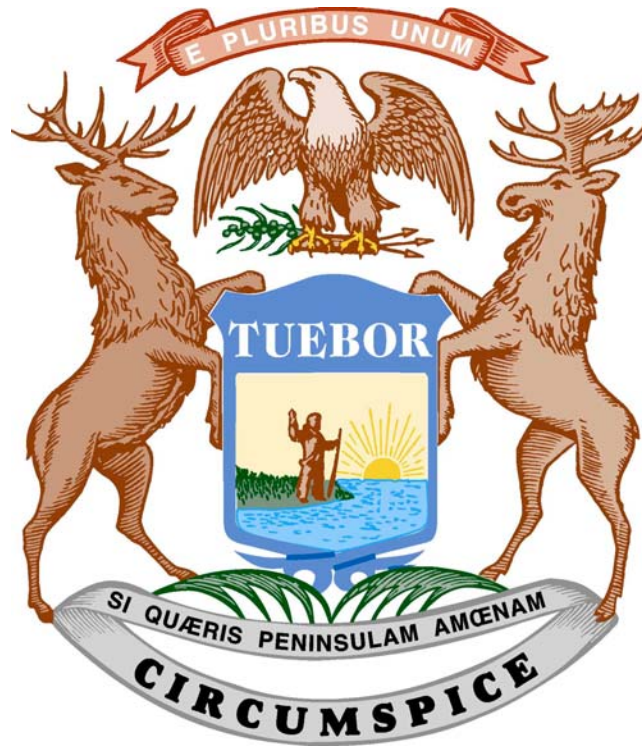


# **The Michigan Property Tax Real and Personal, 2003**



**Michigan Department of Treasury  
Office of Revenue and Tax Analysis  
May 2005**

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## **EXECUTIVE SUMMARY**

### **Property Taxes**

- Michigan taxpayers paid \$11.03 billion in state and local property taxes in 2002.
- Residential property comprised 66.5 percent of 2003 statewide taxable value, commercial property (real and personal) accounted for 17.5 percent and industrial property was 10.7 percent of the total.
- The 5 largest counties in Michigan (Oakland, Wayne, Macomb, Kent and Washtenaw) with respect to taxable value, comprised 52.5 percent of the 2003 statewide total.
- The 2002 statewide average millage rate for all property (homestead and nonhomestead) was 40.17 mills. The 2002 statewide average homestead rate equaled 32.60 mills, and the nonhomestead rate averaged 51.00 mills.
- Major property tax reform took place with the passage of school finance reform (Proposal A) in March 1994. Proposal A cut property taxes nearly 30 percent in 1994 and capped future taxable value increases to the rate of inflation.
- The 2002 statewide average homestead millage rate was 24.04 mills below the 1993 all property millage rate average; the nonhomestead millage rate fell 5.64 mills compared with the 1993 all property millage rate.
- The taxable value cap saved taxpayers an estimated \$2.8 billion in calendar year (CY) 2002. In 2003, statewide taxable value was \$81.2 billion (22.0 percent) less than state equalized value (SEV). The difference between agricultural SEV and taxable value was 44.6 percent, or more than twice that for all property.
- Between 1994 and 2002 local school operating taxes' share of the property tax levy declined while local school debt taxes' share rose sharply from 6.8 percent to 11.2 percent.

### **Personal Property**

- Personal property made up 9.9 percent of 2003 Michigan taxable value. Industrial property accounted for 38.6 percent of personal property taxable value; commercial property, 37.3 percent and utility property 24.1 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.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> In addition, many local units levy special assessments on real property for specific public purposes, typically police and fire protection.<sup>4</sup>

In 1994, Michigan voters approved sweeping property tax reform as part of school finance reform. This is referred to as 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. Proposal A also reduced differences in school operating millage rates across school districts.

As for the property tax rate, Proposal A divided property into two groups: homestead property (property used as a principal residence) along with qualified agricultural property, and

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<sup>1</sup>Excluding additions and new construction.

<sup>2</sup>Specific 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.

<sup>3</sup>Public Act 282 of 1905 (MCL 201.1 - 201.21). In 2002, the State utility tax levy totaled \$137.3 million.

<sup>4</sup>Ad valorem 2002 special assessments levied unit-wide totaled \$80.6 million.



nonhomestead property (e.g., rental housing, second homes, and business property).<sup>5,6</sup> 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.<sup>7</sup>

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.

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 and income tax cuts, 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 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

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<sup>5</sup>As 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.”

<sup>6</sup>As 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.

<sup>7</sup>Beginning 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.

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.

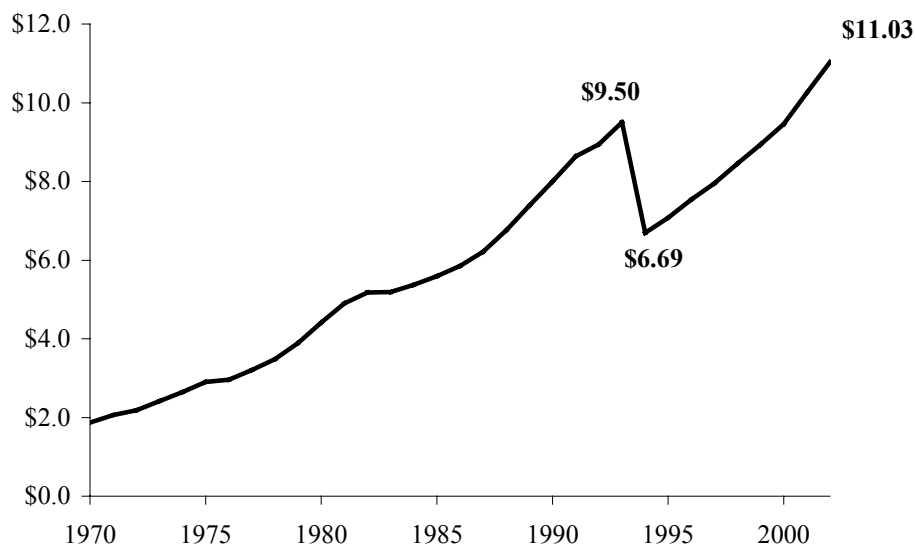
Section 7 examines changes in property tax millage rates across time and compares millage rates across counties. Section 8 briefly examines the taxable value cap and its impact on the property tax levy. Section 9 discusses the personal property tax, including interstate comparisons of personal property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

## 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 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 2002, property taxes rose 7.6 percent, slightly slower than 2001. The 2002 statewide property tax levy was \$11.0 billion, \$1.5 billion above the 1993 property tax levy.<sup>8</sup> (See Exhibit 1.)

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



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

<sup>8</sup> The property tax values are based on the STC report 2002 Ad Valorem Property Tax Levy Report. Regarding taxable values, 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**

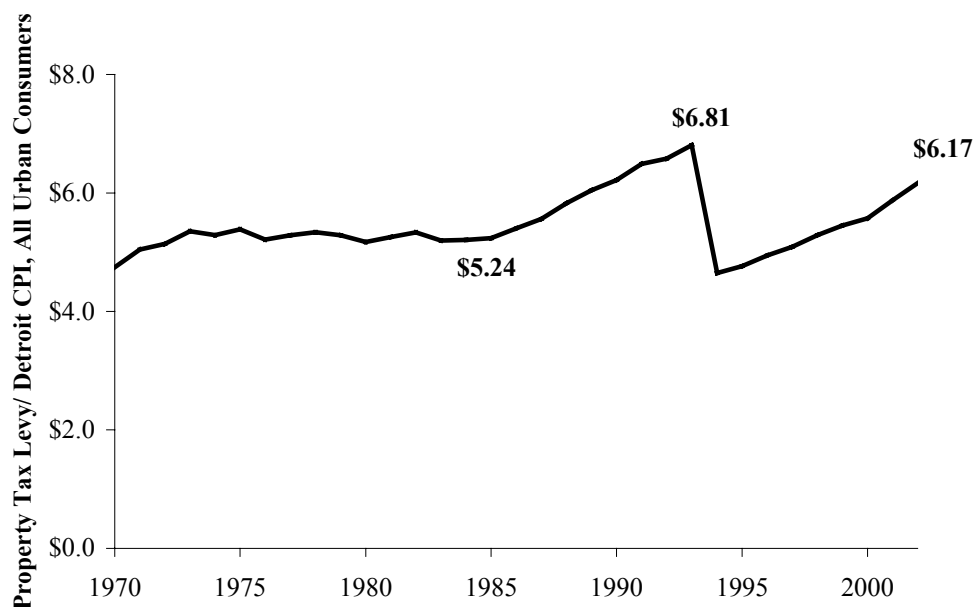
<b>Year</b>	<b>Tax Levy</b>		<b>Inflation Adjusted Property Tax Levy</b>		<b>Property Taxes as Percent of Personal Income</b>	
	<b>Amount (Millions)</b>	<b>Percent Change</b>	<b>Amount (Millions)</b>	<b>Percent Change</b>	<b>Ratio</b>	<b>Percent Point Change</b>
1970	\$1,874.3	12.9 %	\$4,745.0	6.3 %	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	4.4	0.1
1980	4,411.4	13.4	5,171.6	-2.1	4.6	0.2
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	4.9	0.1
1983	5,187.3	0.3	5,197.7	-2.5	4.7	-0.2
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	4.6	-0.2
1993	9,500.6	6.3	6,805.6	3.4	4.7	0.1
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	3.2	0.0
2001	10,250.9	8.3	5,877.8	5.5	3.5	0.3
2002	11,033.3	7.6	6,167.3	4.9	3.7	0.2
	<b>Change</b>	<b>Percent Change</b>	<b>Change</b>	<b>Percent Change</b>	<b>Change</b>	<b>Percent Point Change</b>
1970-1979	2,015.1	107.5 %	539.4	11.4 %	-0.6	4.4 %
1980-1989	2,979.8	67.5	871.8	16.9	-0.2	-0.2
1990-1999	934.9	11.7	-769.2	-12.4	-1.3	-1.3
1995-2002	3,952.2	55.8	1,402.1	29.4	0.6	19.4

Sources: State Tax Commission and Tax Analysis Division, 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 value and tax rate growth coupled with low inflation has increased inflation-adjusted property taxes over the past six years. In 2002, inflation-adjusted property taxes equaled approximately their late-1980s levels. (See Exhibit 3.)

**Exhibit 3**  
**Inflation-Adjusted Property Taxes Near late-1980s Level**  
**Billions**

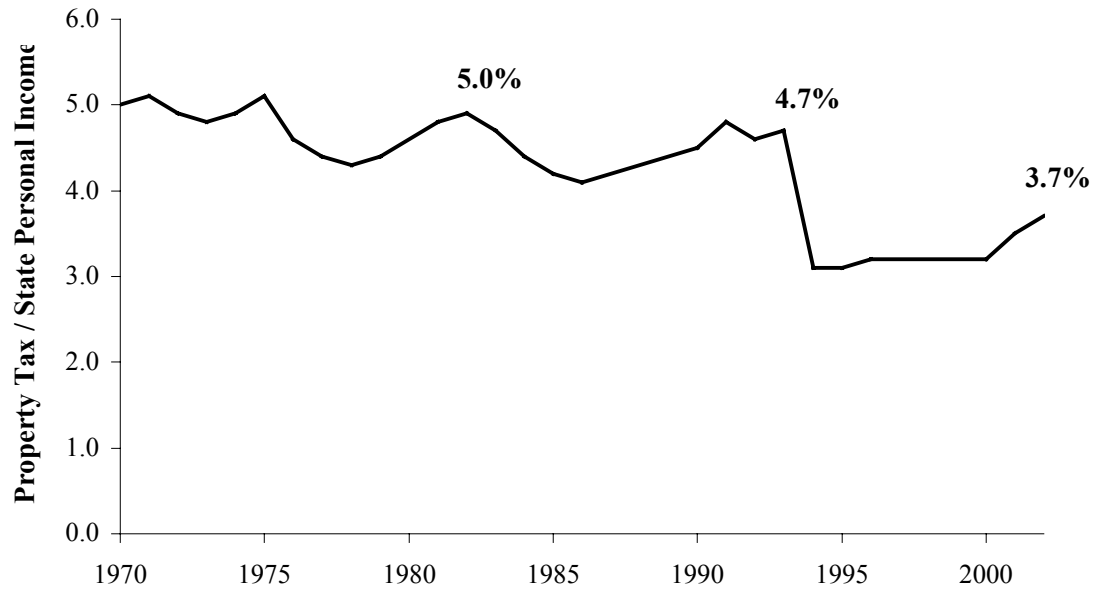


Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury, and Bureau of Labor Statistics, U.S. Department of Labor.

