of the taxable value cap has varied widely both across property classifications and across Michigan's counties. By far, agricultural property has realized the largest proportional benefit from the taxable value cap. Since 1994, agricultural SEV has grown 74.8 percent, while agricultural taxable value has increased only 13.0 percent. (See Exhibit 45.) Steep increases in the value of existing agricultural property coupled with a slow agricultural property turnover rate have helped produce this gap. Recently enacted legislation will contribute further to widening this gap. Beginning in 2001, agricultural property's taxable value remains capped even upon transfer as long as the property remains in agricultural use.

**Exhibit 45
Taxable Value and SEV Growth -
Cumulative Growth, 1994 - 2001**

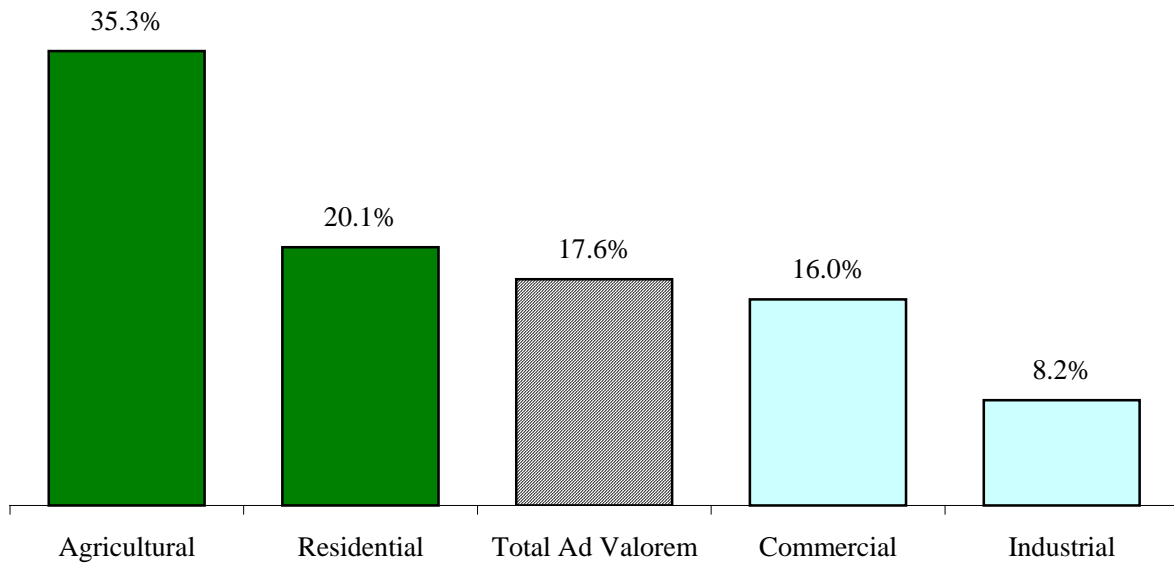


Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

As a result, 2001 statewide agricultural taxable value equaled only 64.7 percent of SEV. Thus, 2001 agricultural taxable value was 35.3 percent less than agricultural SEV, twice the overall property value difference of 17.6 percent. (See Exhibit 46.) Residential property has seen the second largest percentage reduction. Since 1994, residential real property SEV has grown 91.2 percent, while residential taxable value has increased 52.8 percent. Given this, 2001 residential taxable value equaled 20.1 percent less than residential SEV. A strong State economy and a booming housing market have contributed to this gap.

Commercial real property has also seen an appreciable benefit from the taxable value cap. Since 1994, commercial real property SEV has grown 71.5 percent, while commercial real property

