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PUBLIC POLICY ADVISOR

Property Tax Relief Revisited

by Robert Kleine, Vice President and Senior Economist

The legislature and the governor cannot agree on a property tax relief plan, and, as usual, they are leaving the decision to the voters (who have voted down changes in the property tax nine times in the past twenty years). At this point it appears that as many as four proposals could be on the 1992 ballot: the House Democratic plan, the Engler plan, the Headlee plan, and the assessment increase limit initiative passed by the legislature earlier this year. Does this mean that Michigan taxpayers finally are going to get some overdue property tax relief? Which plan(s) would provide the most relief? How would these plans affect state and local government (including school districts)? What would be the effect on business and industry? Is there a better approach? This paper will try to answer these questions.

BACKGROUND

By almost any measure, Michigan has high property taxes. In FY 1989 property taxes were 4.6 percent of personal income, 31.5 percent above the national average and tenth highest among the fifty states (see Exhibit 1). Per capita property taxes were $756, 33 percent above the national average. Although there is no recent data measuring just the residential property tax burden, 1985 data indicate that it is even higher than the overall tax burden because a large amount of property is exempt under the industrial facilities abatement program. A 1989 study of the largest cities in each state by the Government of the District of Columbia finds that Detroit has, by far, the highest residential property tax rate, 19.2 percent above that of the second place city (Milwaukee) and 201 percent above the median.[1] As shown in Exhibit 2, in Michigan the property tax is relied on more heavily for tax revenue than it is in all but eight other states.

Michigan property taxes have jumped 98.4 percent since 1980, compared with an estimated 82 percent rise in personal income. The property tax increase is the result of an 82.7 percent hike in assessments and a 7.7 percent increase in millage rates (from 53.4 mills to an estimated 57.5 mills). The assessment growth since 1980 has been very uneven: Assessments increased at an annual rate of 9 percent from 1980 to 1982, 2.5 percent from 1982 to 1987, and 7.9 percent from 1987 to 1991 (see Exhibit 3). Residential assessments have grown even faster in recent years, rising at an annual rate of 9.2 percent from 1987 to 1991. The sharp jump since 1987 has been concentrated in Oakland and Macomb counties; since 1987 assessments have increased at an annual rate of 12 percent in Oakland County and 10.9 percent in Macomb County.

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1 Department of Finance and Revenue, Government of the District of Columbia, *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*, June 1990.

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EXHIBIT 1

State and Local Property Taxes as a Percentage of Personal Income, FY 1989

Rank	State	Percent	Rank	State	Percent	Rank	State	Percent
1	Alaska	6.62%	18	Arizona	4.09%	34	Pennsylvania	2.89%
2	Wyoming	6.34	19	Minnesota	3.99	35	Maryland	2.85
3	New Hampshire	5.55	20	Kansas	3.94	36	South Carolina	2.76
4	Oregon	5.42	21	Colorado	3.88	37	Mississippi	2.62
5	Montana	5.29	22	Illinois	3.75	38	Nevada	2.32
6	Vermont	4.85	23	Massachusetts	3.59	39	North Carolina	2.28
7	New York	4.83		**United States**	**3.52**	40	Tennessee	2.16
8	New Jersey	4.81	24	Utah	3.48	41	Missouri	2.06
9	Nebraska	4.75	25	North Dakota	3.40	42	Hawaii	2.03
10	**MICHIGAN**	**4.63**	26	Florida	3.40	43	West Virginia	2.00
11	Wisconsin	4.58	27	Washington	3.37	44	Oklahoma	2.00
12	Maine	4.46	28	Indiana	3.24	45	Louisiana	1.96
13	Rhode Island	4.38	29	Virginia	3.10	46	Kentucky	1.78
14	Connecticut	4.36	30	Ohio	3.09	47	Arkansas	1.73
15	South Dakota	4.28	31	Idaho	3.08	48	Delaware	1.60
16	Iowa	4.26	32	California	2.97	49	New Mexico	1.46
17	Texas	4.24	33	Georgia	2.95	50	Alabama	1.16

SOURCE: U.S. Department of Commerce, *Government Finances 1988–89*.

