

# PUBLIC POLICY ADVISOR

## Property Taxes: A New Tax Revolt?

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*This paper provides background on property taxes in Michigan, reviews recent property tax assessment data, discusses the various options for property tax relief, and suggests a new approach to property tax relief that may be attractive to both taxpayers and government.*

### INTRODUCTION

There has been considerable speculation in the national media on whether a new tax revolt is brewing. The evidence is not completely clear, but the large increases in assessments across the country are making the taxpayers restless. Exhibit 1 shows the increases in state and local property taxes for the 50 states for the period FY 1986–FY 1988 (latest data available for all states).

Property taxes are the largest and most unpopular of all the revenue sources used by state and local government in Michigan. In FY 1987–88 property taxes generated \$6.6 billion, about 61 percent of local own-source revenue (excludes funds received from other levels of government) and 27.4 percent of combined state and local own-source revenue. (Nationwide, the respective figures are 46.9 percent and 21.7 percent.) Local governments in Michigan rely more on property taxes than do those in any other state in the Great Lakes region. The importance of the property tax as a state-local revenue source is shown in Exhibit 2. Michigan ranks 13th in terms of dependence on the property tax.

All Michigan property not specifically exempt is assessed at its state equalized valuation (SEV), one-half its true market value. This value is then multiplied by the local millage rate to determine the property tax due. One mill represents one dollar due on \$1,000 of property value. To illustrate, if a house has a market value of \$100,000, its SEV is \$50,000. If the rate is 50 mills, the total tax due is \$2,500.

From 1982 to 1987, after fifteen years of rapid growth, the rate of increase in Michigan property taxes slowed markedly, but growth has accelerated in the past three years. (See Exhibit 3.) From 1967 to 1981, total property tax collections increased about 281 percent, an annual rate of almost 8 percent. (Nationwide, property taxes increased 184 percent during this period.) The major reason was inflation, which drove up housing values and, thus, assessments; other contributing factors were a strong housing market and adjustments for previous underassessments. The increase would have been even larger without a change made in 1976 to exempt business inventories from the personal property tax.

Property taxes increased at an annual rate of only 2.5 percent from 1982 to 1987; this was due mainly to the sharp slowdown in the rate of inflation. From 1987 to 1990, property assessments increased at an annual rate of 8 percent, due, in large part, to a major construction boom in Michigan. The SEV of property increased 337.4 percent from 1968 to 1990. The other side of the equation, the millage rate rose 17.1 percent from 1968 to 1977 then declined each subsequent year until 1983. The decline was due mainly to the large assessment increases in recent years and the millage rollbacks required by the 1978 Headlee tax limitation amendment. From 1983 through 1989, there were small increases in the millage rate, which averaged 57.40 for 1989 (the average millage rate increased about 4.7 mills from 1982 to 1988).

## EXHIBIT 1

**Percentage Increase in State and Local Property Tax Revenues,  
FY 1986-FY 1988**

Rank	State	Pct.	Rank	State	Pct.	Rank	State	Pct.
1	Vermont	38.9%	18	North Carolina	20.2%	34	Alabama	13.3%
2	New Hampshire	34.1	19	Maryland	19.9	35	Ohio	13.0
3	Arizona	31.2	20	Idaho	19.1	36	Texas	13.0
4	Florida	27.3	21	Oregon	19.1	37	North Dakota	12.8
5	California	26.4		<b>National Average</b>	<b>18.3</b>	38	Wisconsin	12.3
6	Connecticut	26.3	22	Tennessee	17.9	39	Kentucky	12.1
7	South Carolina	26.2	23	Colorado	17.1	40	Arkansas	11.7
8	Georgia	25.3	24	Illinois	17.1	41	Nebraska	11.5
9	New Jersey	24.9	25	Iowa	16.7	42	Michigan	11.3
10	Maine	24.7	26	New Mexico	16.4	43	Oklahoma	11.3
11	Virginia	24.6	27	Massachusetts	16.0	44	Louisiana	11.1
12	Missouri	23.4	28	New York	15.8	45	Kansas	11.1
13	Nevada	22.9	29	Rhode Island	15.0	46	Utah	10.8
14	Washington	22.4	30	Alaska	14.4	47	West Virginia	10.0
15	Delaware	21.1	31	Indiana	14.4	48	Hawaii	6.0
16	Mississippi	20.5	32	Pennsylvania	14.2	49	Montana	1.1
17	Minnesota	20.4	33	South Dakota	13.6	50	Wyoming	-26.3

SOURCE: *State Policy Reports*, vol. 8, issue 7.