Exhibit 46
Percent Difference, Taxable Value and SEV
2001



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

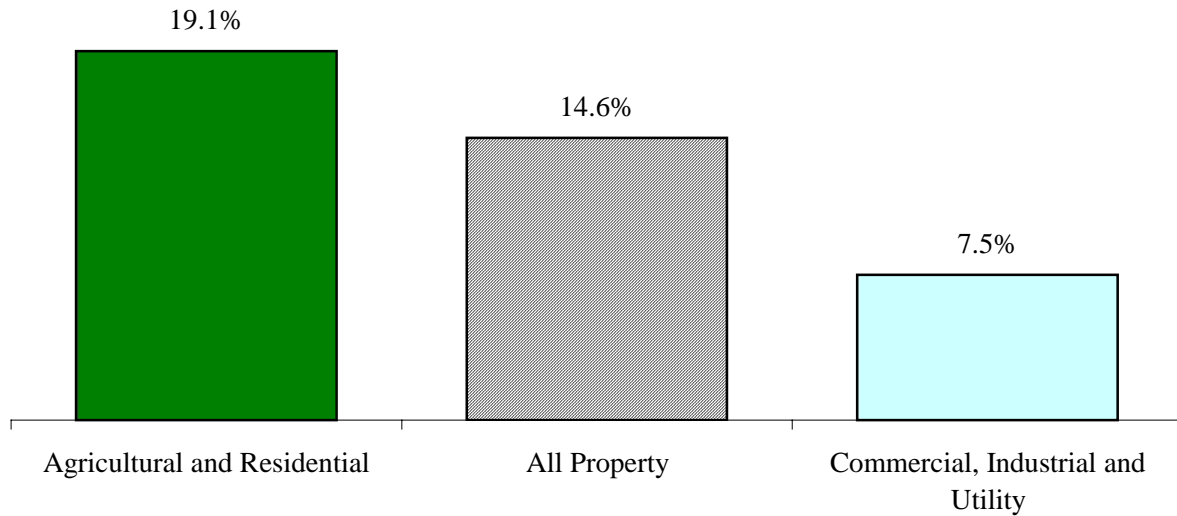
taxable value has grown only 44.0 percent. As a result, 2001 commercial taxable value equaled 16.0 percent less than commercial SEV.

Compared to the other three major real property classifications, industrial property has seen the smallest divergence between SEV and taxable value growth. With 42.7 percent SEV growth and 31.0 percent taxable value growth between 1994 and 2001, 2001 industrial taxable value equaled 8.2 percent less than industrial SEV.

Because personal property depreciates, there is essentially no gap between personal property taxable value and personal property SEV.

In 2000, the taxable value cap reduced property taxes by \$1.6 billion (14.6 percent) statewide. Given the larger gaps between agricultural and residential taxable value and SEV, homeowners and farmers realized a proportionally larger benefit than businesses. The taxable value cap reduced property taxes on agricultural and residential property by 19.1 percent while reducing property taxes on commercial, industrial, and utility property by 7.5 percent. (See Exhibit 47.)