EXHIBIT 2

Percentage of State and Local Tax Revenues Raised from Each of the Major Taxes, FY 1989 (ranked in order of reliance on the property tax)

State	Property	Sales	Income	State	Property	Sales	Income
Alaska	81%	19%	0%	Minnesota	34%	36%	30%
New Hampshire	79	18	2	Indiana	33	41	26
Wyoming	63	37	0	Virginia	33	35	32
Montana	55	18	27	Pennsylvania	33	38	29
Oregon	50	10	39	Idaho	31	41	28
New Jersey	50	33	17	Ohio	31	36	33
Connecticut	48	45	7	Washington	31	69	0
South Dakota	46	54	0	California	30	39	31
MICHIGAN	**45**	**28**	**27**	Georgia	30	42	28
Nebraska	45	36	19	Maryland	28	30	42
Texas	45	55	0	Mississippi	28	57	15
Vermont	44	33	23	South Carolina	27	45	28
Rhode Island	42	33	24	Tennessee	27	72	1
Kansas	41	37	22	Nevada	25	75	0
Iowa	40	33	27	Missouri	24	48	28
Wisconsin	39	32	29	North Carolina	24	42	34
Illinois	39	43	18	West Virginia	23	52	25
Maine	38	36	26	Delaware	23	20	57
Colorado	38	38	23	Oklahoma	22	53	24
Florida	38	62	0	Louisiana	21	65	14
North Dakota	37	50	13	Arkansas	20	53	27
Massachusetts	37	26	36	Kentucky	20	46	33
Arizona	36	49	15	Hawaii	15	55	30
New York	35	31	34	New Mexico	15	67	18
United States	**35**	**41**	**24**	Alabama	14	60	26
Utah	34	47	19				

SOURCE: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism*, vol. 2, 1990.

EXHIBIT 3

Michigan Property Tax Assessments, Rates and Collections, 1980–91

Year	Assessments (millions)	Percentage Change	Residential Assessments	Percentage Change	Property Tax Millage Rate	Tax Collections (millions)	Percentage Change
1980	$82,581	13.9%	$46,669	16.8%	53.4	$4,411	13.4%
1981	91,799	11.2	53,018	13.6	53.4	4,898	11.0
1982	98,139	6.9	57,491	8.4	52.7	5,173	5.6
1983	98,303	0.2	56,978	–0.9	52.8	5,187	0.3
1984	100,152	1.9	58,003	1.8	53.7	5,374	3.6
1985	102,685	2.5	59,070	1.8	54.5	5,593	4.1
1986	106,155	3.4	60,682	2.7	55.1	5,851	4.6
1987	111,038	4.6	63,703	5.0	56.0	6,215	6.2
1988	119,014	7.2	68,852	8.1	56.8	6,761	8.8
1989	128,813	8.2	75,467	9.6	57.4	7,391	9.3
1990	140,171	8.8	82,928	9.9	57.17	7,998	8.2
1991	150,859	7.6	90,600	9.3	57.5 (est.)	8,674 (est.)	8.5 (est.)

SOURCE: Michigan State Tax Commission.

DESCRIPTION OF THE PLANS

House Democratic Plan

This initiative, put forward by the House Democrats, will be on the 1992 ballot if the required number of signatures is collected.

- The first $30,000 of a home's market value ($15,000 of state equalized valuation, or SEV) would be exempt from all local school operating taxes. The maximum allowable reduction would be 50 percent. This exemption would be indexed to the rate of inflation.

- School districts would be fully reimbursed for the revenue loss.

- The current homestead property tax credit would be modified to provide additional relief for renters, low-income senior citizens, and homeowners and renters with disabilities, and the maximum credit would be raised from $1,200 to $1,500. These provisions would cost about $80 million, of which about $50 million is the cost of raising the maximum credit.