## EXHIBIT 2

**Percentage of State-Local Tax Revenue from Property Tax, FY 1988**

Rank	State	Pct.	Rank	State	Pct.	Rank	State	Pct.
1	New Hampshire	63.6%	18	Kansas	34.8%	34	Georgia	26.6%
2	Oregon	47.1	19	Florida	32.5	35	Mississippi	24.5
3	Wyoming	44.7	20	Massachusetts	32.0	36	Maryland	24.2
4	Montana	43.5	21	Maine	31.7	37	South Carolina	23.9
5	New Jersey	42.1	22	Arizona	31.1	38	Nevada	23.1
6	Nebraska	41.4	23	Indiana	30.9	39	Tennessee	21.9
7	South Dakota	40.8		<b>National Average</b>	<b>30.4</b>	40	Missouri	21.6
8	Vermont	40.3	24	North Dakota	30.1	41	North Carolina	20.8
9	Connecticut	39.9	25	Minnesota	30.0	42	Oklahoma	18.9
10	Texas	38.7	26	New York	29.3	43	West Virginia	18.9
11	Iowa	38.5	27	Washington	29.1	44	Arkansas	18.1
12	Rhode Island	38.4	28	Idaho	28.3	45	Kentucky	17.2
13	Michigan	38.0	29	Ohio	28.1	46	Louisiana	16.2
14	Colorado	35.8	30	Virginia	28.1	47	Hawaii	14.3
15	Illinois	35.2	31	California	27.9	48	Delaware	14.0
16	Wisconsin	35.2	32	Utah	27.4	49	Alabama	11.6
17	Alaska	35.0	33	Pennsylvania	27.0	50	New Mexico	11.1

SOURCE: *State Policy Reports*, vol. 8, issue 7.

## EXHIBIT 3

## Michigan Property Tax Assessments, Collections, and Millage Rates, 1975-90

Year	State Equalized Valuation (SEV) <sup>a</sup> (millions)	Percentage Change from Previous Year	Tax Levy (millions)	Percentage Change from Previous Year	Millage Rate
1975	\$56,801	9.5%	\$2,904	9.6%	51.12
1976	55,479	-2.3 <sup>b</sup>	2,961	2.0	53.37
1977	59,513	7.3	3,207	8.3	53.89
1978	64,863	9.0	3,485	8.7	53.73
1979	72,512	11.8	3,889	11.6	53.64
1980	82,581	13.9	4,411	13.4	53.42
1981	91,799	11.2	4,898	11.0	53.36
1982	98,140	6.9	51,173	5.6	52.71
1983	98,303	0.2	5,187	0.3	52.77
1984	100,152	1.9	5,374	3.6	53.66
1985	102,685	2.6	5,593	4.1	54.47
1986	106,155	3.4	5,851	4.6	55.12
1987	111,038	4.6	6,214	6.2	55.97
1988	119,014	7.2	6,761	8.8	56.81
1989	128,812	8.2	7,391	9.3	57.40
1990	140,170	8.8	NA	NA	NA

SOURCE: State Tax Commission, Michigan Department of Treasury.

NA=Not available.

<sup>a</sup>As of December 31 of previous year.