Exhibit 47
Taxable Value Cap Percentage Property Tax Savings, 2000



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

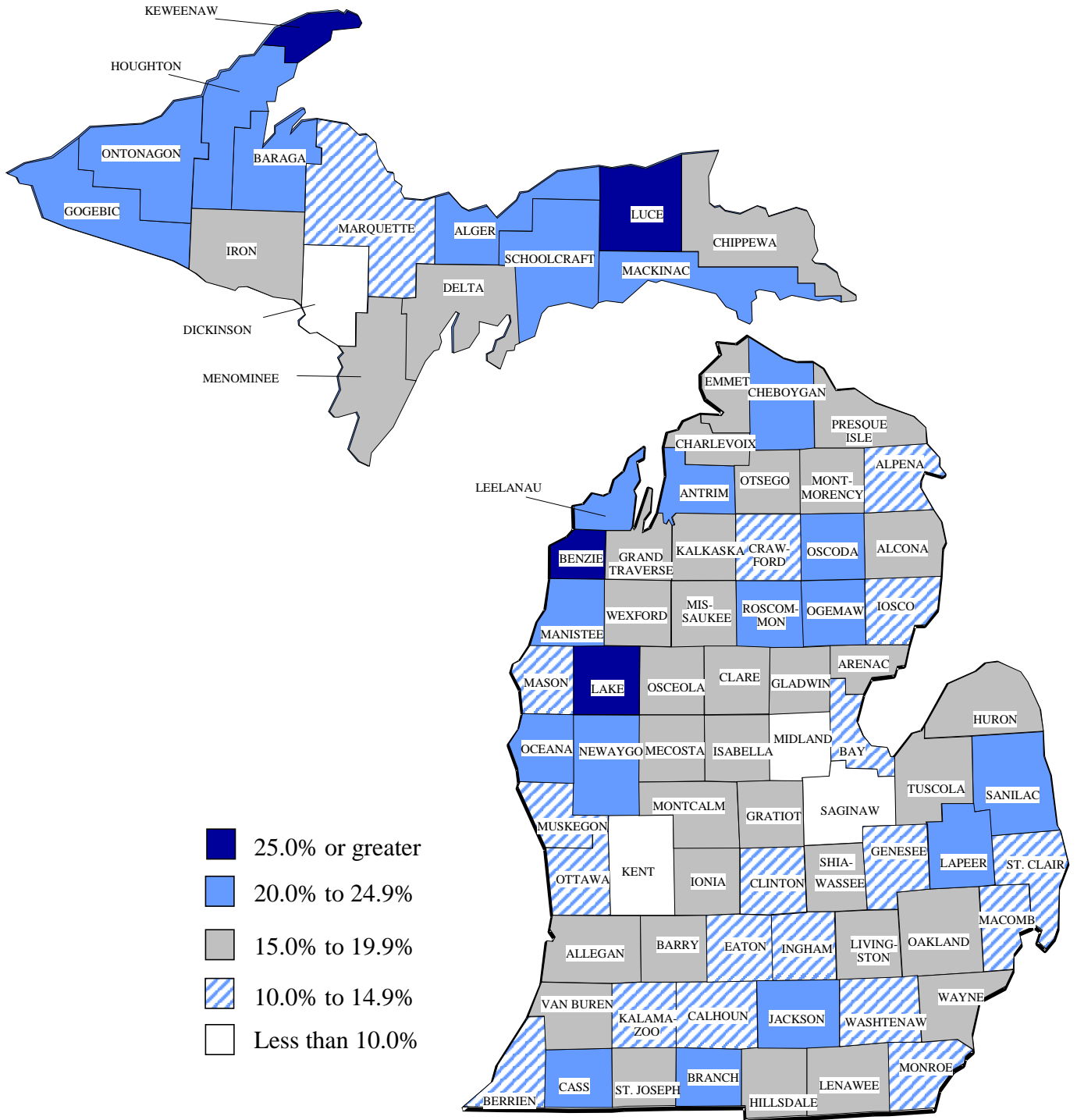
Given the differing rate of property tax growth across counties and counties' differing property composition, the impact of the taxable value cap has varied across counties. (See Exhibit 48.) In 60 of the 83 counties, the taxable value cap reduced property taxes by 15.0 percent or more in 2000. Most counties (54) saw a taxable value cap savings between 10.0 percent and 20.0 percent. In four counties, the taxable value cap reduced property taxes by less than 10.0 percent. In 25 counties, the cap reduced property taxes by 20.0 percent or more.

Counties in which residential and agricultural property comprised a very large share of taxable value saw the greatest savings from the taxable value cap. Luce County saw the greatest percent tax savings (31.0 percent), followed by Benzie County (26.3 percent) and Keweenaw County (26.1 percent). Counties with relatively high shares of industrial real property and personal property have seen the smallest taxable value cap savings: Midland County (4.3 percent), Dickinson County (8.3 percent), and Saginaw County (8.8 percent).

Because taxable value returns to SEV when a property is transferred and equals SEV in its first year, faster growing counties have tended to see a smaller percentage reduction in taxes resulting from the taxable value cap (all else equal).

The taxable value cap can create situations that breach the principle of horizontal equity among taxpayers. For example, a new homeowner whose neighbor has owned an identical house for several years will often pay substantially higher property taxes than his or her neighbor will.

Exhibit 48 Taxable Value Cap Percentage Savings by County, 2000



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

SECTION 9: COMPOSITION OF RECENT PROPERTY TAX GROWTH

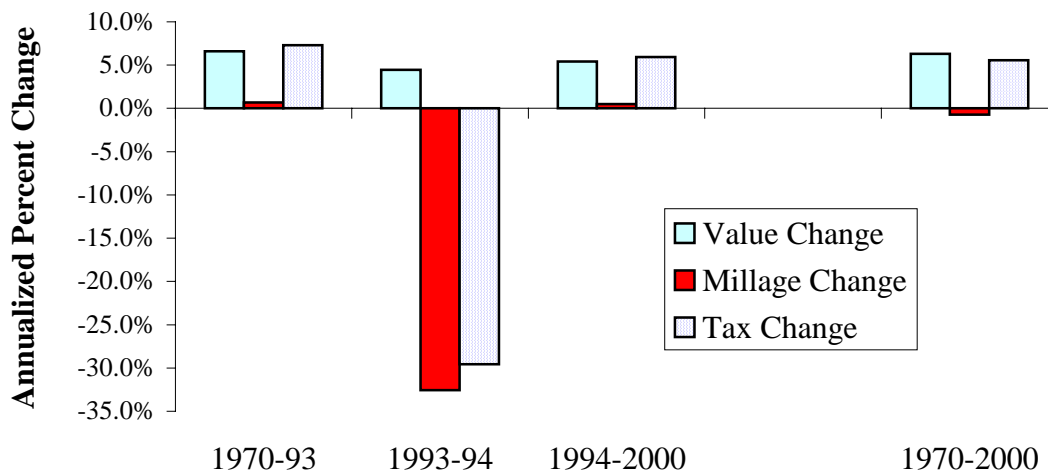
Property tax equals the product of property tax value (real and personal) and the property tax millage rate. Thus, changes in property taxes can be separated into the portion of the tax change attributable to millage rate changes and the portion attributable to property value changes.