- The state constitution would be amended to provide that homestead assessment increases be limited to the rate of inflation. Upon sale of a home, its assessment would be set at 50 percent of market value, indexed annually for inflation until the next sale.

- 1992 assessments, except for new construction and personal property, would be frozen at the 1991 level.

- The alternative profits tax rate levied under the single business tax (SBT) would be reduced by 50 percent, providing relief for small business.

- To fund this tax relief, the SBT capital acquisition deduction (CAD) would be repealed; also, industrial tax abatements would be eliminated for school millage purposes. Funds also would be raised by eliminating some state contracts with private sector vendors.

Engler Plan

Under this plan, also an initiative, school operating taxes would be reduced by 30 percent over a five-year period, beginning with a 10 percent reduction in 1993. Increases in property tax assessments for every parcel of property (residential and business) would be constitutionally limited to 3 percent or the rate of inflation, whichever is less. Reimbursement to school districts for the 30 percent reduction would be guaranteed. There is no special relief for senior citizens or renters, although the legislature could pass separate bills for this purpose.

Headlee Plan

This is the simplest of the proposals. It also is an initiative but so far has failed to win a place on the ballot because the Board of Canvassers ruled that an insufficient number of valid petition signatures had been collected in the allowed time. This ruling has been appealed to the courts, and recently, the court ordered the board to check a larger sample of signatures. Under this proposal the property assessment ratio would be reduced from the current level of 50 percent of market value to 45 percent in the first year and 40 percent in the second year, a 20 percent reduction. The state would be required to reimburse local taxing authorities for the lost revenue.

Legislative Tax Freeze and Limit

The legislature passed and the governor signed legislation freezing 1992 property tax assessments at 1991 levels, with no reimbursement to locals for revenue lost. Also enacted was legislation placing on the 1992 ballot a proposal to limit future assessment increases on all residential parcels to 5 percent or the rate of inflation, whichever is less.

ANALYSES OF THE PLANS AND THE 1992 TAX FREEZE

Fiscal Effect

In the first four years the most expensive of the plans would be the Headlee tax cut. It would reduce property taxes by an estimated $980 million in the first year (1993) and $2.1 billion in the second year. (This assumes an annual increase in assessments of 6 percent and that the loss in revenue from the 1992 freeze can be made up in 1993, which may not be the case because of the 1978 constitutional amendment limiting assessment increases to the rate of inflation unless overridden by the voters.) The net cost would be an estimated $700 million in the first year and $1.5 billion in the second.

The Democratic tax plan would provide about $1.2 billion in tax relief. The net cost after homestead tax credit savings of $325 million would be an estimated $910 million annually.

The Engler plan would reduce property taxes by $631 million in year one and by $2.8 billion when fully implemented in year five. The net cost after property tax credit savings is an estimated $500 million in year one and $2.3 billion in year five.

The tax freeze now in place will reduce property taxes by about $350 million in 1992, assuming assessed values would have increased about 6.5 percent, of which 2 percent would be on new property and improvements (personal property is not subject to the freeze). The state school aid fund will reimburse in-formula school districts at a cost of about $160 million. Out-of-formula districts (which raise more money locally than the amount guaranteed to districts by the school aid formula and therefore receive no state grant) will lose about $85 million in revenue, and other local government taxing authorities will lose about $105 million.

The cost of the tax limit would vary from year to year depending on increases in inflation and assessments. From 1981 to 1991 overall property assessments increased at an annual rate of 5.1 percent, residential assessments went up 5.5 percent, and inflation rose 3.7 percent annually. In an average year the cost would be minimal, assuming new and improved property increases of 1.5 to 2 percent annually. However, in years in which assessments are significantly greater than inflation, the cost would be substantial. Based on 1991 assessments, each one percent reduction is worth about $150 million.