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. In 2002, property taxes' share of personal income has risen to 3.7 percent of personal income, still well below the level before Proposal A. (See Exhibit 4.)

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



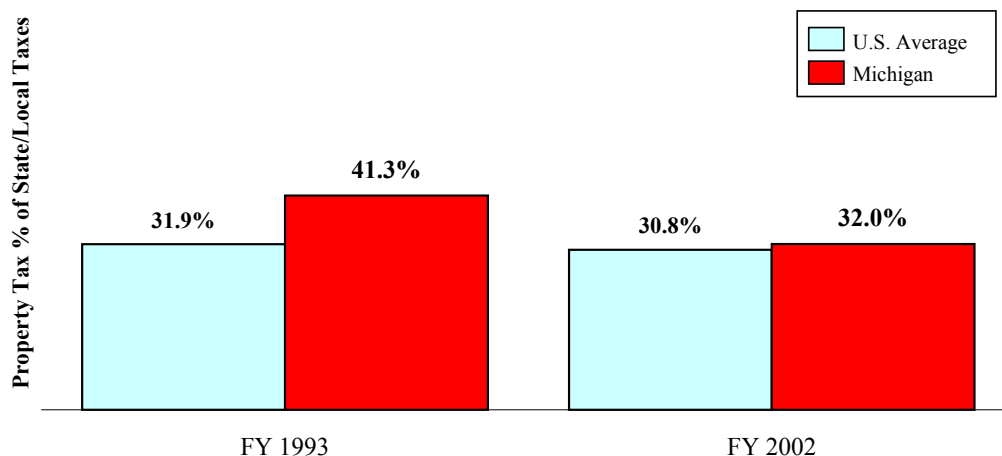
Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury, and Bureau of Economic Analysis, U.S. Department of Commerce.

## SECTION 2: INTERSTATE PROPERTY TAX LEVY COMPARISONS

Proposal A reduced Michigan's property tax burden compared to other states. Prior to Proposal A, Michigan had one of the highest property tax burdens in the United States. Please see the Michigan Department of Treasury report: 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 2002 Michigan property taxes as a percent of personal income (3.28 percent) were only slightly above the national average of 3.17 percent.<sup>9</sup> Among the 50 U.S. states in FY 2002, Michigan ranked 18<sup>th</sup> (see Exhibit 6).

Proposal A tax changes also reduced Michigan governments' overall reliance upon property taxes. Further, a strong economy through 2000 helped boost growth in these 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 20.6 percent (slightly above the national average) between FY 1993 and FY 2002. 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 32.0 percent (1.2 percentage points above the U.S. average). (See Exhibit 5.)

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



<sup>9</sup> FY 2002 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. The above figures represent FY 2002 property taxes (U.S. Census) divided by FY 2002 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).

**Exhibit 6**  
**State and Local Property Tax Burden for FY 2002**  
**Per Person and Percent of Personal Income**

<u>State</u>	<u>FY 2002 State &amp; Local Property Taxes (thousands)</u>	<u>2002 Population</u>	<u>FY 2002 State &amp; Local Property Taxes Per Person</u>	<u>Rank</u>	<u>FY 2002 Personal Income (thousands)</u>	<u>FY 2002 Property Tax Revenue as a % of Income</u>	<u>Rank</u>
Alabama	\$1,473,554	4,478,896	\$329	50	\$113,613,750	1.30%	50
Alaska	\$830,011	641,482	\$1,294	10	20,593,000	4.03%	8
Arizona	\$4,254,395	5,441,125	\$782	33	140,813,250	3.02%	26
Arkansas	\$1,002,578	2,706,268	\$370	49	62,914,750	1.59%	48
California	\$30,234,148	35,001,986	\$864	30	1,141,410,250	2.65%	35
Colorado	\$4,162,161	4,501,051	\$925	25	150,844,500	2.76%	33
Connecticut	\$5,995,482	3,458,587	\$1,734	2	146,083,250	4.10%	7
Delaware	\$399,939	805,945	\$496	43	25,563,500	1.56%	49
Florida	\$15,754,214	16,691,701	\$944	21	487,157,250	3.23%	22
Georgia	\$6,640,041	8,544,005	\$777	34	243,363,000	2.73%	34
Hawaii	\$614,930	1,240,663	\$496	44	36,098,500	1.70%	45
Idaho	\$958,763	1,343,124	\$714	36	33,526,750	2.86%	30
Illinois	\$15,872,667	12,586,447	\$1,261	11	412,917,000	3.84%	12
Indiana	\$5,976,203	6,156,913	\$971	19	170,236,500	3.51%	15
Iowa	\$2,877,921	2,935,840	\$980	17	81,254,000	3.54%	14
Kansas	\$2,524,888	2,711,769	\$931	24	77,753,250	3.25%	20
Kentucky	\$1,977,011	4,089,822	\$483	45	102,826,750	1.92%	43
Louisiana	\$1,940,420	4,476,192	\$433	46	111,544,500	1.74%	44
Maine	\$1,912,158	1,294,894	\$1,477	4	35,580,750	5.37%	1
Maryland	\$5,412,209	5,450,525	\$993	16	194,391,750	2.78%	32
Massachusetts	\$8,721,832	6,421,800	\$1,358	8	249,631,000	3.49%	17
<b>Michigan</b>	<b>\$9,793,418</b>	<b>10,043,221</b>	<b>\$975</b>	<b>18</b>	<b>298,152,500</b>	<b>3.28%</b>	<b>18</b>
Minnesota	\$5,214,735	5,024,791	\$1,038	14	164,753,750	3.17%	24
Mississippi	\$1,646,563	2,866,733	\$574	41	63,682,500	2.59%	37
Missouri	\$3,880,344	5,669,544	\$684	37	159,533,750	2.43%	39
Montana	\$852,399	910,372	\$936	22	22,227,000	3.83%	13
Nebraska	\$1,748,841	1,727,564	\$1,012	15	49,844,000	3.51%	16
Nevada	\$1,702,186	2,167,455	\$785	32	64,753,250	2.63%	36
New Hampshire	\$2,169,494	1,274,405	\$1,702	3	42,851,750	5.06%	2
New Jersey	\$16,049,550	8,575,252	\$1,872	1	335,838,250	4.78%	3
New Mexico	\$755,948	1,852,044	\$408	48	45,054,250	1.68%	46
New York	\$26,825,697	19,134,293	\$1,402	5	679,412,250	3.95%	10
North Carolina	\$5,421,740	8,305,820	\$653	38	227,909,000	2.38%	40
North Dakota	\$532,340	633,911	\$840	31	16,726,750	3.18%	23
Ohio	\$10,643,420	11,408,699	\$933	23	328,865,000	3.24%	21
Oklahoma	\$1,482,139	3,489,700	\$425	47	89,460,250	1.66%	47
Oregon	\$3,138,875	3,520,355	\$892	27	100,005,250	3.14%	25
Pennsylvania	\$10,910,756	12,328,827	\$885	28	378,224,000	2.88%	29
Rhode Island	\$1,462,064	1,068,326	\$1,369	7	32,389,250	4.51%	6
South Carolina	\$3,096,431	4,103,770	\$755	35	103,231,500	3.00%	27
South Dakota	\$668,048	760,437	\$879	29	20,393,250	3.28%	19
Tennessee	\$3,453,047	5,789,796	\$596	40	157,248,250	2.20%	41
Texas	\$24,520,989	21,736,925	\$1,128	13	626,484,667	3.91%	11
Utah	\$1,419,769	2,318,789	\$612	39	56,497,000	2.51%	38
Vermont	\$823,610	616,408	\$1,336	9	18,025,750	4.57%	4
Virginia	\$6,710,588	7,287,829	\$921	26	235,573,250	2.85%	31
Washington	\$5,790,556	6,067,060	\$954	20	195,202,750	2.97%	28
West Virginia	\$900,999	1,804,884	\$499	42	42,357,250	2.13%	42
Wisconsin	\$6,466,173	5,439,692	\$1,189	12	160,789,250	4.02%	9
Wyoming	<u>\$692,341</u>	<u>498,830</u>	<u>\$1,388</u>	<u>6</u>	<u>15,224,250</u>	<u>4.55%</u>	<u>5</u>
U.S. Totals	278,308,585	287,404,767	\$968		8,768,827,167	3.17%	

Sources: 1) Tax data from Government Finances, Bureau of Census, U.S. Department of Commerce.  
2) Population data from Bureau of the Census 5/11/04.  
3) Personal income data from Bureau of Economic Analysis, U.S. Department of Commerce 6/29/04.

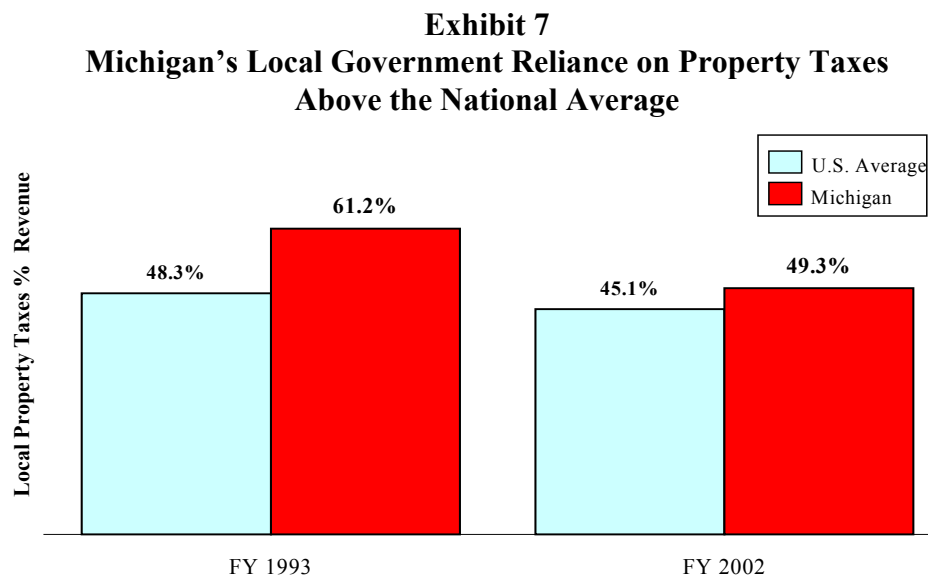


In most states, state governments levy an extremely small share of total property taxes. In FY 2002, 13 state governments levied no property taxes at all. In 29 of the 50 states, state government accounted for less than 1.0 percent of total FY 2002 property taxes levied. In FY 1993, the State of Michigan 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 15<sup>th</sup> among the 50 states. 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 2002, the State of Michigan accounted for 19.3 percent of property taxes levied in Michigan, substantially above the 3.5 percent national average. In FY 2002, Michigan ranked 8<sup>th</sup> in state government's property tax share, up from 15<sup>th</sup> in FY 1993 and 15.8 percentage points above the FY 2002 national average.

The State of Arkansas accounted for the largest state share of combined state and local property taxes among states (48.6 percent), followed by Vermont (47.4 percent) and Washington (25.2 percent).

After property tax reform, Michigan local units' reliance on property taxes more closely resembles the average state. In FY 2002, local property taxes comprised 49.3 percent of their own source revenues for Michigan's local units, compared with the 45.1 percent national average. (See Exhibit 7.) In FY 2002, Michigan local units ranked 19<sup>th</sup> among states in property taxes as a percent of revenues compared with 9<sup>th</sup> in FY 1993.



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

Local property taxes still comprise a substantially larger share of local taxes in Michigan than they do nationally. In FY 2002, property taxes accounted for 90.0 percent of local taxes in Michigan, compared with only 72.9 percent nationally. 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. Constitutionally, only the State levies a sales or use tax; while the State and 22 cities levy an income tax. The Single Business Tax is levied by the State, while cities with a personal income tax also have a local corporate income tax. In contrast, roughly 2,500 governmental units levied property taxes in the State of Michigan.

The State levies the 6-mill State Education Tax. All 83 Michigan counties levy a property tax. There are 1,242 townships, 273 cities and 263 villages in Michigan with most of these units levying a property tax. There are 554 local school districts, 57 intermediate school districts and 28 community college districts<sup>10</sup> that have the ability to levy property tax. There are also numerous authorities such as Downtown Development Authorities, district libraries, transportation authorities, etc.)<sup>11</sup> The federal government does not levy a property tax.

Because taxing units overlap, the property tax system involves an interconnected system of taxing units. Taken together, there were 3,447 different combinations of cities/townships, local school districts and villages across Michigan.