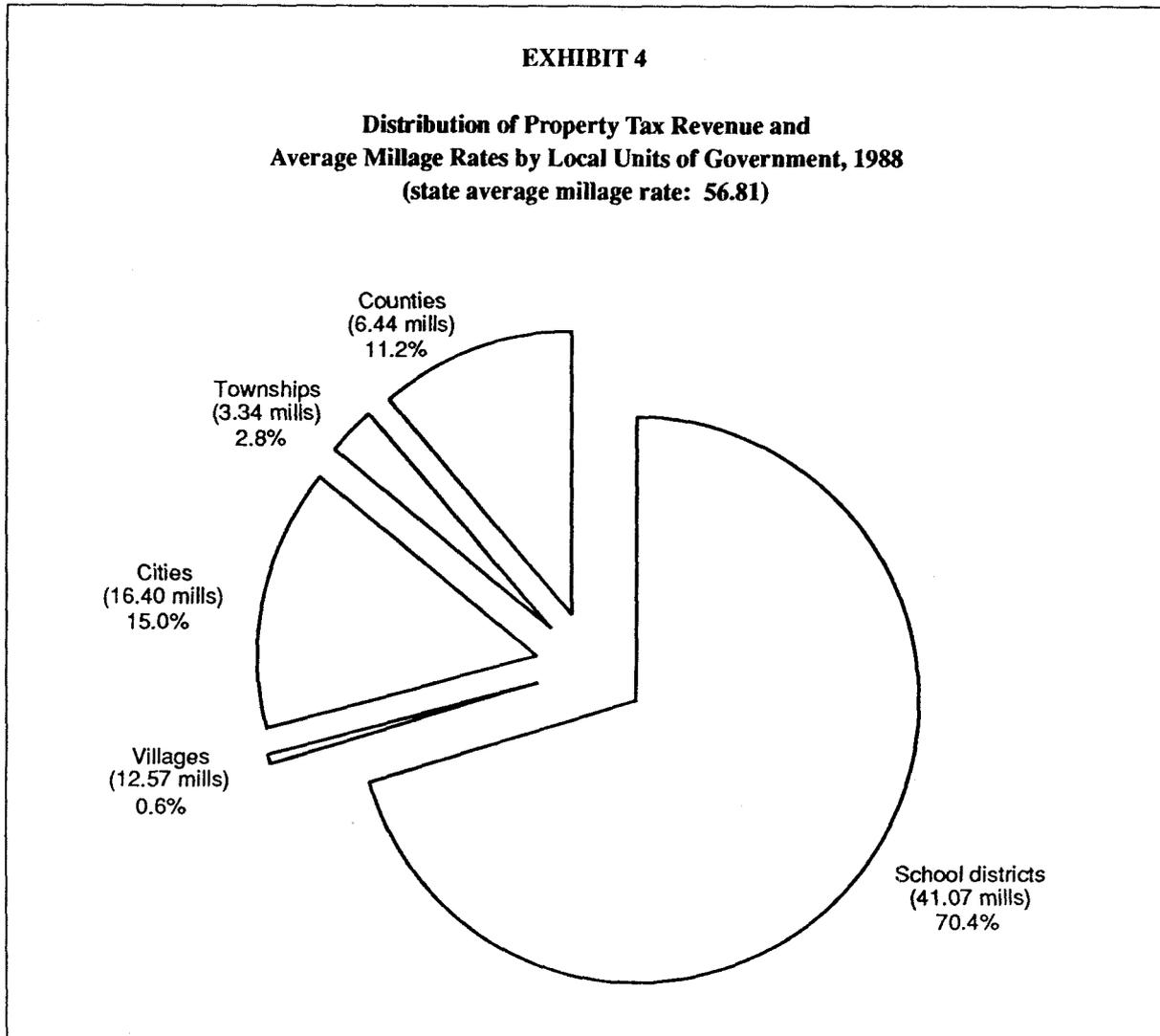
<sup>b</sup>Decline due to exemption of inventories from personal property tax.

The largest share of total property tax revenues, 70.4 percent, goes to school districts. The second largest share, 15 percent, goes to cities. Exhibit 4 illustrates the distribution of property taxes among local governments in Michigan and the average millage rates levied.

### NATIONAL COMPARISONS

Compared with other states, Michigan has relatively high property taxes, particularly on residential property, which has borne an increasing share of the total property tax load in recent years. This is due partly to property tax abatement programs for businesses and partly to smaller assessment increases for commercial and industrial property than for residential property. In FY 1987-88 (the latest year for which data are available), property taxes for Michigan's 9.2 million residents were \$716 per capita, ninth highest among the states and 33.1 percent above the national average. Michigan ranks even higher when property taxes are measured against personal income. In FY 1987-88 these taxes were 4.7 percent of total Michigan personal income, compared with a U.S. average of 3.5 percent. This ranks Michigan eighth among all states and highest in the Great Lakes region. (See Exhibit 5.) In terms of the effective tax rate (determined by dividing the tax paid on the residence by its market value) on residential property, Michigan ranks fifth highest nationally and is 94.8 percent above the U.S. average.

It is important to understand, however, that these figures do not reflect property tax relief programs financed by state and local governments. When so adjusted, according to a 1987 estimate by the Senate Fiscal Agency, Michigan residential property taxes as a percentage of personal income ranked 12th in



1985. As shown in Exhibit 5, Michigan ranked 19th in terms in the increase in property taxes per \$100 of personal income from 1980 to 1988.

### PROPERTY TAX RELIEF

Michigan has taken several steps to slow the growth in property taxes and to reduce the burden. First, the 1963 Michigan Constitution places limits on millage rates. Second, in 1973 Michigan adopted the "circuit breaker," which has become the largest property tax relief program in the nation. Third, in 1978 the voters adopted the so-called Headlee amendment to the constitution, which requires voter approval of all local millage increases and a millage rate rollback if assessments increase faster than inflation. Fourth, in 1982 the truth-in-taxation law was passed, requiring local officials to advertise their intentions to increase property tax collections and to vote formally to approve such increases.

