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NEWSMAKER FRIDAY: GEARING UP FOR NEXT MAJOR FISCAL CRISIS - LOCAL GOVERNMENTS

For years, the primary fiscal concern of state policymakers has been state revenues and spending as Michigan economic struggles has forced politically tough balancing acts, but many officials expect that ongoing struggle to get even more difficult because now local governments face potentially widespread financial problems. The collapse in the real estate markets coupled with the economic recessions raises the real chance that property tax collections will start to fall over the next several years.

The Oakland County equalization director said this week that he preliminarily anticipates the county's taxable value - that aspect of property values that governs how much tax revenue counties, cities and townships net - will decline by 3 percent in 2008, meaning approximately \$8 million less in property tax revenues to the county. County Executive L. Brooks Patterson has been informed of this, said Dave Hieber, and he isn't happy.

Oakland County's experience will not be repeated across the state, and a number of counties say they are not seeing some of the steep declines in property values that counties in Southeast Michigan are experiencing. But most are expecting to see smaller growth in their taxable values compared to recent years.

Lower property tax revenues will mean local governments will push the Legislature and [Governor Jennifer Granholm](#) harder than ever to boost revenue sharing payments to avoid big cuts in local services.

In fact, two months ago Senate Fiscal Agency Director Gary Olson told the Senate Appropriations Committee that he expected a 0 percent increase in property taxes for fiscal year 2008-09. In an interview on Friday, Mr. Olson said: "Zero percent in '09 may be optimistic."

Mr. Olson is chair of the Revenue Estimating Conference that will meet next Friday, May 16, to set the final revenue figures the Legislature has to use to finalize the 2008-09 budget. Mr. Olson has also asked the Department of Treasury to prepare a report on the state's property tax situation. It is rare that reports on property taxes are included as

part of the Revenue Estimating Conference.

And on Monday, the State Tax Commission will get preliminary figures for the state's 2008 equalization report. The final report will be issued later this month. That report will likely show overall property values will have increased over the last year, but officials expect to see a smaller increase than in previous years.

With increasing numbers of property foreclosures and lower average prices on home sales, what the equalization report will look like for 2009 is a very big question.

Until recently, compared to state revenues property tax revenues had remained a stable, growing section of public finance. That is not to say that local governments did not struggle financially as the state has had to restrain revenue sharing and local governments have faced the same cost pressures on fuel, health care and retirement costs that governments, businesses and individuals have all faced. But property tax revenues had continued to increase.

Michigan has a bifurcated property values system, the result of the Proposal A school financing system enacted by the voters in 1994. Property has to be assessed at 50 percent of its true cash value, but secondarily property has a taxable value. A property's assessed value can rise or fall without limit depending on the local market, but its taxable value can increase no more than the annual rate of inflation or 5 percent, whichever figure is less.

Typically, a property's assessed and taxable value reach parity when the property is sold. At that point the generally lower taxable value is pegged at the assessed value, which would generally be 50 percent of the sales price. This has come to be known as the "pop-up" tax, and if a property has not been sold in more than a decade can amount to a pretty big jump in that property's taxes. In recent years, lawmakers have talked about suspending the pop-up tax to help stimulate home sales.

However, a property's taxable and assessed value can also reach parity, if the assessed value declines. And if the assessed value falls below the taxable value, then the taxable value is cut as well. That means lower taxes on the property.

Declines in total assessed values for communities are being reported all across the state. Mr. Hieber said all 53 communities in Oakland County, the state's second largest community, reported declining assessments this year.

Declines in community taxable values are also starting to appear. For example, Walt Schlichting, the Tuscola County equalization director, said the taxable value of Vassar, the county's one city, declined this year.

According to figures from the State Tax Commission in 2007 the state's total assessed real property (as opposed to real and personal property) increased by 4 percent from 2006; the state's real property taxable value increased 5.6 percent from 2006 (total

taxable value would include sales of property that have been adjusted higher). But those figures were down from earlier years, and officials anticipate the 2008 figures to be finalized in a few weeks will be lower.