Of total property taxes levied in 2002, school taxes (local school district, intermediate school district, community college, and SET) comprised more than half (59.5 percent), up from 2001 (See Exhibit 9). Cities accounted for the second highest amount of the statewide property tax levy at 18.3 percent, down from 18.8 percent in 2001. Counties comprised 15.6 percent of property taxes in 2002, also down slightly from 2001. Townships accounted for 5.8 percent of property taxes, up from 5.5 percent in 2001. Township share has grown steadily over the past 10 years. Villages comprised 0.8 percent of the property tax levy in 2002, unchanged from 2001.

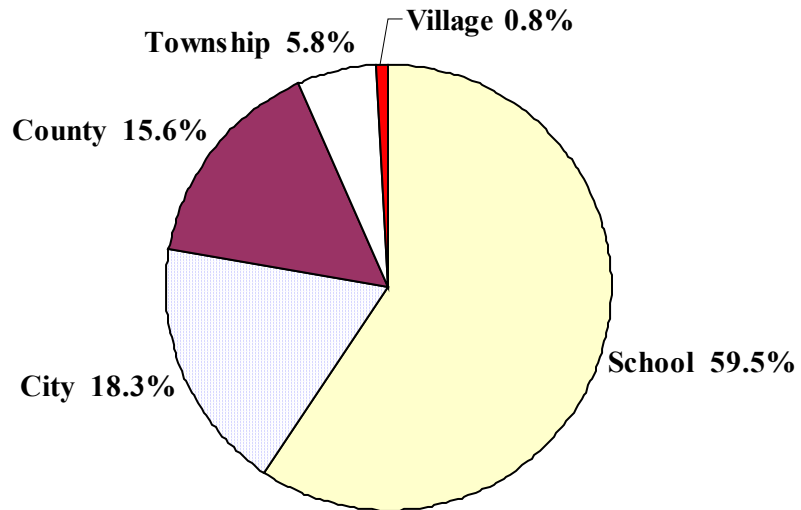
Over the past 30 years, the distribution of the tax levy among taxing units has shifted due to growth in townships and school property tax reform. (See Exhibits 8 and 9.) Township share of property taxes has shown a general upward trend with a jump after Proposal A. The city share of property taxes reversed a downward trend after school property tax reform, but that decline has continued again since 1994.

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<sup>10</sup>A substantial portion of the State is not contained within a community college district. Dearborn School District levies Henry Ford Community College's millage.

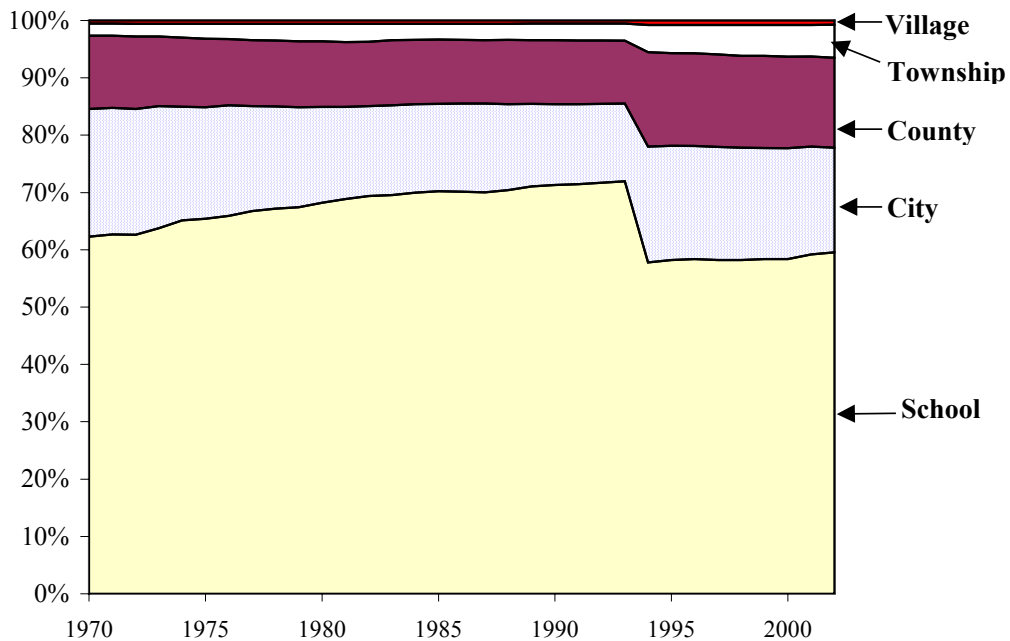
<sup>11</sup>In the following discussion, authority tax levies are included as part of the township, city, village, or county tax levies.

**Exhibit 8**  
**Most CY 2002 Property Taxes for Schools**



Source: State Tax Commission.

**Exhibit 9**  
**Schools' Share of Property Taxes Falls Sharply**



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

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

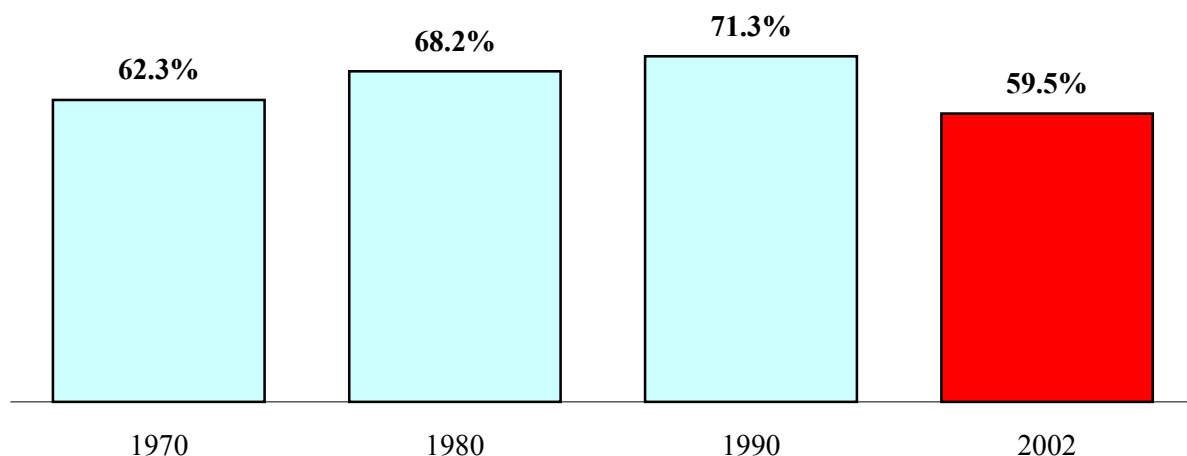
<b>Year</b>	<b>School</b>	<b>City</b>	<b>County</b>	<b>Township</b>	<b>Village</b>	<b>Total</b>
1970	62.3 %	22.3 %	12.8 %	2.1 %	0.5 %	100.0 %
1971	62.7	22.1	12.6	2.1	0.5	
1972	62.6	21.9	12.7	2.2	0.6	
1973	63.8	21.3	12.2	2.2	0.6	
1974	65.1	19.8	12.1	2.4	0.6	
1975	65.4	19.4	12.0	2.6	0.6	
1976	65.9	19.3	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	
2001	59.2	18.8	15.7	5.5	0.8	
2002	59.5	18.3	15.6	5.8	0.8	
<b>Annual Average Changes</b>						
1970-79	5.1 %	-4.9 %	-1.3 %	1.0 %	0.1 %	
1980-89	2.8	-2.3	-0.3	-0.1	0.0	
1990-99	-12.9	5.3	4.8	2.5	0.3	
1994-02	1.7	-2.0	-0.8	1.1	0.0	
1970-02	-2.8 %	-4.0 %	2.8 %	3.7 %	0.3 %	

Source: State Tax Commission and Tax Analysis Division, 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 2002, school taxes' share of the statewide levy rose slightly to 59.5 percent. (See Exhibit 11.)

**Exhibit 11**  
**Schools' Share of Property Taxes Falls Since Proposal A**



Source: State Tax Commission.

Local school district taxes and the SET comprised 48.1 percent of the statewide property tax levy in 2002 with the SET accounting for 14.9 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.<sup>12</sup>

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 35.9 percent. Millage rollbacks and

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<sup>12</sup>The 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.<sup>13</sup> 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 \$1,237.5 million in 2002.<sup>14</sup> Local school debt and sinking fund taxes comprised 11.2 percent of the 2002 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.<sup>15</sup> (See Exhibit 12.)

Increased local school debt has manifested itself through increased borrowing from the School Bond Loan (SBL) program as provided by the Michigan Constitution. 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.<sup>16</sup>

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<sup>13</sup>Under 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.

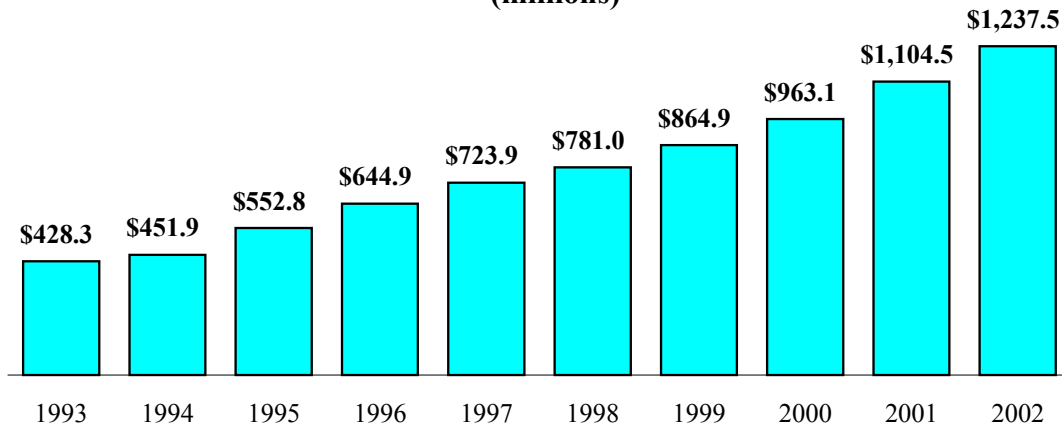
<sup>14</sup>Debt levies comprised over 92 percent of combined 2002 debt and sinking fund taxes.

<sup>15</sup>Figures for all years include debt and sinking fund taxes. The 1993 total also includes building and site taxes. For FY 2002, excluding sinking fund taxes, local school debt taxes comprised 10.4 percent of the total property tax levy.

<sup>16</sup>School 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: Tax Analysis Division, Michigan Department of Treasury, and Michigan Department of Education.

Since 1994, the value of qualified SBL bonds outstanding increased from \$4.1 billion to \$12.2 billion, a 199 percent increase. Over that time \$13.4 billion in bonds were issued while \$5.4 billion in bonds were retired. (See Exhibit 13.)

**Exhibit 13**  
**School Bond Loan Data**  
**(millions of dollars)**

<b>Calendar Year</b>	<b>Local School Bond Propositions</b>		<b>Qualified Bond Issued</b>	
	<b><u>No. Passed</u></b>	<b><u>Amount</u></b>	<b><u>Issued</u></b>	<b><u>Outstanding Balance</u></b>
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
2001	67	1,318.4	2,220.7	11,214.7
2002	49	1,042.3	1,979.0	12,202.4
Total, 1995-2002	504	\$9,414.7	\$13,422.1	
Total, 1984-2002	822	\$12,885.3	\$18,866.7	

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 2001, more than 100 qualified bond proposals were placed before the voters. In 2002, there were 83 qualified bond proposals placed before the voters. More striking than the number of bond proposals is the increase in the aggregate dollar amount of the proposals approved by voters. Over the seven-year period between 1995 and 2002, the dollar amount of local school bond proposals approved totaled \$9.4 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 18.3 percent (See Exhibit 10).

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 2002, townships' share of property taxes steadily rose from 4.7 percent to 5.8 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. In 2002, the counties' share of the statewide property tax levy was 15.6 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).

Beginning in 1979, real property was subdivided into six classifications: agricultural, commercial, industrial, residential, timber cutover, 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 used to calculate present value of income.
- **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 or commercial 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.