The 1973 enactment of the homestead property tax credit or circuit breaker was a landmark. Its purpose was to prevent property taxes from taking an excessive share of the income of a homeowner or renter. A state income tax credit or a rebate is provided to those with incomes below \$73,650 if property taxes exceed 3.5 percent of household income; the credit is capped at \$1,200. As of 1986 the credit was reduced 10 percent for each \$1,000 of income in excess of \$73,650, phasing out at incomes in excess of \$82,650. Prior to this program, property taxes averaged about 8 percent of the income of senior citizens,

## EXHIBIT 5

## Property Tax Revenue per \$100 of Personal Income, 1980 and 1988

	State	1980		1988		1980-88		
		Revenue	Rank	Revenue	Rank	Percentage Change	Rank	
New England	Connecticut	\$4.42	11	\$4.31	15	-2.6%	35	
	Maine	4.34	14	4.23	17	-2.6	36	
	Massachusetts	5.87	2	3.63	24	-38.1	51	
	New Hampshire	5.22	5	5.48	3	5.0	24	
	Rhode Island	4.85	9	4.57	11	-5.7	43	
	Vermont	4.89	7	5.33	6	9.0	17	
Mid-Atlantic	Delaware	1.81	49	1.59	49	-12.2	47	
	District of Columbia	2.96	29	5.02	7	69.5	1	
	Maryland	2.98	28	2.85	35	-4.2	40	
	New Jersey	4.85	8	4.61	10	-4.9	42	
	New York	5.18	6	4.80	8	-7.4	44	
	Pennsylvania	2.77	32	2.90	34	4.7	25	
Great Lakes	Illinois	3.64	20	3.83	22	5.3	23	
	Indiana	2.83	31	3.22	28	13.6	10	
	Michigan	4.33	15	4.67	9	7.9	19	
	Ohio	3.14	26	3.04	31	-3.1	37	
	Wisconsin	4.01	17	4.55	12	13.5	12	
	Iowa	3.95	19	4.49	14	13.6	11	
Plains	Kansas	3.96	18	3.89	20	-1.8	33	
	Minnesota	3.55	21	3.97	19	11.9	15	
	Missouri	2.51	38	2.03	45	-19.2	49	
	Nebraska	4.54	10	4.52	13	-0.5	29	
	North Dakota	3.21	25	3.20	29	-0.4	28	
	South Dakota	4.36	13	4.31	16	-1.1	31	
Southeast	Alabama	1.12	51	1.11	51	-0.8	30	
	Arkansas	1.94	44	1.75	48	-9.6	45	
	Florida	2.65	36	3.26	27	23.2	6	
	Georgia	2.65	34	2.83	36	6.8	22	
	Kentucky	1.84	47	1.81	47	-1.8	34	
	Louisiana	1.47	50	1.85	46	25.9	4	
	Mississippi	2.19	42	2.59	38	18.1	7	
	North Carolina	2.37	39	2.36	40	-0.4	27	
	South Carolina	2.34	40	2.70	37	15.4	9	
	Tennessee	2.16	43	2.13	41	-1.4	32	
	Virginia	2.72	33	2.93	33	7.8	20	
	West Virginia	1.91	46	2.05	44	7.6	21	
	Southwest	Arizona	4.36	12	3.79	23	-13.0	48
		New Mexico	1.93	45	1.38	50	-28.6	50
Oklahoma		1.84	48	2.09	43	13.5	13	
Texas		3.24	24	4.18	18	28.9	2	
Rocky Mountain	Colorado	3.53	22	3.88	21	9.8	16	
	Idaho	2.93	30	3.02	32	2.9	26	
	Montana	5.57	4	5.39	5	-3.3	38	
	Utah	3.27	23	3.54	25	8.3	18	
	Wyoming	5.63	3	7.04	1	25.0	5	
Far West	Alaska	7.17	1	6.91	2	-3.6	39	
	California	2.65	35	3.12	30	17.9	8	
	Hawaii	2.32	41	2.09	42	-9.7	46	
	Nevada	2.55	37	2.44	39	-4.3	41	
	Oregon	4.25	16	5.46	4	28.4	3	
	Washington	3.04	27	3.41	26	12.3	14	
U.S. Average		\$3.38		\$3.51		3.8%		

SOURCES: Property tax revenue: U.S. Census Bureau, *Governmental Finances in 1979-80*; 1980 personal income: U.S. Commerce Department, *Survey of Current Business* (August 1987).

despite a homestead exemption. Under the 1973 law, the property tax burden for a senior citizen cannot exceed 3.5 percent of income, except for those constrained by the maximum credit. The circuit breaker has turned a regressive tax into an almost proportional tax; that is, it takes about the same percentage of income at each income level.