Effect on Taxpayers

How one is affected by the various tax proposals depends on age, income, federal tax bracket, total and school millage rates, value of home, and assessment growth. Exhibits 4–6 present examples of the amount

EXHIBIT 4

Effect of the Tax Plans on a Middle-Income Homeowner, Selected Millage Rates, 1992–97

Plan	1992[a]	1993[a]	1994[a]	1995[a]	1996[a]	1997[a]
Example 1: School Mills = 42 Total Mills = 70						
Tax Freeze/Limit	$159/$54	$205/$70	$254/$86	$308/$105	$366/$125	$429/$146
Engler	0/0	191/65	328/112	475/162	632/215	800/272
House Democratic	0/0	667/227	732/249	802/273	878/298	958/326
Headlee	0/0	258/88	545/185	575/196	607/206	640/218
Example 2: School Mills = 36 Total Mills = 58						
Tax Freeze/Limit	132/45	170/58	211/72	255/87	303/103	356/121
Engler	0/0	181/61	306/104	441/150	585/199	738/251
House Democratic	0/0	570/194	625/213	684/233	747/254	815/277
Headlee	0/0	214/73	452/154	477/162	503/171	531/180
Example 3: School Mills = 28 Total Mills = 48						
Tax Freeze/Limit	109/37	140/48	174/59	211/72	251/85	294/100
Engler	0/0	143/49	244/83	351/119	466/158	589/200
House Democratic	0/0	445/151	490/166	537/183	588/200	643/224
Headlee	0/0	177/60	374/127	395/134	416/142	439/149

ASSUMPTIONS: Income (1992) = $35,000; home value (1992) = $70,000; federal tax bracket = 15 percent; SEV growth = 6.5 percent in 1992 (if not frozen) and 5.5 percent thereafter (if not limited); income growth = 5 percent; inflation = 4 percent.

[a]The first figure is the property tax cut; the second is the net tax cut.

SOURCE: Calculations by Public Sector Consultants, Inc.

EXHIBIT 5

Effect of the Tax Plans on a High-Income Homeowner, Selected Millage Rates, 1992–97

Plan	1992[a]	1993[a]	1994[a]	1995[a]	1996[a]	1997[a]
Example 1: School Mills = 42 Total Mills = 70						
Tax Freeze/Limit	$455/$305	$585/$392	$726/$487	$880/$590	$1,046/$701	$1,227/$822
Engler	0/0	608/407	1,033/1,692	1,488/997	1,975/1,323	2,494/1,671
House Democratic	0/0	735/492	875/586	1,027/688	1,191/798	1,369/917
Headlee	0/0	739/495	1,558/1,044	1,644/1,101	1,734/1,162	1,830/1,226
Example 2: School Mills = 36 Total Mills = 58						
Tax Freeze/Limit	377/253	485/325	602/403	729/488	867/581	1,017/681
Engler	0/0	516/346	875/586	1,260/844	1,670/1,119	2,109/1,413
House Democratic	0/0	627/420	744/498	870/583	1,007/675	1,156/774
Headlee	0/0	612/410	1,291/865	1,362/913	1,437/963	1,516/1,016
Example 3: School Mills = 28 Total Mills = 48						
Tax Freeze/Limit	312/209	401/269	498/334	603/404	718/481	841/564
Engler	0/0	408/274	696/466	1,003/672	1,332/892	1,683/1,127
House Democratic	0/0	492/330	588/394	691/463	803/538	925/620
Headlee	0/0	506/339	1,069/716	1,127/755	1,189/797	1,255/841

ASSUMPTIONS: Income (1992) = $100,000; home value (1992) = $200,000; federal tax bracket = 33 percent; SEV growth = 6.5 percent in 1992 (if not frozen) and 5.5 percent thereafter (if not limited); income growth = 5 percent; inflation = 4 percent.

[a]The first figure is the property tax cut; the second is the net tax cut.