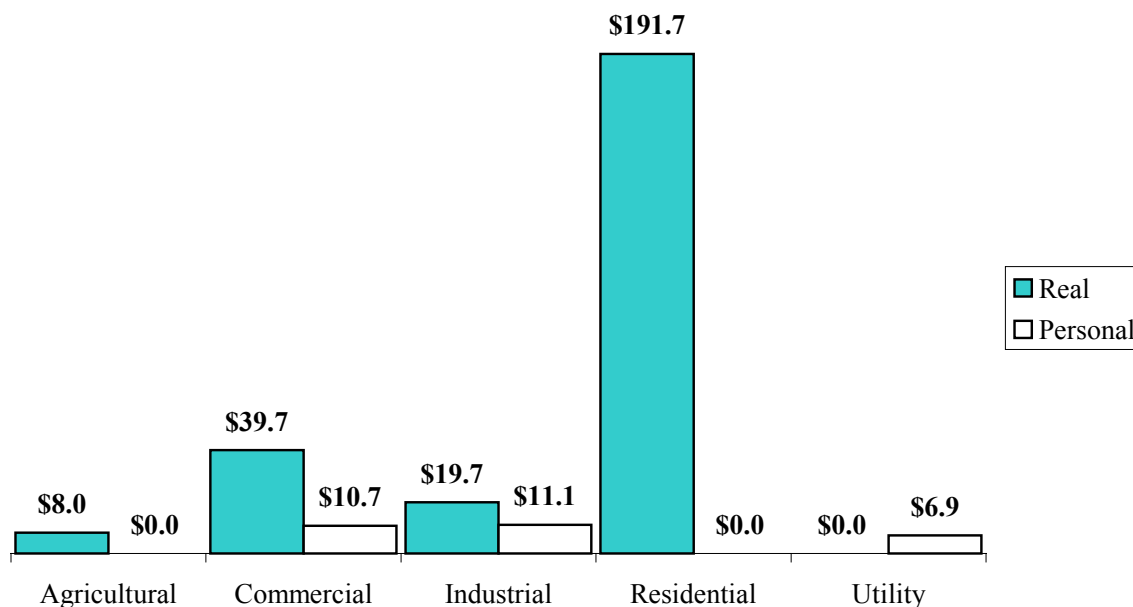
In contrast, personal property typically only depreciates. In Michigan, personal property value equals its acquisition cost less depreciation. Personal property value is depreciated by multiplying acquisition cost times a depreciation multiplier, using multiplier tables. All

depreciation multipliers are less than one. In 1999, The STC updated the personal property depreciation multiplier tables for use beginning in 2000.<sup>17</sup>

### **Taxable Value Distribution by Classification**

Residential property comprises the majority of statewide taxable value. (See Exhibit 14.) In 2003, residential property accounted for 66.5 percent of statewide taxable value. Commercial property accounted for 17.5 percent of real and personal property, while industrial property accounted for 10.7 percent. Agricultural property accounted for 2.8 percent of overall taxable value, while utility property accounted for 2.4 percent of taxable value. (See Exhibit 15.)

**Exhibit 14**  
**Residential Property Comprised Majority of Taxable Value, 2003**  
**(billions)**

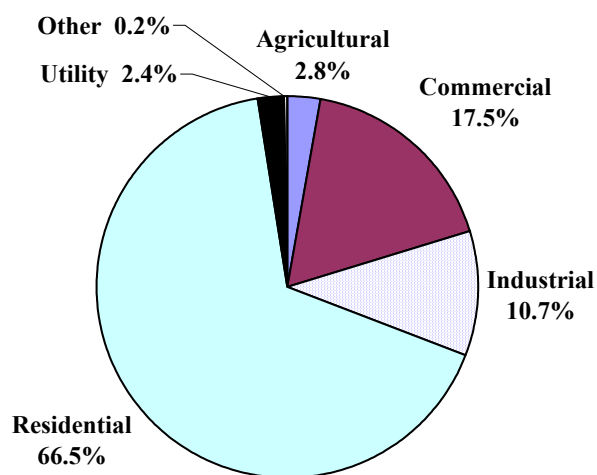


Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury.

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<sup>17</sup>Overall, 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).

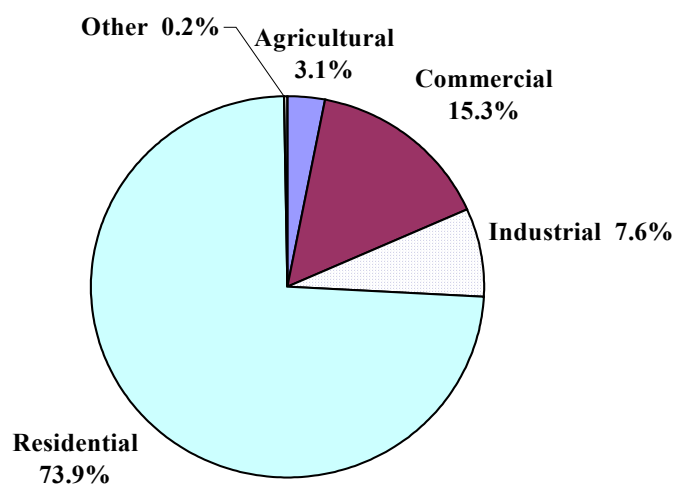
**Exhibit 15**  
**Real and Personal Property Taxable Value, 2003**



Source: State Tax Commission, Tax Analysis Division, Michigan Department of Treasury.

In 2003, real property accounted for 90.1 percent of statewide taxable value. Residential property accounted for 73.9 percent of statewide real taxable value. Commercial property comprised 15.3 percent of the total real taxable value, while industrial property accounted for 7.6 percent. Agricultural property comprised 3.1 percent of real property. (See Exhibit 16.)

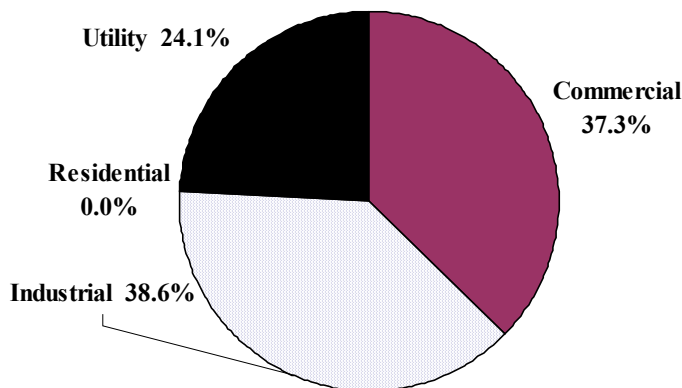
**Exhibit 16**  
**Real Property Taxable Value, 2003**



Source: State Tax Commission, Tax Analysis Division, Michigan Department of Treasury

Commercial, industrial, and utility property account for nearly all the State's personal property value. In 2003, industrial property accounted for 38.6 percent of statewide personal property taxable value. Commercial property comprised 37.3 percent, and utility property accounted for 24.1 percent of personal property value. (See Exhibit 17.)

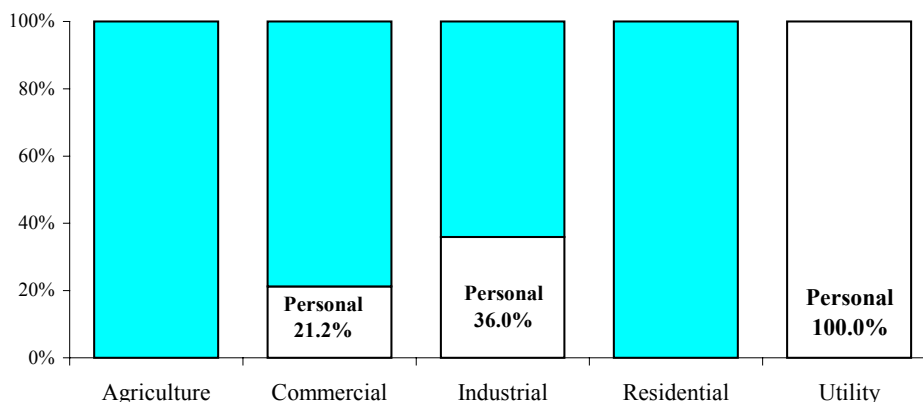
**Exhibit 17**  
**Personal Property Taxable Value, 2003**



Source: State Tax Commission, Tax Analysis Division, Michigan Department of Treasury

All property classified as utility property is personal property. Utility real property is classified as industrial real property. In 2003, personal property accounted for 21.2 percent of commercial taxable value and 36.0 percent of industrial taxable value. Agricultural and residential personal property are largely exempt from property taxation. (See Exhibit 18.)

**Exhibit 18**  
**Personal Property Value as Percent of Total Value, 2003**

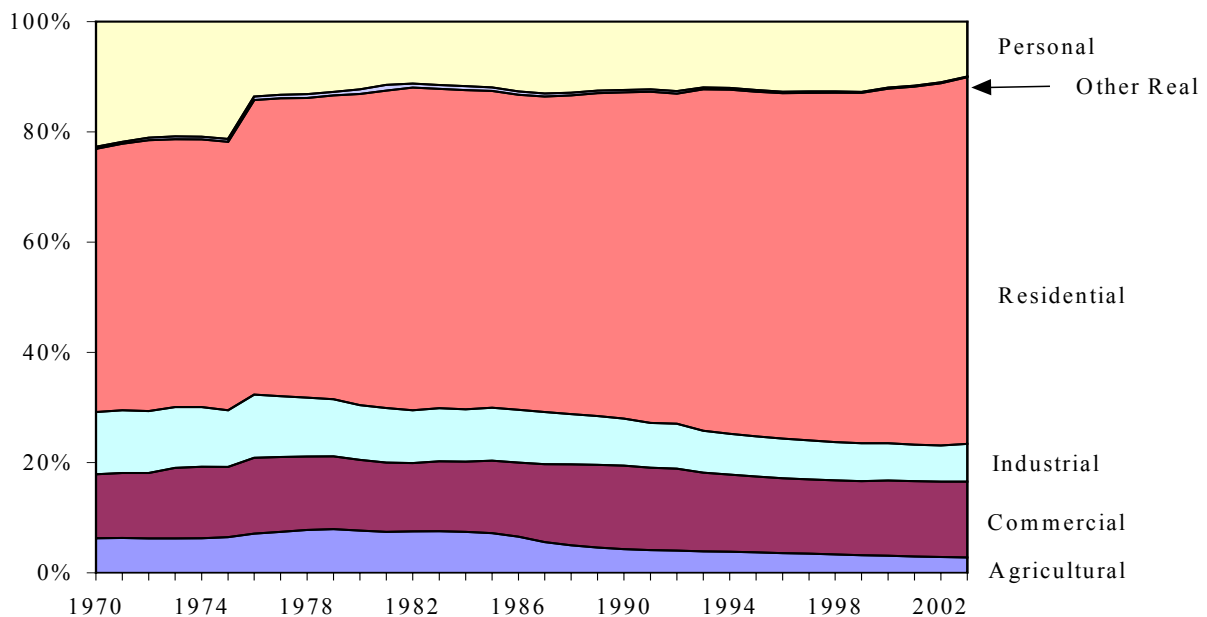


Source: State Tax Commission, Tax Analysis Division, Department of Treasury.

### **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 2003, agricultural real property's share of statewide SEV equaled 3.9 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 2.8 percent. (See Exhibit 19.)

**Exhibit 19**  
**Residential Share Grows – Agricultural, Industrial Shares Decline –**  
**Share of SEV/Taxable Value**



Source: State Tax Commission, Tax Analysis Division, 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 2003, industrial real property's share of taxable value declined to 6.2 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 2003, residential real property comprised 68.2 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 2003, residential real property accounted for 66.5 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.<sup>18</sup> 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. By 2003, personal property's share taxable value fell to 9.9 percent. Local units implemented the new tables for non-utility personal property. However, most units did not implement the new tables for utility personal property.<sup>19</sup> 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. The local units appealed the decision to the Court of Appeals and the Court has not yet taken up the case.

Exhibit 20 provides a table with statewide taxable value by classification for 2000 through 2003. Exhibit 21 provides a table with Michigan SEV and taxable value by class and the taxable value/SEV ratio from 1995 to 2003.

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<sup>18</sup>The 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.

<sup>19</sup>Utility generation property is classified as real industrial property. Utility personal property includes utility poles and lines and gas pipelines.