Between 1970 and 1993, increases in SEV accounted for the vast majority of the State’s property tax increase (90.6 percent). Property taxes rose an average of 7.3 percent per year between 1970 and 1993. Over that time, SEV rose 6.6 percent per year, while the statewide average millage rate rose an average of 0.7 percent each year.³⁰ (See full-page Exhibit 50.)

In 1994, the statewide average millage rate fell 32.6 percent as property tax reform was implemented. SEV rose 4.4 percent. On net, property taxes declined 29.6 percent.

Between 1994 and 2000, property taxes have risen an average of 5.9 percent per year. Taxable value growth accounts for 91.6 percent of this increase. Over this time, taxable value growth averaged 5.4 percent while the statewide average millage rate increase averaged 0.5 percent per year.³¹ (See Exhibit 49.)

**Exhibit 49
Property Value Growth Accounts for Most of Tax Increases Since 1994**



Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

³⁰The location and composition of property across the State affect the statewide average millage rate. All else equal, the larger the share of property in lower millage rate areas, the lower the statewide average millage rate. For example, increases in townships’ share of taxable value since 1994 has lowered the statewide average millage rate. Similarly, since 1994, increases in homestead property’s share of statewide taxable value has lowered the statewide average millage rate.

³¹Because of compounding, the sum of average annual value growth and average annual millage rate growth differ slightly from average annual tax growth.

Exhibit 50
Michigan Real and Personal Property Values, Taxes and Tax Rates

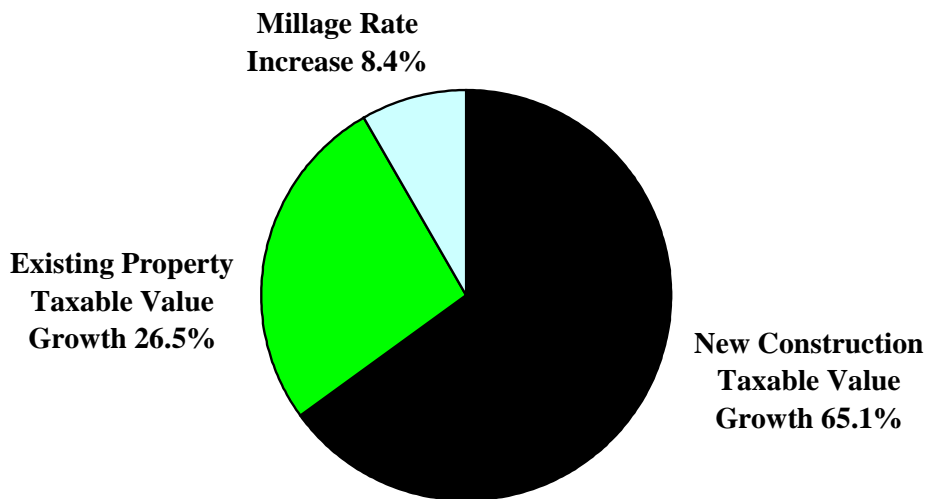
<u>Year</u>	<u>SEV/ Taxable Value</u>		<u>Tax Levy</u>		<u>Average Millage Rate</u>	
	<u>(Thousands)</u>	<u>% Chg</u>	<u>(Thousands)</u>	<u>Percent Change</u>	<u>Millage</u>	<u>Percent Change</u>
1970	\$38,551,597		\$1,874,291		48.62	
1971	41,648,959	8.0%	2,063,280	10.1%	49.54	1.9%
1972	44,487,728	6.8	2,183,224	5.8	49.07	-0.9
1973	47,612,674	7.0	2,420,403	10.9	50.84	3.6
1974	51,871,329	8.9	2,649,594	9.5	51.08	0.5
1975	56,800,875	9.5	2,903,906	9.6	51.12	0.1
1976	55,478,935	-2.3	2,960,724	2.0	53.37	4.4
1977	59,512,999	7.3	3,207,096	8.3	53.89	1.0
1978	64,863,929	9.0	3,484,874	8.7	53.73	-0.3
1979	72,512,251	11.8	3,889,378	11.6	53.64	-0.2
1980	82,581,103	13.9	4,411,378	13.4	53.42	-0.4
1981	91,799,179	11.2	4,898,386	11.0	53.36	-0.1
1982	98,139,884	6.9	5,172,518	5.6	52.71	-1.2
1983	98,302,925	0.2	5,187,279	0.3	52.77	0.1
1984	100,151,842	1.9	5,374,275	3.6	53.66	1.7
1985	102,685,055	2.5	5,592,861	4.1	54.47	1.5
1986	106,154,935	3.4	5,851,019	4.6	55.12	1.2
1987	111,037,636	4.6	6,214,634	6.2	55.97	1.5
1988	119,013,924	7.2	6,761,056	8.8	56.81	1.5
1989	128,754,498	8.2	7,391,136	9.3	57.40	1.0
1990	139,901,357	8.7	7,998,491	8.2	57.17	-0.4
1991	150,665,065	7.7	8,638,678	8.0	57.34	0.3
1992	153,928,613	2.2	8,941,685	3.5	58.09	1.3
1993	167,731,374	9.0	9,500,582	6.3	56.64	-2.5
1994	175,195,104	4.4	6,690,701	-29.6	38.19	-32.6
1995	182,125,153	4.0	7,081,111	5.8	38.88	1.8
1996	191,680,559	5.2	7,536,108	6.4	39.32	1.1
1997	202,615,532	5.7	7,952,659	5.5	39.25	-0.2
1998	215,179,108	6.2	8,449,614	6.2	39.27	0.1
1999	228,096,397	6.0	8,933,372	5.7	39.16	-0.3
2000	240,647,490	5.5	9,462,264	5.9	39.32	0.4
Average Annual Change						
1970-1993	6.6%		7.3%		0.7%	
1993-1994	4.4		-29.6		-32.6	
1994-2000	5.4		5.9		0.5	