SOURCE: Calculations by Public Sector Consultants, Inc.

of property tax relief that would be realized by middle-income, high-income, and senior citizen households under each plan; it is assumed that household income, home value, and federal income tax bracket differ for each, but SEV growth, income growth, and inflation are the same. The gross amount of relief is shown as well as the net after state property tax credits are lost and federal income tax deductions are considered. (Note: These examples will overstate relief for households in slow-growth localities and understate relief for households in fast-growth areas.)

Several conclusions may be drawn from the examples.

- Only the assessment freeze, which already is in place, provides relief in 1992.
- Middle-income homeowners and senior citizens would receive the most relief from the House Democratic plan, particularly the first year. Relief under the Engler plan would not approach that provided by the Democratic plan until 1997, when the former is fully phased in.
- High-income taxpayers would benefit significantly more from the Engler and Headlee plans than from the Democratic plan. Although the Headlee plan would provide more relief to high-income taxpayers in the early years, it would be surpassed by the Engler plan in 1996, mainly because of the 3 percent cap on assessments; both would reduce property tax about 20 percent when fully phased

in. One reason high-income taxpayers would receive more relief than others under the Headlee and Engler plans is that households earning more than about $84,000 are not eligible for the homestead tax credit.

- Most senior citizens would receive more relief under the Democratic plan, mainly due to the $300 increase in the maximum allowable credit under the current state homestead credit program.

In some cases, however, senior citizens would receive no additional relief because they lose one dollar of state credit for every one-dollar reduction in property taxes unless constrained by the current $1,200 credit limit. In the examples in Exhibit 6, seniors would receive some tax relief because they are affected by the $1,200 limit. To illustrate, a senior household paying 48 mills currently receives a state credit of $1,100. The Headlee plan would provide a 10 percent or $180 reduction in 1993, but at the same time, the state credit would fall by $180 to $920, for net relief of zero. A senior in the same circumstances but paying 70 mills would be eligible, if not for the limit, for a credit of $1,925. In this case, the Headlee plan would provide relief of $277, and there would be no loss of the state tax credit because the reduction in taxes still would leave this taxpayer above the maximum credit.

EXHIBIT 6

Effect of the Tax Plans on a Senior Citizen Household, Selected Millage Rates, 1992–97

Plan	1992[a]	1993[a]	1994[a]	1995[a]	1996[a]	1997[a]
Example 1: School Mills = 42 Total Mills = 70						
Tax Freeze/Limit	$171/$171	$219/$219	$272/$272	$330/$330	$392/$392	$460/$460
Engler	0/0	228/228	387/387	558/558	741/741	935/935
House Democratic	0/0	834/834	950/950	1,072/1,072	1,190/1,190	1,274/1,274
Headlee	0/0	277/277	584/584	616/616	650/650	686/686
Example 2: School Mills = 36 Total Mills = 58						
Tax Freeze/Limit	141/141	182/182	226/226	273/273	325/325	381/381
Engler	0/0	193/193	328/328	472/472	626/626	749/749
House Democratic	0/0	573/360	630/448	691/544	757/643	828/747
Headlee	0/0	229/229	484/484	511/511	539/539	569/569
Example 3: School Mills = 28 Total Mills = 48						
Tax Freeze/Limit	117/17	150/87	187/162	226/226	269/269	315/315
Engler	0/0	153/0	261/31	376/104	499/179	631/260
House Democratic	0/0	447/87	493/162	543/241	597/324	654/412
Headlee	0/0	190/0	401/32	423/136	446/179	471/260

ASSUMPTIONS: Income (1992) = $20,000; home value (1992) = $75,000; federal tax bracket = 0; SEV growth = 6.5 percent in 1992 (if not frozen) and 5.5 percent thereafter (if not limited); income growth = 5 percent; inflation = 4 percent.

[a]The first figure is the property tax cut; the second is the net tax cut.

SOURCE: Calculations by Public Sector Consultants, Inc.

CONCERNS AND COMMENTS

The property tax is the largest government revenue source in Michigan, and any significant change in the tax must be examined in light of its several effects.