**Exhibit 20**  
**Taxable Value of Michigan Ad Valorem**  
**Real and Personal Property by Class**  
**2000-2003**  
**(millions)**

	2000			2001		
	Taxable Value		Personal	Taxable Value		Personal
	<u>Real</u>	<u>Personal</u>	<u>Percent</u>	<u>Real</u>	<u>Personal</u>	<u>Percent</u>
Agriculture	\$7,464.1	\$0.5	0.0 %	\$7,685.7	\$0.5	0.0 %
Timber Cutover	189.8	0.0	-	184.7	0.0	-
Developmental	316.4	0.0	-	310.5	0.0	-
Commercial	32,803.4	10,040.8	23.4	35,303.0	10,637.1	23.2
Industrial	16,340.0	11,335.8	41.0	17,011.7	11,570.5	40.5
Residential	154,838.6	176.7	0.1	167,456.2	194.6	0.1
Utility	<u>0.0</u>	<u>7,210.9</u>	<u>100.0</u>	<u>0.0</u>	<u>7,535.4</u>	<u>100.0</u>
Total	\$211,952.4	\$28,764.8	11.9 %	\$227,951.8	\$29,938.0	11.6 %

	2002			2003		
	Taxable Value		Personal	Taxable Value		Personal
	<u>Real</u>	<u>Personal</u>	<u>Percent</u>	<u>Real</u>	<u>Personal</u>	<u>Percent</u>
Agriculture	\$7,910.6	\$0.5	0.0 %	\$8,025.2	\$0.0	- %
Timber Cutover	151.6	0.0	-	149.2	0.0	-
Developmental	341.4	0.0	-	336.9	0.0	-
Commercial	37,625.0	11,041.6	22.7	39,673.2	10,700.8	21.2
Industrial	18,082.5	11,419.2	38.7	19,689.1	11,052.4	36.0
Residential	180,641.2	201.7	0.1	191,724.5	4.6	0.0
Utility	<u>0.0</u>	<u>7,625.6</u>	<u>100.0</u>	<u>0.0</u>	<u>6,904.0</u>	<u>100.0</u>
Total	\$244,752.3	\$30,288.6	11.0 %	\$259,598.0	\$28,661.7	9.9 %

# **Exhibit 21** **Statewide Taxable Value and SEV by Class of Property** **1995-2003**

Year	Michigan Taxable Value						Total Real & Personal
	Agriculture	Commercial	Industrial	Residential	Other Real	Total Real	
1995	6,772,340,174	25,090,256,525	13,369,455,314	114,130,278,690	600,961,686	159,963,292,389	182,529,687,966
1996	6,886,644,243	26,020,863,515	13,783,807,105	120,193,852,842	543,749,711	167,428,917,416	191,776,850,965
1997	7,049,764,809	27,350,534,023	14,319,968,643	127,861,808,955	523,790,218	177,105,866,648	202,779,136,107
1998	7,231,720,846	28,935,085,319	14,877,078,650	136,440,825,049	488,005,705	187,972,715,569	215,242,134,752
1999	7,334,070,027	30,616,828,483	15,680,530,909	144,918,791,677	496,009,363	199,046,230,459	228,108,838,849
2000	7,464,131,975	32,803,392,665	16,340,045,165	154,838,574,448	506,218,455	211,952,362,708	240,717,183,929
2001	7,685,747,400	35,302,959,948	17,011,716,807	167,456,216,312	495,207,172	227,951,847,639	257,889,892,765
2002	7,910,624,969	37,625,005,929	18,082,510,606	180,641,155,820	492,991,992	244,752,289,316	275,040,862,977
2003	8,025,165,638	39,673,211,156	19,689,070,248	191,724,452,369	486,080,066	259,597,979,477	288,259,666,141

Year	Michigan State Equalized Value						Total Real & Personal
	Agriculture	Commercial	Industrial	Residential	Other Real	Total Real	
1995	7,025,495,741	25,507,399,601	13,460,660,268	117,188,134,392	646,799,250	163,828,489,252	186,394,884,829
1996	7,435,695,481	26,883,408,611	13,994,870,592	127,044,516,355	634,638,231	175,993,129,270	200,341,062,819
1997	8,086,317,160	28,796,350,519	14,619,079,321	138,923,304,960	624,455,887	191,049,507,847	216,745,336,185
1998	8,862,077,578	31,168,447,882	15,283,082,298	154,188,734,247	629,865,773	210,132,207,778	237,415,970,682
1999	9,746,360,963	34,175,427,581	16,480,050,259	170,817,572,582	692,089,570	231,911,500,955	261,002,159,463
2000	10,704,606,830	37,747,704,809	17,496,791,093	188,828,676,626	815,959,950	255,593,739,308	284,426,837,615
2001	11,884,000,757	42,041,985,038	18,529,852,114	209,546,590,808	844,312,395	282,846,741,112	312,896,037,827
2002	13,382,059,973	46,474,850,866	20,553,734,463	231,990,810,111	942,964,009	313,344,419,422	343,715,251,720
2003	14,490,357,406	50,419,526,422	22,918,860,554	251,936,860,990	1,015,134,265	340,780,739,637	369,525,297,327

Year	Ratio of Taxable Value to State Equalized Value						Total Real & Personal
	Agriculture	Commercial	Industrial	Residential	Other Real	Total Real	
1995	96.4%	98.4%	99.3%	97.4%	92.9%	97.6%	97.9%
1996	92.6%	96.8%	98.5%	94.6%	85.7%	95.1%	95.7%
1997	87.2%	95.0%	98.0%	92.0%	83.9%	92.7%	93.6%
1998	81.6%	92.8%	97.3%	88.5%	77.5%	89.5%	90.7%
1999	75.2%	89.6%	95.1%	84.8%	71.7%	85.8%	87.4%
2000	69.7%	86.9%	93.4%	82.0%	62.0%	82.9%	84.6%
2001	64.7%	84.0%	91.8%	79.9%	58.7%	80.6%	82.4%
2002	59.1%	81.0%	88.0%	77.9%	52.3%	78.1%	80.0%
2003	55.4%	78.7%	85.9%	76.1%	47.9%	76.2%	78.0%

Source: Michigan State Tax Commission.



## **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 2003 taxable value are located in southeast Lower Michigan: Oakland (18.4 percent of statewide taxable value), Wayne (15.0 percent), Macomb (8.9 percent), and Washtenaw (4.2 percent). Kent County in the western Lower Peninsula comprised 6.0 percent of 2003 statewide taxable value. Together, these five largest counties comprised 52.5 percent of the 2003 statewide taxable value. The 2003 taxable value percentage for the five largest counties is essentially unchanged from their 2002 percentage of 52.6 percent of the statewide total taxable value.

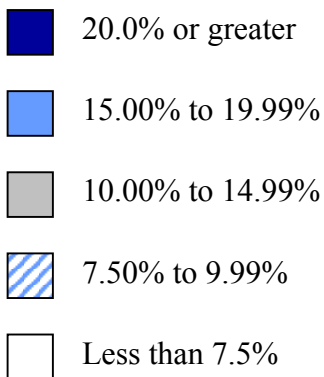
The composition of taxable value varies widely across the State. Personal property's share of county taxable value is the highest in northern Lower Peninsula and western Upper Peninsula counties. Personal property is becoming a smaller part of the overall property tax base. Personal property taxable value comprised 9.9 percent of the 2003 statewide total, down from 11.0 percent in 2002. In only one county, personal property accounted for more than 20.0 percent of county taxable value in 2003: Delta (20.2 percent). In 2002, there had been three counties where personal property comprised over 20 percent of the county total. The State's five largest counties accounted for 55.5 percent of the State's 2003 personal property taxable value. (See full-page Exhibit 22.)

Agricultural taxable value is highly concentrated in the State's thumb area and the central and southern-most Lower Peninsula. In 2003, the seven counties with the greatest agricultural taxable value accounted for 26.2 percent of statewide agricultural taxable value but only 6.6 percent of overall taxable value: Huron, Lenawee, Sanilac, Tuscola, Saginaw, Allegan, and St. Clair. (See full-page Exhibit 23.) In contrast, the five largest counties in overall taxable value comprised only 6.9 percent of statewide agricultural taxable value.

In four counties, agricultural real property comprised more than one-quarter of total 2003 county taxable value: Huron (31.4 percent), Gratiot (27.5 percent), Sanilac (26.6 percent), and Tuscola (25.8 percent). Agricultural property comprised a relatively small share of county taxable value in several counties. In 49 counties, agricultural taxable value accounted for less than 5 percent of county taxable value in 2003.

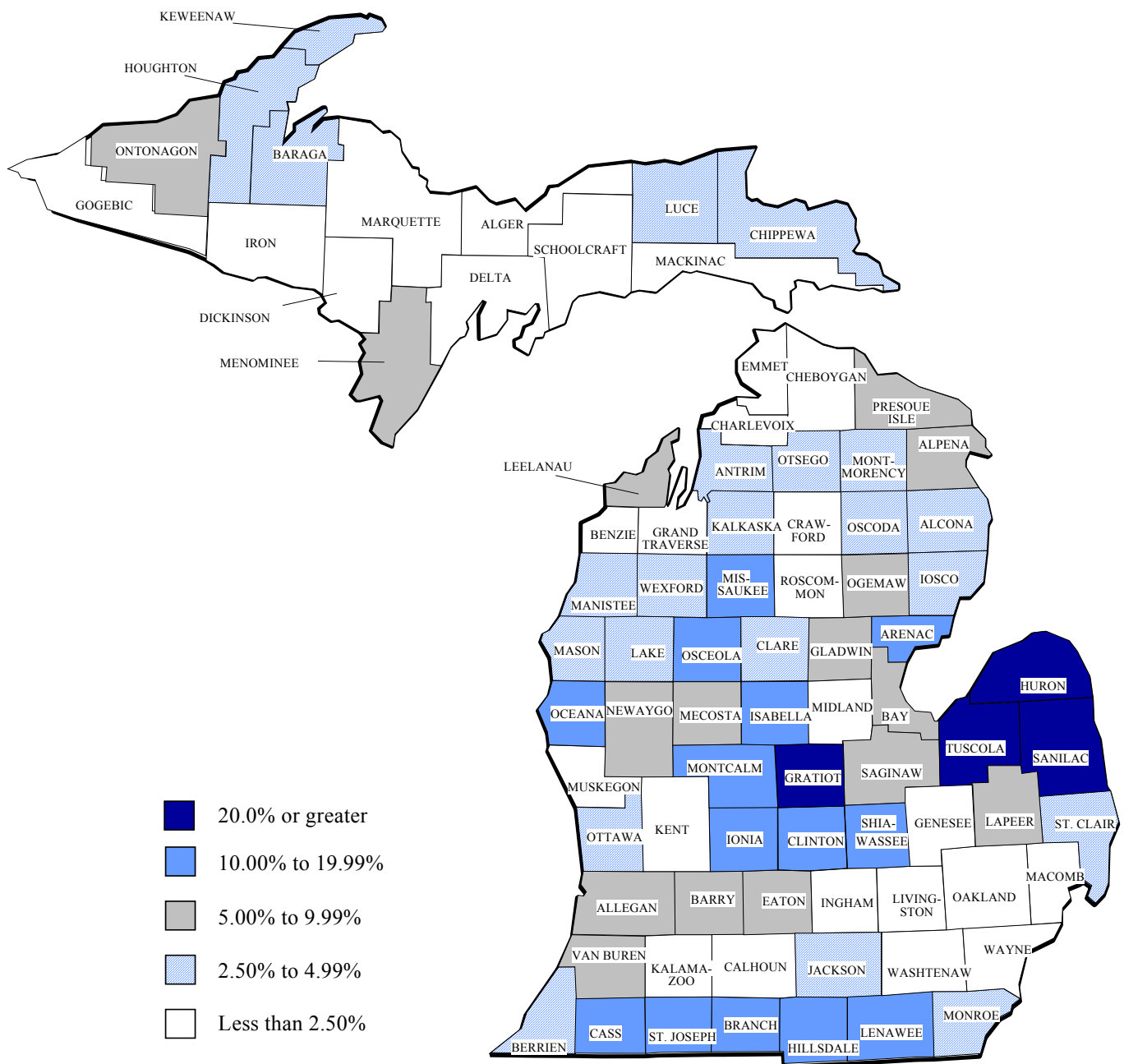
Agricultural property comprises a substantial portion of many smaller local units' tax base. In 243 local units (all townships with less than \$90 million overall taxable value), agricultural property accounted for more than 25 percent of 2003 taxable value. Agricultural property comprised more than half of 52 townships' overall taxable value (with 51 of the townships having less than \$50 million overall taxable value).