The property tax credit program has grown dramatically since 1973; it peaked in 1982, when the credit was claimed by 1.53 million households and amounted to \$655.1 million. From 1982 to 1985 the number of participants declined 11.3 percent, and the cost declined 6.4 percent. This decline was due to a slowdown in property tax growth relative to personal income growth. This trend was reversed, however, between 1985 and 1988, when the number of participants rose 5.7 percent, to almost 1.5 million households, and the cost increased 12.3 percent, to \$689 million. Because property taxes now are rising faster than incomes, state property tax credits are projected to increase about 18 percent from FY 1988-89 to FY 1990-91.

### **THE PROBLEM**

There is more dissatisfaction and controversy surrounding the property tax than any other. This is largely because of the size and visibility of the tax and the perception by many people that it is unfair. Many public opinion surveys find the property tax to be the least popular of all state and local taxes.

The property tax relief program has been effective in limiting tax burdens, but there is concern that the program lacks visibility and weakens the resolve of local government to control the levels of property taxes. A number of proposals have been advanced to provide property tax relief directly rather than through income tax credits, but an acceptable alternative has not been found.

Reducing K-12 schools' financial dependence on property taxes has been a major issue in Michigan for many years. A strong case can be made that the schools rely too much on the tax and that alternative sources of revenue, such as local income taxes or the state sales tax, should be used, but reform efforts have been uniformly unsuccessful. In November 1989 the voters soundly defeated two school finance reform proposals. The first would have raised the sales tax by 0.5 cents and allocated the money to K-12 education. The second proposal would have increased the sales tax by 2 cents, reduced school millage rates, and provided a new method for financing schools that encompassed a minimum guarantee of \$2,700 per pupil and revenue from a statewide property tax.

### **RECENT ASSESSMENT INCREASES**

The rapid growth in property tax assessments since 1987 appears to have rekindled a property tax revolt, as evidenced by the number of property tax reduction proposals vying for a spot on the November ballot. Residential assessments have increased at an annual rate of 9.2 percent since 1987, after increasing at a rate of only 2.1 percent from 1982 to 1987. As shown in Exhibit 6, residential assessments in ten counties increased at an annual rate of more than 10 percent in the last three years. The largest increases were: Livingston, 15.7 percent; Washtenaw, 13.6 percent; Oakland, 13 percent; and Macomb, 12 percent. In addition to southeast Michigan, the Grand Rapids area also experienced rapid growth in property tax assessments. In 1990 (1989 assessments) state SEV increased 8.8 percent, and residential SEV increased 10 percent. The exhibit also shows agricultural SEV as a share of total SEV, as the weakness in farm prices has dampened SEV growth in agricultural counties.

### **PROPERTY TAX RELIEF OPTIONS**

Property tax relief can be provided in three basic ways: (1) Reduce the assessment ratio from the current 50 percent to a lower percentage and/or cap assessment increases. Each one percent reduction

costs about \$150 million. (2) Rollback and/or cap the millage rate. Each one mill reduction costs about \$140 million. (3) Provide a homestead exemption or expand the current homestead credit (circuit breaker).

Reducing the assessment ratio or the millage rate provides relatively more relief to higher valued homes. For example, reducing the ratio to 40 percent would reduce the taxes on a \$100,000 home by \$600 (in a 60-mill district) and \$1,200 on a \$200,000 home. A 20-percent millage reduction would have the same effect. However, a millage reduction or cap has several advantages over a reduction in the assessment ratio. First, it will help school districts that are pushing against the 50-mill constitutional limit. Second, it is likely to be more visible and easier for the taxpayer to understand. The property tax would be less confusing if all property were assessed at 100 percent of market value (as is done in 20 states) and the millage rate reduced. Third, a freeze on assessments unfairly benefits taxpayers in fast-growing areas who are subject to large assessment increases but also are building equity in their homes. Fourth, a cap on millages at 30 mills, for example, would be beneficial to taxpayers in high millage areas, who arguably are most in need of property tax relief.

One disadvantage of these first two methods is that relief cannot be targeted to residential property without a constitutional amendment, and, as shown in Exhibit 6, residential assessments have been increasing much faster than commercial and industrial assessments. The large increases in residential property taxes in the southeast Michigan counties, in particular, as shown in the exhibit, have rekindled tax-cutting fever.

The Headlee rollback provision in the state constitution was intended to address the problem of rising assessments by requiring tax rates to be rolled back when assessments increased faster than the rate of inflation. However, since all property is lumped together, smaller increases in commercial and industrial property assessments offset faster increases in residential property assessments, and no one receives tax relief. Changing this provision to apply the rollback to each class of property would require a constitutional amendment. One way (in addition to the homestead credit) to provide relief to residential property without a constitutional amendment would be to require local governments to rebate to the taxpayer taxes on residential assessments that exceed a certain percentage, such as the rate of inflation. The state then could reimburse local governments for the lost revenue. This is similar to the program recommended by the governor.