Source: State Tax Commission and Office of Revenue and Tax Analysis, Michigan Department of Treasury.

Property value changes can be divided into property value changes from the growth in the value of the existing property stock's value and increases attributable to new construction.³² Between 1994 and 2000, the taxable value of real property increased 37.2 percent statewide. Of this increase, property put in place after 1994 accounted for slightly more than two-thirds (67.2 percent). Excluding appreciation of these properties put in place after 1994, new construction accounted for only slightly less of the increase (64.1 percent). Including personal property and real property value appreciation, new construction comprised 71.1 percent of taxable value growth between 1994 and 2000.³³

Thus, of the estimated increase in property taxes between 1994 and 2000, new construction accounted for an estimated 65.1 percent (71.1 percent times 91.6 percent), while increases in the value of existing property comprised 26.5 percent. Millage rate increases accounted for the remaining 8.4 percent. (See Exhibit 51.)

Exhibit 51
Composition of Property Tax Growth
1994 - 2000



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

³²In addition, properties may switch from exempt status or being subject to a specific tax in lieu of the general property tax (e.g., Industrial Facilities Tax) and vice versa. The following analysis implicitly assumes that these counterbalancing shifts effectively cancel each other out.

³³This estimate provides a conservative estimate of personal property new construction: the change in personal property taxable value. Because personal property depreciates, using the change in personal property taxable value understates personal property new construction by an amount equal to depreciation (plus the impact of new personal property depreciation multiplier tables).