## Exhibit 22



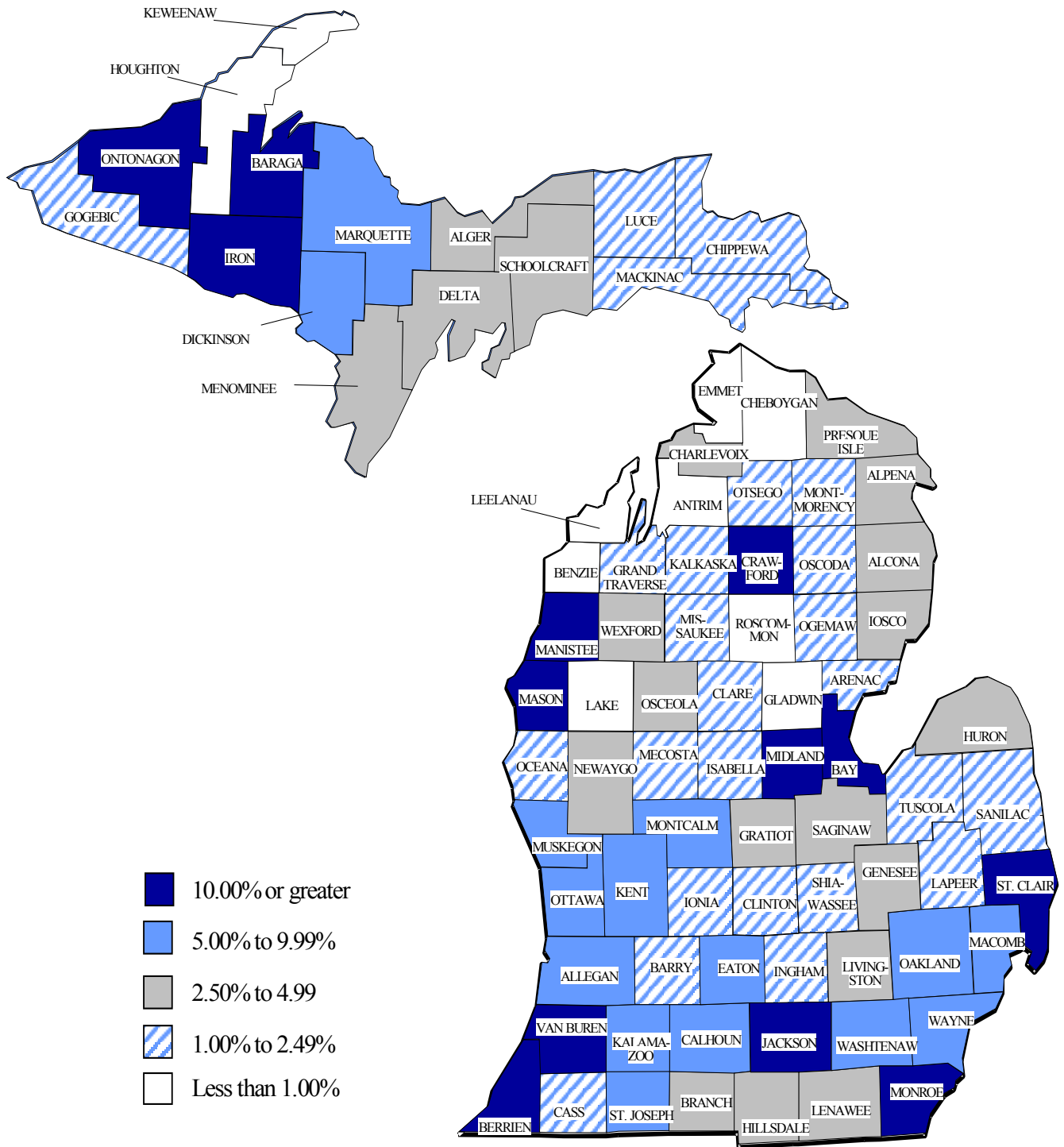
Source: State Tax Commission.

**Exhibit 23**  
**Taxable Value of Agricultural Property as a Percent of Total Value, 2003**



Source: State Tax Commission.

### Taxable Value of Industrial Property as a Percent of Total Value, 2003



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 three counties, industrial real taxable value accounted for more than 20.0 percent of county taxable value in 2003: Midland (26.7), Mason (23.0 percent) and Monroe (21.3 percent). Michigan's five largest counties comprised 55.8 percent of statewide industrial real taxable value. (See Exhibit 24.)

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 2003 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 2003 (24.0 percent) followed by the northern counties Grand Traverse (19.5 percent) and Mackinac (19.4 percent). The five largest counties comprised 58.2 percent of statewide commercial taxable value. (See Exhibit 25.)

In 2003 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 commercial, industrial and utility property comprise a large share 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 85.0 percent of 2003 county taxable value in five counties: Benzie (87.7 percent), Roscommon (86.8 percent), Antrim (85.8 percent), Alcona (85.1 percent) and Leelenau (85.0 percent). (See Exhibit 26.)

In 2003, the five largest counties accounted for 52.4 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 eight counties, homestead and qualified agricultural property comprised more than 70.0 percent of 2003 county taxable value. Tuscola County had the largest homestead and qualified agricultural property share (78.0 percent), followed by Clinton County (77.3 percent), Lapeer (75.5 percent), and Shiawassee (75.1 percent). The five largest counties comprised 53.9 percent of statewide homestead taxable value. (See Exhibit 27.)

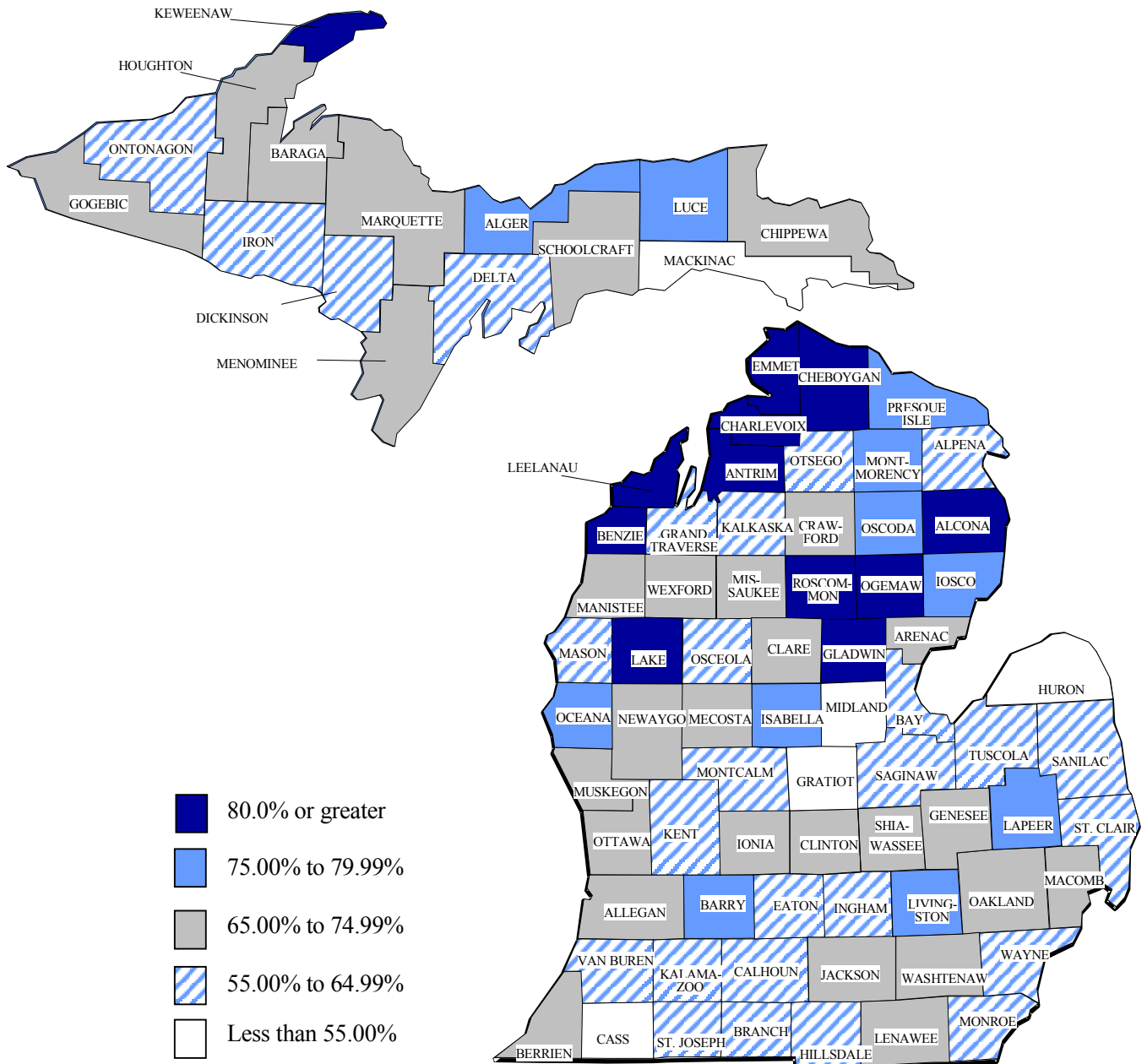
Map of Michigan showing the percentage of the population aged 18 and over who are non-Hispanic white by county. The map is color-coded according to the following legend:

- 17.50% or greater (Dark Blue)
- 12.50% to 17.49% (Medium Blue)
- 10.00% to 12.49% (Light Gray)
- 7.50% to 9.99% (Blue with diagonal lines)
- Less than 7.50% (White)

Counties labeled on the map include: Keweenaw, Houghton, Ontonagon, Baraga, Gogebic, Iron, Marquette, Alger, Delta, Schoolcraft, Luce, Chippewa, Mackinac, Dickinson, Menominee, Leelanau, Emmet, Cheboygan, Presque Isle, Charlevoix, Antrim, Otsego, Montmorency, Alpena, Grand Traverse, Kalkaska, Crawford, Oscoda, Alcona, Benzie, Wexford, Missaukee, Roscommon, Ogemaw, Iosco, Manistee, Mason, Lake, Osceola, Clare, Gladwin, Arenac, Huron, Oceana, Newaygo, Mecosta, Isabella, Midland, Bay, Tuscola, Sanilac, Muskegon, Montcalm, Gratiot, Saginaw, Genesee, Lapeer, St. Clair, Kent, Ionia, Clinton, Shiawassee, Macomb, Allegan, Barry, Eaton, Ingham, Livingston, Oakland, Wayne, Van Buren, Kalamazoo, Calhoun, Jackson, Washtenaw, Monroe, Berrien, Cass, St. Joseph, Branch, Hillsdale, Lenawee, and Monroe.

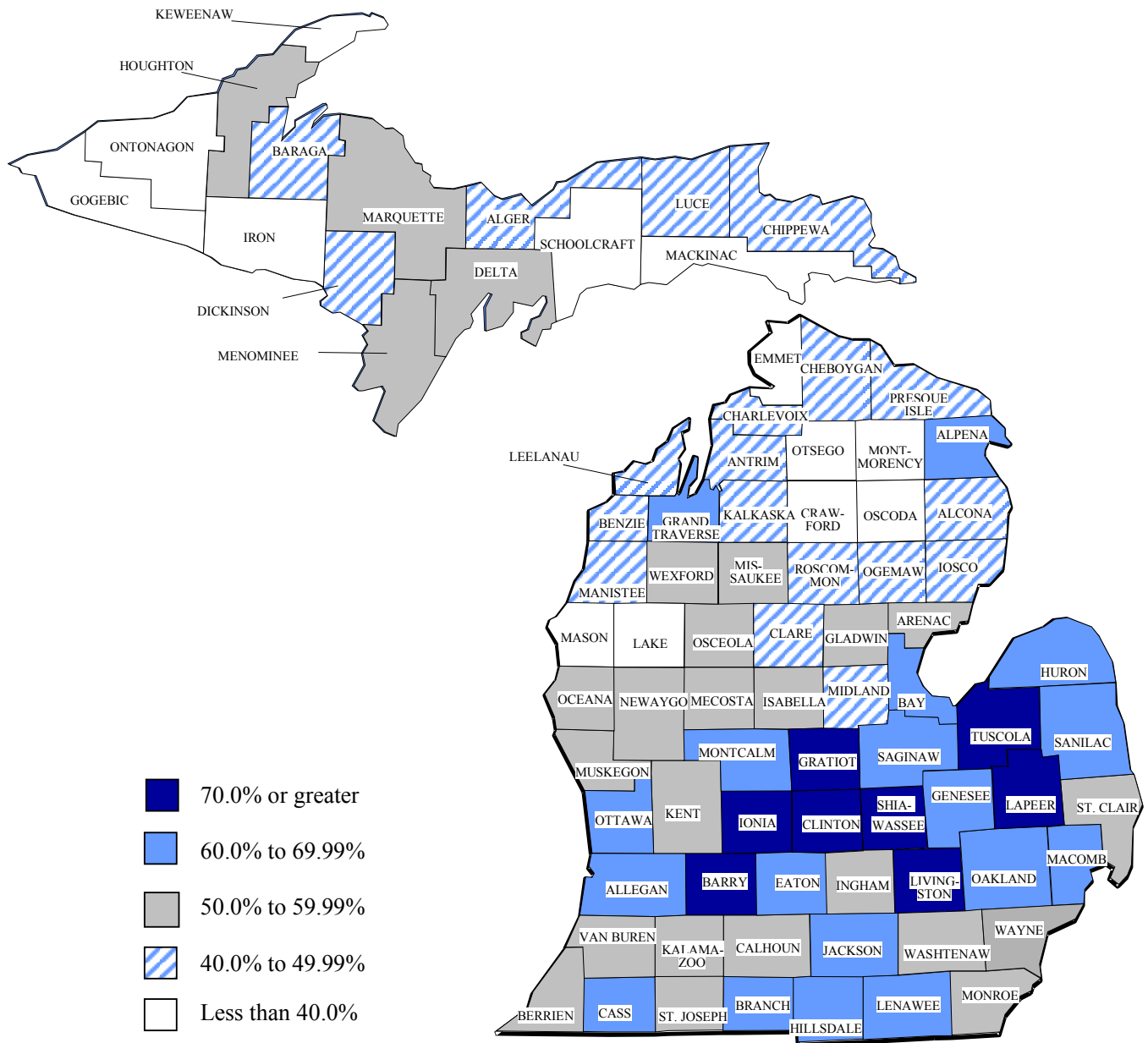
32

**Exhibit 26**  
**Taxable Value of Residential Property as a Percent of Total Value, 2003**



Source: State Tax Commission.