The most flexible, efficient, and equitable form of tax relief is the homestead property tax credit, which bases relief on the relationship of homestead property taxes to household income. However, the credit lacks visibility because it is claimed on the income tax form and not deducted directly from the property tax bill. Ironically, this credit, because of its generosity, may have contributed to higher property taxes by making it easier for local governments to raise millage rates.

All of these options, in their various forms, are currently being offered. The Patterson-Anderson proposal would reduce school millage rates; the new Headlee proposal reduces the assessment ratio from 50 percent to 40 percent; the governor has proposed capping assessment increases at the rate of inflation and requiring the state to fund 50 percent of K-12 education (this provision was borrowed from the Olmstead-Kearney proposal), which also would encourage property tax relief. In addition, several proposals currently in the legislature would provide additional circuit breaker property tax relief.

## A NEW PROPOSAL

Our view is that any property tax relief plan acceptable to the public will have to include some limit on assessments. One option worth considering is to adopt a two-tier assessment system. Two assessment

EXHIBIT 6

Percentage Change in Michigan  
State Equalized Valuation (SEV), 1982-87, 1987-90

County	Percentage Change, 1982-87					Percentage Change, 1987-90				
	Residential SEV	Commercial/Industrial SEV	Agricultural SEV	Total SEV	Agricultural SEV as % of Total SEV	Residential SEV	Commercial/Industrial SEV	Agricultural SEV	Total SEV	Agricultural SEV as % of Total SEV
Alcona	3.4%	5.0%	1.7%	3.3%	18.4%	5.9%	11.1%	0.0%	5.5%	15.7%
Alger	3.9	1.1	-12.5	1.1	7.9	9.1	9.1	-32.9	6.8	1.9
Allegan	4.5	6.3	-2.1	3.7	15.8	10.3	8.2	2.4	8.5	13.3
Alpena	0.6	-1.9	3.0	0.2	17.2	2.7	-3.0	-0.7	0.4	16.6
Antrim	5.3	4.2	-4.8	4.0	9.2	7.6	5.1	-0.5	6.6	7.5
Arenac	3.3	5.1	-5.4	1.1	23.1	4.4	8.1	-1.9	3.6	19.6
Baraga	0.4	2.7	-0.4	0.8	17.5	2.8	5.4	-1.7	2.8	15.3
Barry	4.9	4.7	-3.2	3.0	18.3	9.8	5.6	0.2	7.5	14.8
Bay	0.1	0.1	-6.4	-0.6	9.9	3.9	2.4	-0.5	2.8	9.0
Benzie	5.1	4.5	0.9	4.8	6.0	7.2	6.8	0.4	6.8	5.0
Berrien	3.3	3.1	-7.6	2.5	5.0	11.1	4.2	4.6	7.5	4.6
Branch	1.1	2.3	-2.3	0.2	29.6	7.1	6.0	-2.4	4.2	24.3
Calhoun	1.3	2.7	-3.8	1.2	9.5	6.1	9.1	-1.0	6.6	7.6
Cass	2.4	3.9	-2.6	1.5	20.6	6.3	3.0	-1.0	4.3	17.6
Charlevoix	5.6	4.1	-0.3	4.7	6.9	9.7	4.8	0.7	7.9	5.6
Cheboygan	5.7	3.3	-2.3	4.1	10.2	6.2	8.4	-2.3	5.9	8.0
Chippewa	2.9	2.0	-6.8	1.3	11.1	7.4	8.5	-8.7	6.2	7.1
Clare	2.9	3.4	-8.5	1.9	7.4	4.0	4.0	-6.4	3.3	5.5
Clinton	3.6	2.6	-5.1	0.9	23.8	9.2	11.2	-0.1	7.5	19.1
Crawford	2.4	9.1	2.9	3.9	1.3	2.9	2.4	9.7	2.9	1.5
Delta	2.8	-0.3	2.9	1.8	6.4	1.5	8.7	-3.7	3.6	5.1
Dickinson	4.3	3.0	1.4	3.7	5.3	2.5	6.9	-1.1	3.8	4.6
Eaton	3.2	6.2	-2.0	3.3	12.1	8.2	6.5	-2.3	6.5	9.4
Emmett	7.5	6.0	1.8	6.6	7.5	9.5	8.5	0.0	8.6	5.9
Genesee	1.3	3.6	-1.8	2.1	2.5	4.1	2.3	1.4	3.3	2.4
Gladwin	3.8	2.9	-6.1	2.1	12.4	5.6	7.2	-3.4	4.8	9.7
Gogebic	2.7	1.3	-0.4	2.1	4.3	2.0	4.2	-3.0	2.5	3.7
Grand Traverse	4.2	5.2	-3.0	4.1	5.0	6.3	6.6	-1.7	6.0	3.9
Gratiot	2.9	2.8	-7.1	-1.6	36.9	2.3	5.2	-1.4	1.6	33.7
Hillsdale	2.4	5.4	-5.8	-0.1	30.8	5.9	5.7	-1.5	3.7	26.4
Houghton	2.5	0.9	-8.2	0.9	7.9	1.2	2.0	-1.5	1.2	7.2
Huron	4.0	3.6	-5.3	-0.7	43.0	4.8	4.4	-3.0	1.5	37.5
Ingham	2.5	3.1	-1.0	2.6	4.8	8.2	6.7	-3.7	7.1	3.5
Ionia	2.9	4.6	-1.7	1.8	28.2	8.0	6.0	-2.9	4.7	22.5
Iosco	2.7	2.5	0.7	2.4	9.9	8.9	6.2	-6.5	6.9	6.6
Iron	2.8	-1.6	-3.9	0.6	8.9	1.6	6.8	-1.0	3.1	7.9
Isabella	3.9	5.2	-2.2	2.7	21.0	5.1	9.7	-1.3	5.1	17.4
Jackson	1.2	1.4	-2.2	0.9	10.8	8.7	6.2	-1.1	6.9	8.6
Kalamazoo	3.1	4.3	-4.0	3.2	3.8	7.1	9.4	-1.3	7.7	2.9