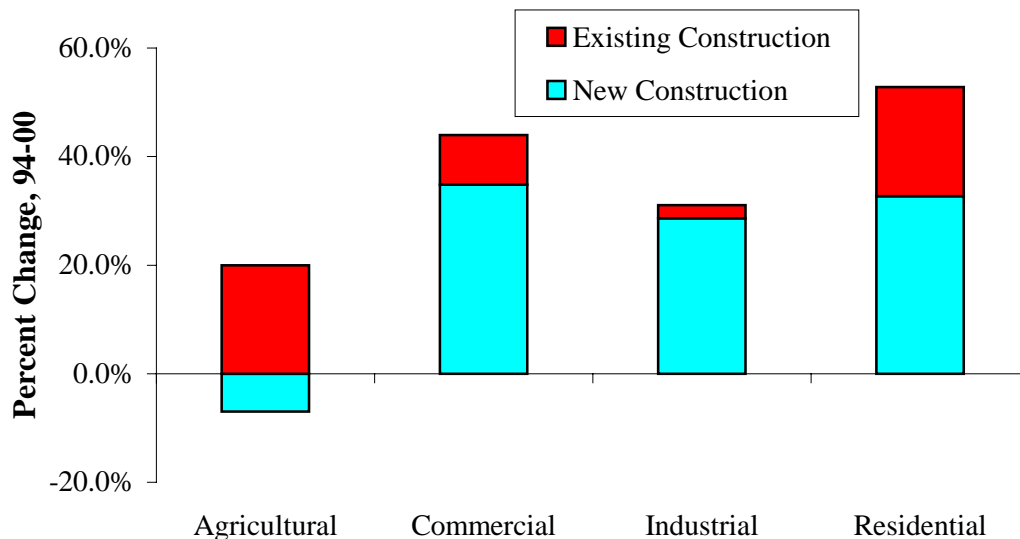
Between 1994 and 2001, new construction's share of a given year's taxable value increase ranged between 89.8 percent in 1994 and 50.8 percent in 2001 with a median share of 61.0 percent.

Taxable value increases within each property classification can also be divided into two parts: increases resulting from value increases of property already in the classification, and property value increases/decreases resulting from new construction and property changing classification. Net additions to value for a given property class vary widely.³⁴

While residential real property saw the fastest growth in SEV between 1994 and 2001, agricultural real property saw the largest increase in existing property SEV (83.0 percent vs 53.9 percent). Structures comprise a relatively small share of agricultural value and net "additions" to agricultural property were negative. Over time, property has moved from agricultural use to other uses (e.g., residential housing).

Between 1994 and 2001, agricultural taxable value rose 13.0 percent. Of this increase, existing property accounted for well over 100.0 percent of the increase. (See Exhibit 52.) Over the same period, residential taxable value rose 52.8 percent. Of this increase, new construction and additions since 1994 accounted for an estimated 61.9 percent of the increase and existing property value growth accounted for the other 38.1 percent of the rise.

Exhibit 52
Estimated Composition of
Taxable Value Growth, 1994-2001



Source: Office of Revenue and Tax Analysis, Michigan Department of Treasury.

³⁴Unlike property value as a whole, the property value of given property classification may increase or decrease as a result of property changing property class. For example, agricultural property moving from the agricultural classification to the residential classification results in a negative addition (subtraction) to agricultural property value and a net addition to residential property value.

New construction comprised the majority of the 1994-2001 taxable value increase for both commercial and industrial property. Of the 44.0 percent increase in commercial taxable value, new construction accounted for 34.8 percentage points (79.2 percent). Still more striking, new construction accounted for 28.6 percentage points (92.2 percent) of the 31.0 percent increase in industrial property taxable value growth.

Combined Impact of Taxable Value Cap and Millage Rate Reductions

One way to appreciate the combined impact of Proposal A's millage rate cuts and the taxable value cap is to construct effective millage rates on SEV.

The effective statewide millage rate on SEV for 2000 equals 33.27 mills (39.32 mills times 84.6 percent). This implies that since Proposal A's implementation the *effective* millage rate on SEV has fallen from 56.64 mills to 33.27 mills, a 23.37 mill reduction. This compares with a 17.32 mill reduction in the nominal millage rate. The 33.27 effective millage rate is the lowest millage rate on SEV in over 40 years.

SECTION 10: PERSONAL PROPERTY TAX TREATMENT

In Michigan, most business personal property is subject to the personal property tax. Inventories, special manufacturing tools, agricultural personal property, and household personal property are exempt. Certain local governments (core communities) may exempt new personal property in designated areas from the personal property tax.

Toward the end of 1999, the State Tax Commission (STC) issued updated personal property tax depreciation multiplier tables. The tables were designed to replace tables that the STC had approved in 1964.³⁵ Fully implemented, the updated tables would have reduced 2000 personal property ad valorem and IFT tax collections by an estimated \$197.0 million (11.1 percent) compared to previous depreciation multiplier tables.³⁶ However, in 2000, assessors valued most utility personal property using the previous depreciation multiplier tables. As a result, post-1999 personal property values likely reflect about two-thirds of the updated tables' impact if fully implemented. Local units have challenged the use of the new utility personal property multiplier tables. Shortly after the tables were updated, several local units filed a motion with the Michigan Tax Tribunal to have the new utility personal property depreciation multiplier tables ruled invalid. In April 2002, the Tribunal ruled that the new STC utility multiplier tables were valid. It is likely that the local units will appeal the decision to the Court of Appeals.