### Taxable Value of Homestead and Qualified Agricultural Property as a Percent of Total Value, 2003



Source: State Tax Commission.



### **City and Township Composition Comparisons**

Townships and cities differ substantially in their property composition. While agricultural property accounted for 5.0 percent of 2003 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 73.4 percent of township taxable value in 2003, compared with 58.0 percent for cities.

On the other hand, cities have about twice the share of commercial, industrial, and personal taxable value compared with townships. In 2003, commercial property's share of city taxable value was more than double that for townships (19.2 percent vs. 9.3 percent). Similarly, personal property's share of city taxable value (13.3 percent) was nearly twice that for townships (7.2 percent). While industrial property accounted for 9.4 percent of city taxable value in 2003, it accounted for 4.7 percent of township taxable value.

Between 1994 and 2003, 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 4.6 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 4.9 percent per year. On the other hand, townships, with substantial amounts of land available for development, recorded average annual residential taxable value growth of 7.5 over this period. Similarly, townships recorded substantially faster commercial taxable value growth compared to cities (6.6 percent vs. 4.9 percent average annual growth).

As a result of faster growth, townships' share of statewide taxable value increased from 50.9 percent to 55.1 percent between 1994 and 2003. Since 1970, townships' share of statewide taxable value has risen 14.1 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 28 provides the State summary results for 2002.

**Exhibit 28**  
**Property Tax Levies, 2002**  
**(millions)**

<u>Property Class</u>	<u>Real</u>	<u>Personal</u>	<u>Total</u>	<u>Share</u>
Agricultural	\$201.2	\$0.0	\$201.2	1.8 %
Commercial	1,959.9	590.5	2,550.4	23.1
Industrial	915.1	606.1	1,521.3	13.8
Residential	6,362.6	7.9	6,370.5	57.7
Utility Personal	0.0	383.5	383.5	3.5
Timber Cutover	6.5	0.0	6.5	0.1
Developmental	16.2	0.0	16.2	0.1
<b>Total</b>	<b>\$9,461.6</b>	<b>\$1,588.1</b>	<b>\$11,049.6</b>	<b>100.0 %</b>

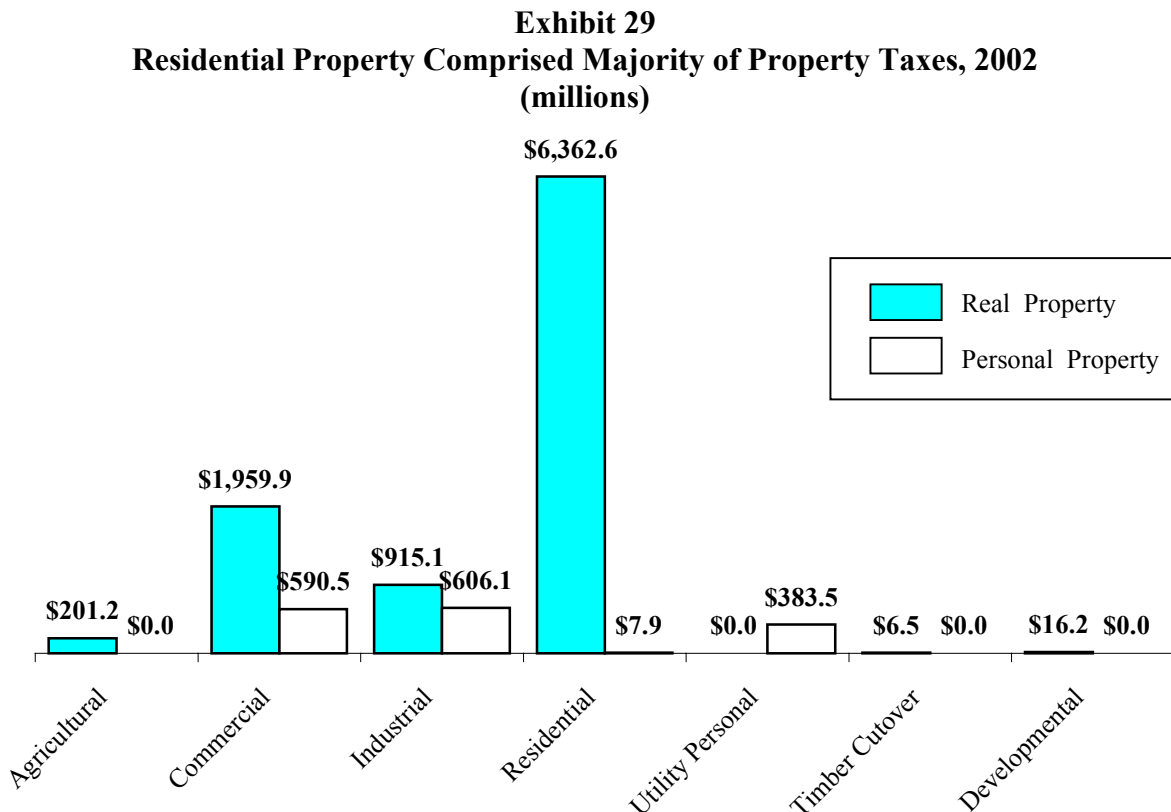
Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury.

Note: Above figures are estimates based on fourth Monday in May taxable value figures. Thus, total differs slightly from STC publication *2002 Ad Valorem Property Tax Levy Report* and *2002 Commercial, Industrial and Utility Property Tax Report* that are based on December 1, 2002 values.

As with taxable value, residential property accounted for the majority of the 2002 State property tax levy. (See Exhibit 29.) 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 66.5 percent of 2002 taxable value, it comprised an estimated 57.7 percent of the statewide property tax levy (8.8 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 2.8 percent of the 2002

statewide taxable value, agricultural property accounted for 1.8 percent of the statewide property tax levy.



Source: State Tax Commission and Tax Analysis Division, 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 2002 statewide property tax levy, compared with its 17.7 percent share of taxable value. Similarly, industrial property accounted for 13.8 percent of the statewide property tax levy, while having accounted for 10.7 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: 3.5 percent compared with 2.8 percent.

In general, business property accounts for a larger share of the statewide property tax levy than statewide taxable value. Between 1994 and 2002, commercial, industrial and utility personal property accounted for a 9.4 percentage point larger share of the statewide property tax levy than of statewide taxable value (41.9 percent vs. 32.5 percent). Business properties' share of 2002 SEV was only 28.6 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 30.)

**Exhibit 30**  
**Commercial, Industrial, Utility Property Share of Taxable Value and Tax Levy**  
**(millions)**

	<u>CIU Property</u>		<u>All Property</u>		<u>CIU Share</u>		
<u>Year</u>	<u>Value</u>	<u>Taxes</u>	<u>Value</u>	<u>Taxes</u>	<u>Value</u>	<u>Taxes</u>	<u>Difference</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
2001	81,909	4,211	257,712	10,251	31.8	41.1	9.3
2002	85,400	4,444	274,652	11,033	31.1	40.3	9.2
Average					32.5%	41.9%	9.4% pts

As with taxable value, the composition of the 2002 property tax levy varied widely across counties. (See Exhibit 31.) 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 (21.6 percent), and Sanilac County (20.2 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 (1.2 percent).

Personal property accounted for more than 20.0 percent of the 2002 tax levy in nine counties. In four of these nine counties, utility personal property accounted for the largest share of the personal property tax levy, while industrial 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 44.3 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 (18.8 percent) and the smallest in Oakland County (11.3 percent).

Commercial property (real and personal) accounted for more than 20.0 percent of the 2002 tax levy in 27 counties. In three counties, commercial property accounted for more than 30.0 percent of the countywide 2002 tax levy: Ingham County (35.8 percent), Isabella (30.4 percent) and Grand Traverse County (30.3 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 (28.3 percent) and Macomb County (19.3 percent).

**Exhibit 31**  
**Estimated 2002 Property Tax Levy by Property Classification**  
**Real and Personal Property**

	<b>Share of Property Tax Levy on Real and Personal Property</b>				
	<b><u>Agricultural</u></b>	<b><u>Commercial</u></b>	<b><u>Industrial</u></b>	<b><u>Residential</u></b>	<b><u>Utility</u></b>
Alcona	2.7%	6.0%	5.8%	83.2%	2.4%
Alger	0.7%	16.7%	11.6%	67.3%	3.7%
Allegan	6.4%	16.6%	16.5%	56.7%	3.5%
Alpena	5.6%	19.6%	13.9%	53.4%	4.4%
Antrim	2.3%	10.9%	2.3%	82.7%	1.7%
Arenac	8.1%	13.3%	4.2%	70.7%	3.7%
Baraga	2.0%	11.2%	13.5%	59.2%	6.8%
Barry	6.3%	12.0%	5.3%	72.9%	3.3%
Bay	5.1%	20.8%	19.7%	51.1%	3.2%
Benzie	1.2%	10.9%	1.4%	84.6%	1.7%
Berrien	2.8%	16.9%	16.4%	60.8%	3.2%
Branch	12.2%	25.0%	9.7%	50.4%	2.7%
Calhoun	3.3%	23.0%	20.4%	49.0%	4.2%
Cass	9.7%	9.8%	6.2%	68.4%	5.8%
Charlevoix	1.3%	11.7%	7.3%	76.6%	2.5%
Cheboygan	1.5%	20.0%	1.4%	73.4%	2.4%
Chippewa	2.3%	26.0%	4.0%	64.8%	2.9%
Clare	2.7%	14.1%	1.9%	68.6%	12.6%
Clinton	7.9%	17.1%	4.7%	66.4%	2.7%
Crawford	0.8%	14.0%	16.7%	63.4%	4.7%
Delta	1.3%	19.1%	17.9%	54.2%	7.5%
Dickinson	1.0%	20.9%	22.8%	48.2%	6.0%
Eaton	3.7%	27.7%	10.6%	55.5%	2.0%
Emmet	1.0%	16.4%	2.1%	78.3%	1.9%
Genesee	0.8%	28.0%	11.5%	56.5%	3.1%
Gladwin	3.9%	9.0%	2.9%	81.2%	3.0%
Gogebic	0.5%	18.7%	3.2%	61.9%	13.8%
Grand Traverse	1.5%	30.3%	5.7%	60.5%	2.0%
Gratiot	19.5%	18.0%	10.8%	46.1%	5.6%
Hillsdale	13.0%	14.4%	13.5%	56.2%	2.8%
Houghton	2.0%	24.9%	2.1%	65.3%	3.7%
Huron	23.5%	12.6%	8.5%	52.7%	2.7%
Ingham	1.5%	35.8%	5.3%	55.3%	2.1%
Ionia	11.2%	16.9%	8.8%	59.7%	3.2%
Iosco	1.9%	14.0%	7.5%	73.5%	2.6%
Iron	1.1%	13.3%	9.9%	55.5%	15.1%
Isabella	7.2%	30.4%	4.5%	53.2%	4.1%
Jackson	3.7%	20.9%	11.1%	59.0%	4.8%
Kalamazoo	1.1%	28.7%	17.9%	50.0%	2.3%
Kalkaska	3.0%	12.8%	3.5%	60.5%	19.8%
Kent	0.6%	28.3%	17.9%	50.8%	2.3%
Keweenaw	1.1%	11.1%	0.2%	84.9%	2.1%