- Each current proposal has the advantage of reducing the high property tax burden in Michigan. The Engler and Democratic plans both reduce *and* limit property taxes. The Headlee plan places no limit on future increases, and the legislative freeze/limit does not reduce the current level of property taxes. As discussed above, the distributional effects of the plans vary considerably.

- The Engler and Headlee reductions provide more relief to high-income home and business owners than to others. The Democratic plan gives more relief to low- and middle-income homeowners and no significant relief to business. The tax freeze/limit favors homeowners and businesses in high-growth areas, generally the more affluent communities such as the Oakland County suburbs.

- Under any of the plans, senior citizens and renters (27 percent of the population) generally would receive less relief than other groups. Seniors are difficult to assist because they already receive so much relief (about $675 per household), and they would lose one dollar in homestead tax credit for every one-dollar reduction in property taxes. The Democratic plan would provide special relief for each group, but the relief is relatively small. The largest benefit to seniors would be the $300 increase in the maximum homestead tax credit, which has not been raised since 1976. The Engler plan would not provide specific special relief for renters and seniors, but the governor could support passage of such legislation. The Headlee and the tax freeze/limit plans would provide no special relief for seniors or renters, so only a few seniors (about 10 percent) would benefit: those currently not claiming the homestead credit and those restrained by the maximum credit limit.

- Local taxing authorities have a great deal at stake in these plans. They would be fully reimbursed for lost revenue under the Headlee and Engler plans. Under the Democratic plan only school districts would be affected, and they would be reimbursed, although there are no guarantees except for in-formula school districts. There would be no reimbursement under the tax freeze/limit except, again, for in-formula school districts. The state already owes local governments $400 million in FY 1993 as settlement of the Section 30 court case (*Oakland County* v. *Michigan Department of Mental Health*), and this may be the only money local governments receive as reimbursement for property taxes. In addition, revenue sharing payments are being frozen in FY 1992, already costing local governments another $45 million. Local governments clearly will feel the need to raise millage rates. *Given the serious fiscal problems already facing locals, we believe that if a relief plan passes there will be an urgent need for revisions in the current state revenue sharing formulas, which have not been appreciably changed in twenty years.*

- The business community has strong feelings about the various plans. The Headlee and Engler plans provide significant relief for business. The tax freeze now in place will benefit business and so would the limitation. The Democratic plan includes no relief for business other than a slight reduction in the SBT for small businesses, and, in fact, would raise overall business taxes by an estimated $615 million by eliminating the capital acquisition deduction in the SBT and by eliminating industrial property tax abatements insofar as school millage is concerned. The share of taxes paid by business declined in the 1970s but has remained at about 35 percent since 1980. A large tax increase on business certainly would not help the business climate. *Our view is that property tax abatements* *should be eliminated; the CAD retained, as it is an integral part of the SBT; and personal property taxes reduced by about 20 percent, or $200 million.*

- None of the proposals helps school districts constrained by the constitutional fifty-mill limit. *We favor providing property tax relief by reducing school millage rates over a five- to ten-year period and placing an upper limit on school rates at least 20 percent below the current level. This has two major advantages: (1) Other local property taxing authorities would not be affected, and (2) the assessment process would not be changed, which would eliminate such administrative problems as the need to carry two assessments on tax bills.*

- Tax limits in three of the proposals would create an inequity. Homeowners in fast-growing areas would benefit from tax relief (and capital gains), while those in slow-growing areas, particularly central cities, would receive little benefit. Also, home assessments would differ, depending on when purchased. Similar homes side by side could have substantially different assessments although the owners would be receiving the same services. This is decidedly unfair. *A better approach would be to temporarily abate assessment increases in excess of the rate of inflation but require that the abated taxes be repaid at the time of sale. This would provide a cash flow advantage to the taxpayer but not treat new homeowners unfairly as do the current proposals.*