Kalkaska	4.5	0.1	-4.3	1.7	10.1	3.6	1.2	-1.1	2.2	9.1
Kent	4.2	7.6	5.6	5.4	1.7	10.2	10.8	5.5	10.3	1.5
Keweenaw	3.7	-1.8	-15.6	0.4	6.1	2.4	1.6	-3.9	1.9	5.1
Lake	1.1	0.1	-0.5	0.7	14.5	3.4	4.8	-3.5	2.6	12.1
Lapeer	2.6	3.4	-2.8	1.5	19.9	8.7	8.0	1.6	7.2	16.9
Leelanau	4.5	4.5	-2.1	3.5	12.9	10.3	6.5	3.5	9.0	11.0
Lenawee	1.1	2.5	-7.0	-0.8	22.4	8.7	6.3	1.5	6.5	19.4
Livingston	2.0	4.6	-3.2	2.1	7.0	15.7	8.9	-0.4	13.3	4.8
Luce	3.7	2.1	-1.2	2.7	12.9	2.8	21.1	-2.1	5.6	10.2
Mackinac	3.2	3.5	0.4	3.1	8.9	8.1	15.1	-1.1	10.1	6.4
Macomb	1.5	5.5	-2.5	2.8	1.3	12.0	7.2	1.5	10.2	1.0
Manistee	3.0	1.3	0.9	2.1	10.3	6.2	4.6	-3.1	4.7	8.2
Marquette	0.2	-2.0	-2.5	-0.7	4.8	3.0	4.8	-3.4	3.4	3.9
Mason	2.9	2.2	-4.1	2.0	5.5	4.6	1.8	-3.0	2.6	4.6
Mecosta	4.0	4.5	-1.7	3.1	15.2	4.8	6.6	0.7	4.7	13.5
Menominee	4.3	3.2	-1.8	2.8	18.4	2.7	4.4	-2.6	2.2	16.0
Midland	2.9	-2.0	-6.0	-0.1	3.7	6.2	10.3	1.9	8.2	3.1
Missaukee	4.7	5.7	-1.1	2.8	31.7	3.8	9.8	-0.8	3.6	27.8
Monroe	0.7	13.1	-4.1	6.6	7.5	9.1	4.1	0.2	5.4	6.4
Montcalm	4.0	5.9	-0.7	3.4	21.1	4.5	1.7	-0.8	2.7	19.0
Montmorency	3.6	5.3	-9.9	1.8	9.9	5.1	20.3	0.9	6.5	8.4
Muskegon	1.9	2.5	-0.4	2.0	2.9	7.0	6.1	-0.5	6.5	2.4
Newaygo	4.0	4.9	-1.0	3.3	15.7	7.1	6.6	-2.3	5.6	12.4
Oakland	3.0	9.6	0.3	5.2	1.2	13.0	10.5	0.3	11.9	0.9
Oceana	4.2	3.7	0.0	3.1	22.5	5.8	12.8	1.3	5.7	19.8
Ogemaw	2.9	3.0	0.2	2.5	14.3	4.6	14.3	0.8	6.0	12.3
Ononagon	2.7	-2.2	-1.6	0.0	19.3	1.8	11.2	-1.0	4.7	16.3
Osceola	2.7	4.9	-1.2	2.1	26.4	4.3	4.1	-0.3	3.0	23.9
Oscoda	3.5	2.1	0.8	3.0	12.5	3.1	11.5	-2.9	3.7	10.3
Otsego	2.7	7.3	0.9	4.0	6.8	4.1	8.1	-1.4	5.1	5.6
Ottawa	4.9	4.1	1.5	4.4	7.1	11.0	9.6	0.2	9.8	5.4
Presque Isle	1.5	1.6	2.6	1.8	22.3	4.8	1.1	1.3	3.2	21.1
Roscommon	3.8	2.8	3.9	3.6	2.1	5.5	4.4	-4.2	5.1	1.6
Saginaw	0.5	0.3	-5.6	-0.4	11.3	4.1	4.2	-3.8	3.3	9.2
St. Clair	2.5	8.1	-4.3	4.3	9.3	11.2	2.5	-4.5	5.4	6.9
St. Joseph	2.4	4.0	-4.1	1.4	18.7	4.7	4.8	-2.6	3.5	15.6
Sanilac	1.2	3.5	-6.1	-2.2	44.4	9.7	3.6	-2.8	3.6	36.7
Schoolcraft	0.8	1.8	0.6	1.1	7.8	3.8	6.8	0.1	4.5	6.9
Shiawassee	1.1	3.4	-1.6	0.8	23.7	4.9	5.5	-1.1	3.6	20.6
Tuscola	2.5	3.6	-6.7	-1.6	39.0	4.8	5.6	-3.1	2.0	33.4
Van Buren	5.3	4.0	-4.7	3.2	13.5	7.5	6.7	1.2	6.4	11.6
Washtenaw	0.8	5.9	-3.2	2.4	5.7	13.6	11.4	6.1	12.3	4.8
Wayne	-0.3	1.5	0.8	0.4	0.2	8.2	7.0	-3.4	7.7	0.2
Wexford	2.2	0.6	-0.1	1.4	13.3	5.6	6.2	0.2	5.1	11.5
STATE	2.1%	4.6%	-3.3%	2.5%	6.1%	9.2%	7.4%	-0.7%	8.0%	4.8%