Interstate Comparisons

Most states tax some form of personal property. (See Exhibit 53.) Only four states do not levy property tax on any personal property: Hawaii, Illinois, New York, and Pennsylvania. Two states tax only a relatively small subset of personal property: Delaware exempts personal property, except that owned by captive insurance companies; New Jersey taxes only a subset of telecommunications and petroleum refinery personal property.

Minnesota and New Hampshire tax only utility personal property. North Dakota and South Dakota tax only centrally assessed personal property.

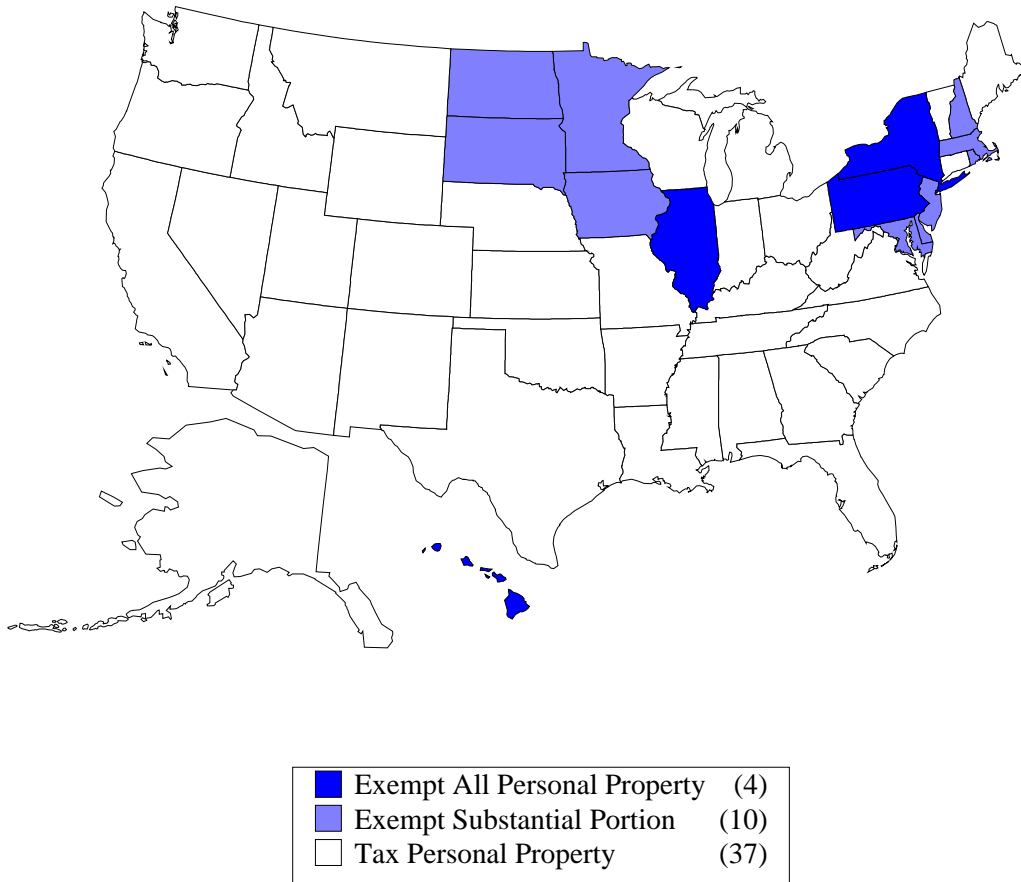
Three New England states (Maryland, Massachusetts, and Rhode Island) and Wisconsin exempt manufacturing personal property. Having exempted new manufacturing machinery and equipment since 1995, Iowa fully phased out its property tax on all machinery and equipment in 2002.³⁷

³⁵Prior to 2000, the STC had made only a few revisions and additions to the 1964 multiplier tables. In 1983, the STC added the surplus equipment provision. The STC added a computer depreciation table in 1993 and revised the gas pipeline table in 1997.

³⁶Estimate is subject to revision as more and better information becomes available.

³⁷While Iowa exempts all property classed as personal property from property taxes, it taxes as real property, property that most states class as personal property.