- The state already has an excellent property tax relief program—the homestead property tax credit. It is the fairest, most efficient way to provide property tax relief (although it may have the disadvantage of encouraging local tax increases by reducing the price the taxpayer pays for services). Unfortunately, this credit lacks visibility, and all efforts to revise it to increase its visibility by showing relief directly on the homeowner's tax notice have failed. *There is a clear political need to provide direct, additional broad-based property tax relief, but the homestead credit should continue to be the primary method of providing tax relief to low- and middle-income homeowners and renters.*

- As we have stated in other publications, these proposals all likely would impede the effort to reform K–12 financing because they would expend dollars on property tax relief that could be used to help reduce the disparities in resources among districts. In fact, they could exacerbate the disparities because a reduction in taxes would make it easier for wealthier districts to raise millage rates. Increases are more likely in wealthier districts with low millage rates than in poorer in-formula districts with higher rates; moreover, wealthier districts historically have been more supportive of millage increases. The best we are likely in see in school finance reform for some time is the tax base sharing plan just passed by the legislature and awaiting the governor's signature.

- None of the plans likely would stimulate economic growth. All things being equal, a reduction in the cost of doing business and an increase in consumer disposable income should have a positive effect on the economy. However, this cannot be determined without considering how the relief would be financed. Reducing state and local expenditures to finance property tax relief would take money out of the state economy and largely offset the economic benefit of the tax cut. If the reduction in government spending were to come out of infrastructure spending—which is an important factor in economic growth—the long-term economic effect could be negative. Financing the tax cut by raising taxes on business, as proposed in the Democratic plan, may provide equity, but the effect on the business climate likely would be negative.

Generally, tax cuts at the state and local level have little economic effect unless financed by reducing inefficient or wasteful spending, which allows the funds to be put to more productive use by the private sector.

- Finally, there is the question of the effect on the state budget. In this regard, the Democratic plan is the most responsible in that it provides for offsetting revenues. The tax limit would increase school aid costs, but most would be borne by local governments. Both the Headlee and Engler plans would impose heavy costs on the state budget. The Headlee initiative requires that the state fully reimburse local governments for the tax reduction; the $1.5 billion cost in 1994 represents nearly 20 percent of the state general fund/general purpose budget. The Engler plan proposes to finance the tax relief by using 50 percent of state revenue growth, assumed to be 5 percent. This would permit the state budget to increase only about 2.5 percent annually, well below the expected inflation rate of 4 to 4.5 percent. In addition, the budget already has a structural deficit of about $750 million; that is, permanent revenues are that far below permanent expenditures. A recent House Fiscal Agency report (*Investment Budgeting: Moving Back to Michigan's Future,* August 16, 1991) estimates that the Engler plan, when fully phased in, would require that the state budget be reduced 25 percent from current service levels. (Of course, the legislature always has the option of raising taxes.)

CONCLUSION

There clearly is a need to reduce the property tax burden in Michigan. Politically, the current proposals all are attractive, although the Democratic proposal will lose some support because it proposes to increase taxes on business. *Our view, however, is that the voters should reject all four plans.*

There are several reasons for opposing all four proposals. First, the Headlee and Engler plans could create a fiscal crisis, particularly if the economy continues to be sluggish. The resulting sharp cuts in public services and the continued failure to invest in infrastructure would damage the state's business climate. Second, assessment caps create inequities because identical homes can be assessed at significantly different amounts. Third, although the House Democratic plan has a number of strong points, its large tax increase on—and the absence of property tax relief for—business could hurt the business climate. Fourth, it is the job of the legislature and governor to decide and enact policy; it should not be shifted to the voters. The elected officials are abdicating responsibility and looking to be held blameless if there is no tax relief because none of the plans is approved. (If all four are on the ballot, voters may become confused and vote no on all four despite their desire for property tax relief.)

We favor a gradual reduction in school millage rates and a temporary forgiveness in assessment increases. We also believe that property tax relief should be tied to school finance reform, and any tax relief should be financed by a combination of modest budget cuts, tax increases (such as extension of the sales tax to services), and elimination of certain tax expenditures (such as industrial tax abatements).

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