SOURCE: Calculated by PSC from data provided by State Tax Commission.

figures would be carried on the tax roll for residential property—the actual assessment (50 percent of market value) and the assessment in the base year (1991, for example) plus the annual rate of inflation. The property tax would be calculated on the latter number, assuming that it is lower than that based on the actual assessment, and the state would reimburse local governments for the difference between taxes based on the higher and the lower assessment figures. When the property was sold, the taxpayer would pay the property taxes on the difference between the two assessments, if the market value increased faster than the rate of inflation, and the money would be paid to the state, with at least 70 percent allocated to the state school aid fund. (As indicated above, school taxes account for about 70 percent of property taxes.) If the assessment based on the market value is lower than the base assessment plus inflation there would be no change from current practice. We recommend that the property taxes paid at the time of sale not be eligible for the state property tax credit because eligibility would cause administrative problems. The weaknesses of this system are that it will increase the cost of administering the property tax and create a significant difference in the property liability of new homeowners and those who have owned their home for a number of years. One disadvantage for the taxpayer is that the state property tax credit could not be claimed on the taxes paid at the time of sale. The major advantage is that this system should reduce discontent with the property tax during periods when assessments are rising rapidly and would not result in a permanent revenue loss to state or local governments.

## CONCLUSION

The property tax is Michigan's largest and one of its most stable sources of revenue. However, the tax is very unpopular and is only tolerated when assessments are rising slowly. When assessments are rising rapidly, taxpayer discontent erupts along with public pressure for changes in the tax system. The Michigan situation is made even more volatile by the relatively high burden imposed by property taxes in this state. The existence of one of the most generous state-financed property tax relief programs in the nation is often ignored because of its lack of visibility.

The sharp increase in residential assessment since 1987, 9.2 percent at annual rates, has spawned a new crop of property tax relief proposals. From a tax policy standpoint, the current homestead credit is the best type of relief program, but it does not meet the political test. Something more dramatic is needed in an election year. The Patterson-Anderson proposal may be the answer, if it makes the ballot. The proposal, however, provides only partial protection against assessment increases on residential property and will place a nearly intolerable strain on the state budget.

It may be time to try a new approach and freeze individual residential assessment increases above the rate of inflation until the time of sale. This may be the only affordable way to restore taxpayer confidence in our most important revenue source.