The 2006 total assessment was 6.1 percent higher than 2005, while the 2006 taxable value was 6.4 percent higher than the previous year.

Local governments were not the only governments that benefited from the increased property tax base, since property taxes pay a significant portion of the state's School Aid Fund. But local governments rely on property taxes to a far greater degree than does the state.

"Our inflationary growth in property tax revenues had been keeping our heads above water," said Summer Minnick of the Michigan Municipal League. If revenues decline then local governments will turn to the state to make up those lost monies, she said, as well as push the state to look at changes in the property tax structure.

Michigan's eastern counties are struggling the most with the effects of the real estate crisis and the growth in foreclosures.

Mr. Hieber said that residential property in Oakland County would go down in value by 8 percent to 10 percent overall. Houses built in the last 10 years are experiencing significant drops in assessed value, when that is added to the number of foreclosures in the county - in 2007 there were more than 7,600 sheriff's deeds recorded (those deeds representing a foreclosure), based on the first quarter of 2008 Mr. Hieber estimates there will be more than 10,000 sheriff's deeds in 2008 - along with bank sales (typically at much lower prices) the overall taxable value of the county will decline for 2008.

At this point, Mr. Hieber estimates a 3 percent decline in taxable value, and each 1 percent change in value represents about \$2.5 million in property tax revenues.

The situation could be even worse to the east in Macomb County, where equalization director Steven Mellen said the taxable value for 2008 was up by just .24 percent and that taxable values for the county could fall by 5 percent to 7 percent in 2009.

All classes of property are losing value in Macomb, Mr. Mellen said in an email, with residential values falling by an estimated 20 percent.

Greg Hill, equalization director in St. Clair County, said the situation there is growing "scary." In 2005 fewer than 10 percent of the nearly 5,500 deeds recorded were for foreclosures; so far this year 46 percent of the deeds recorded are sheriff's deeds for foreclosures, he said.

And the foreclosures are now striking at houses worth less than \$100,000 that families have lived in for a decade or more, because the economy is so anemic, he said. "We

are anticipating a decrease in a couple years in overall taxable value," he said.

Outside of the southeastern part of the state the situation is less dire in most counties, but some are suffering as badly.

Juli Kolbe, equalization director for Jackson County, said her county is "in a downward spiral." Foreclosures are up by 250 percent from 2005, she said, and have not peaked yet. She is estimating a 5 percent decline in taxable value for the county in 2009.

Even if their counties do not estimate declines in taxable values, the slump in the real estate market is affecting everywhere in the state. (Michigan State University economist Charles Ballard told reporters Friday that his house in East Lansing was assessed at \$65,000 less this year than last.)

Agricultural property seems not to suffer as much as residential, equalization directors in a number of counties said. Tuscola County said it saw an increase in agricultural land for this year but doubted the same increase would occur next year. In Mason County, however, agricultural values were down slightly and 13 and the 17 communities in the county reported declines in assessed values.

And counties with lots of lakes and water access for houses are holding onto their residential values somewhat better.

But still, in Charlevoix County - one of the state's summer Meccas - equalization director William Wolf said Boyne City, East Jordan and Charlevoix saw their assessed values dropped as condominium sales fell. Overall because 48 percent of the county has water frontage, property values haven't declined as much, he said.

Donna Stokes, equalization director in Muskegon County, said being on the water seems to have helped in her county as well, although about a third of communities have seen declines in assessed values.

And because nearly 80 percent of the land in Crawford County is owned by the state or federal government, the county had not seen major drops in assessed values, said equalization director Kevin Hunter. "Crawford County did not see the large value increases like many of the surrounding counties and therefore is not seeing the dramatic decreases," he said in an email.

Ms. Minnick said the MML will conduct a survey of its members to determine how many will see a drop in property tax revenues.

While local governments that see declines are likely to push for more revenue sharing monies, more money in fire protection grants and other items, Ms. Minnick also said local governments will push the Legislature and Ms. Granholm to start looking at the overall property tax system to see if changes can be to address the gaps between assessed and taxable values as well as some of the restrictions imposed by the Headlee

Amendment.