Exhibit 53
Thirty-Six States and District of Columbia Tax Personal Property



Source: Commerce Clearing House. Totals include District of Columbia.

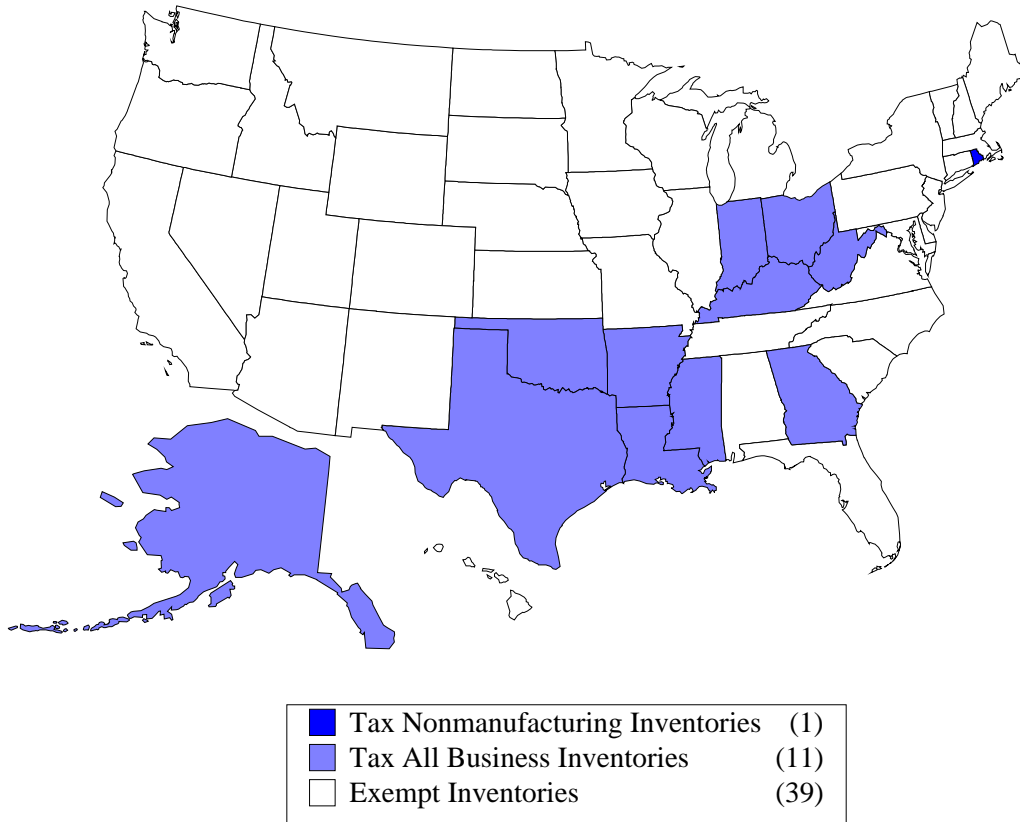
As Exhibit 53 shows, states exempting all or a substantial portion of personal property are concentrated in two areas of the country: the upper plains states and New England.

Eleven states fully tax inventories as personal property. States fully taxing inventories are concentrated in two areas: near or at the Gulf of Mexico (Arkansas, Georgia, Louisiana, Oklahoma, Mississippi and Texas) and the Southern Great Lakes region and Upper South (Indiana, Kentucky, Ohio and West Virginia). Alaska also levies property taxes on inventories.³⁸

³⁸ Under Vermont state law, inventories are taxable but may be exempted by local option. Most Vermont local units exempt inventories.

Rhode Island currently exempts manufacturers' inventories from the personal property tax. In addition, Rhode Island began its 10-year phase-out of personal property taxes on inventories held by other businesses (retailers and wholesalers) in 2000. Beginning in 2002, Ohio will begin phasing out its personal property tax on inventories over the next 25 to 31 years.³⁹ (See Exhibit 54.)

Exhibit 54
Eleven States Tax Inventory Personal Property



Source: Commerce Clearing House. Totals include District of Columbia.

³⁹Prior to 2002, inventories were assessed at a 25 percent rate in Ohio. Beginning in 2002, the assessment rate will be decreased one percentage point per year. However, the assessment ratio is reduced in years 2002 to 2006 only if personal property tax collections grow. Beginning in 2007, the assessment ratio is reduced one percentage point each year regardless of property tax growth until the rate reaches zero.