### Exhibit 31 - 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	3.2%	14.4%	0.2%	78.3%	2.4%
Lapeer	6.2%	14.0%	6.7%	67.9%	4.8%
Leelanau	4.4%	10.2%	0.4%	83.6%	1.4%
Lenawee	9.0%	19.4%	9.3%	58.8%	3.2%
Livingston	1.5%	16.6%	9.2%	69.0%	3.6%
Luce	2.3%	15.9%	5.3%	75.5%	0.9%
Mackinac	1.0%	25.7%	2.6%	61.0%	8.8%
Macomb	0.2%	19.3%	17.5%	60.5%	2.4%
Manistee	2.1%	13.5%	13.5%	64.2%	6.6%
Marquette	0.6%	24.2%	11.8%	57.8%	4.2%
Mason	2.8%	14.8%	31.0%	48.7%	2.7%
Mecosta	6.4%	18.6%	6.5%	62.5%	6.1%
Menominee	5.6%	14.8%	13.8%	61.4%	3.9%
Midland	1.2%	11.0%	23.6%	35.6%	28.5%
Missaukee	11.8%	7.6%	6.2%	64.2%	10.2%
Monroe	3.0%	15.1%	35.6%	41.3%	4.7%
Montcalm	9.5%	19.2%	9.3%	56.3%	5.8%
Montmorency	2.4%	7.3%	17.0%	70.9%	2.5%
Muskegon	1.3%	23.6%	14.1%	58.4%	2.7%
Newaygo	5.8%	13.6%	10.0%	66.5%	4.2%
Oakland	0.1%	26.5%	10.7%	60.5%	1.8%
Oceana	7.6%	10.3%	3.7%	75.7%	2.7%
Ogemaw	4.2%	15.0%	4.2%	71.7%	4.9%
Ontonagon	5.3%	10.5%	20.5%	51.9%	4.8%
Osceola	8.6%	9.4%	18.4%	54.9%	8.2%
Oscoda	1.8%	11.3%	4.4%	75.7%	4.0%
Otsego	1.7%	28.3%	5.0%	51.2%	13.8%
Ottawa	2.4%	20.6%	17.0%	57.5%	2.4%
Presque Isle	6.0%	9.8%	9.1%	69.2%	2.5%
Roscommon	0.7%	12.6%	0.3%	84.2%	2.1%
Saginaw	4.8%	28.1%	11.1%	52.2%	3.6%
Saint Clair	3.3%	14.1%	25.5%	50.5%	6.6%
Saint Joseph	7.3%	18.8%	17.6%	51.4%	4.8%
Sanilac	20.2%	13.2%	6.3%	57.2%	3.0%
Schoolcraft	1.3%	16.2%	10.9%	58.8%	11.6%
Shiawassee	9.8%	18.4%	5.6%	63.1%	3.1%
Tuscola	21.6%	13.8%	4.7%	55.2%	4.5%
Van Buren	5.5%	12.7%	15.1%	63.3%	3.4%
Washtenaw	1.2%	26.6%	11.6%	58.1%	2.2%
Wayne	0.0%	24.7%	16.8%	54.5%	3.9%
Wexford	3.1%	22.4%	12.3%	59.6%	2.5%
State Total	1.8%	23.1%	13.8%	57.7%	3.5%

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

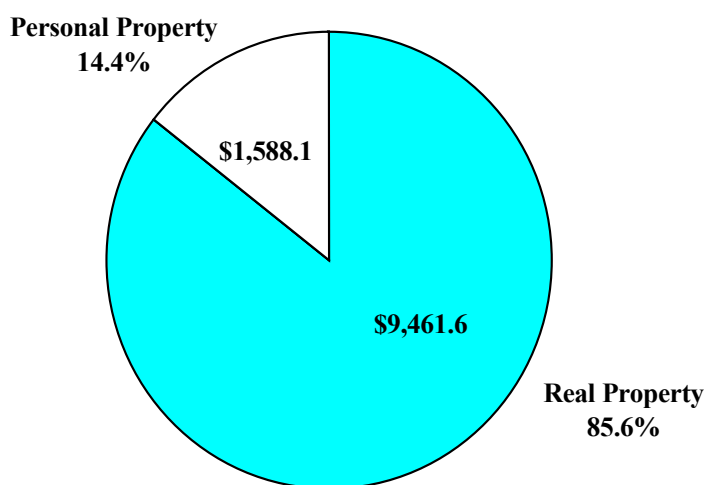
Industrial property (real and personal) accounted for more than 20.0 percent of the 2002 tax levy in seven counties. In two counties, industrial property accounted for more than 30.0 percent of the 2002 levy: Monroe County (35.6 percent) and Mason County (31.0 percent). On the other hand, industrial property comprised less than 5.0 percent of the 2001 property tax levy in 22 counties.

Residential property accounted for the largest share of the 2002 property tax levy in all counties and comprised more than half of the property tax levy in 77 of the 83 counties. Residential property's share of the property tax levy ranged between 35.6 percent (Midland County) and 84.9 percent (Keewenaw County). In seven counties, residential property accounted for more than 80.0 percent of the property tax levy.

In one county, utility personal property accounted for more than 20.0 percent of the 2002 countywide property tax levy: Midland County (28.5 percent). Among the five largest counties, utility personal property accounted for the largest share of the property tax levy in Wayne County (3.9 percent) and the smallest share in Oakland County (1.8 percent).

Real property accounted for an estimated 85.6 percent of the 2002 property tax levy. (See Exhibit 32.) Residential property accounted for the majority of State property taxes on real and personal property at 57.7 percent. (See Exhibit 33.) Accordingly, residential property accounted for two-thirds of property taxes levied on real property. Commercial property accounted for 20.7 percent of the State property taxes on real property, while industrial property accounted for 9.7 percent. Agricultural property comprised 2.1 percent of the statewide levy on real property. (See Exhibit 34.)

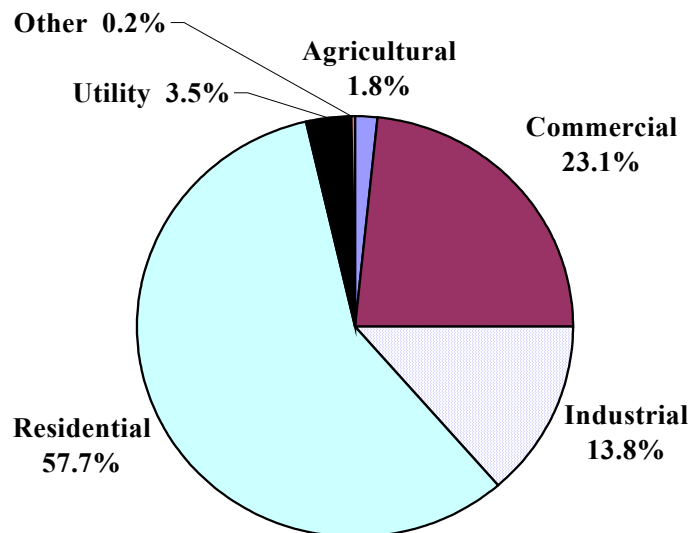
**Exhibit 32**  
**Ad Valorem Property Taxes, 2002**  
**(millions)**



Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury

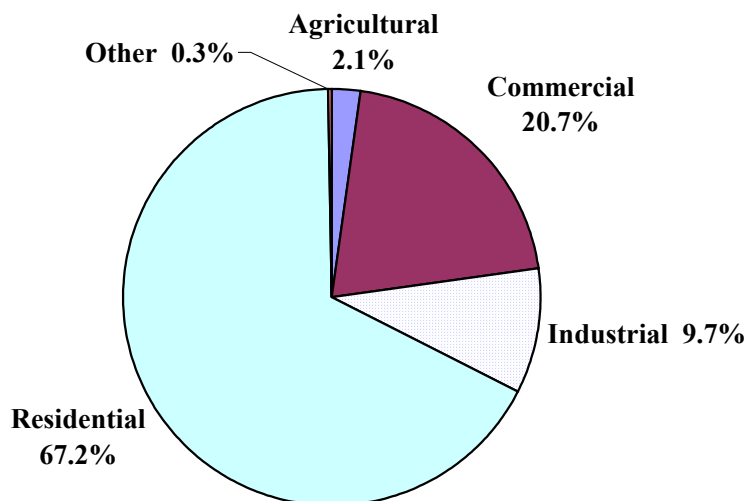
Personal property comprised 14.4 percent of the 2002 property tax levy. Commercial, industrial, and utility property accounted for nearly the entire personal property tax levy. Industrial property was the largest share of the 2002 property tax levy on personal property (38.2 percent).

**Exhibit 33**  
**Ad Valorem Property Taxes, Real and Personal, 2002**



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

**Exhibit 34**  
**Ad Valorem Real Property Taxes, 2002**

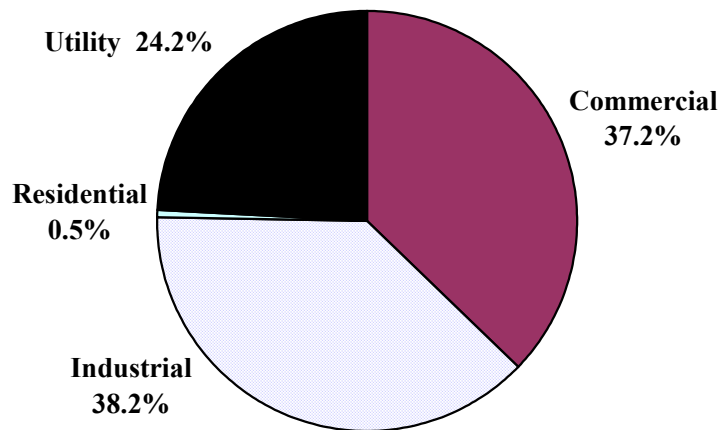


Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury.



Commercial property accounted for 37.2 percent of personal property taxes, while utility property comprised 24.2 percent. Agricultural and residential property are essentially exempt from the personal property tax. (See Exhibit 35.)

**Exhibit 35**  
**Ad Valorem Personal Property Taxes, 2002**



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

The statewide tax levy is even slightly more concentrated than State taxable value. The five largest counties comprised 56.9 percent of the statewide 2002 property tax levy, compared with their 52.6 percent share of 2002 taxable value. Comprising roughly equal shares of the statewide property tax levy, Wayne County (19.8 percent) and Oakland County (18.6 percent) accounted for more than one-third of property taxes levied. The 10 largest counties comprised 69.0 percent of taxes levied statewide. For commercial, industrial and utility (CIU) property taxes as a share of all property taxes, Midland County's CIU share was the highest in the state at 60.7 percent in 2002. (See Exhibit 36.)

**Exhibit 36**  
**2002 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	\$2,381	14.2%	\$16,819	0.2%
Alger	2,717	32.1	8,468	0.1
Allegan	41,561	36.6	113,548	1.0
Alpena	10,101	38.3	26,352	0.2
Antrim	5,744	15.0	38,413	0.3
Arenac	3,257	21.2	15,355	0.1
Baraga	2,292	32.0	7,157	0.1
Barry	8,718	20.7	42,182	0.4
Bay	43,626	43.7	99,776	0.9
Benzie	3,152	14.0	22,435	0.2
Berrien	54,607	36.5	149,696	1.4
Branch	13,895	37.3	37,212	0.3
Calhoun	62,998	47.7	132,100	1.2
Cass	8,428	21.8	38,607	0.3
Charlevoix	11,167	21.9	51,035	0.5
Cheboygan	7,259	23.9	30,347	0.3
Chippewa	9,067	33.0	27,454	0.2
Clare	6,844	28.6	23,917	0.2
Clinton	14,305	24.6	58,102	0.5
Crawford	5,615	35.7	15,750	0.1
Delta	14,621	44.5	32,849	0.3
Dickinson	14,143	50.0	28,300	0.3
Eaton	42,070	40.4	104,167	0.9
Emmet	15,106	20.5	73,595	0.7
Genesee	147,911	42.6	347,076	3.1
Gladwin	3,317	14.9	22,219	0.2
Gogebic	5,393	35.9	15,032	0.1
Grand Traverse	38,679	38.0	101,709	0.9
Gratiot	7,616	34.4	22,133	0.2
Hillsdale	10,024	30.7	32,687	0.3
Houghton	6,390	31.0	20,611	0.2
Huron	10,270	23.8	43,131	0.4
Ingham	134,692	43.2	311,965	2.8
Ionia	9,919	28.8	34,394	0.3
Iosco	6,415	24.1	26,643	0.2
Iron	5,089	38.5	13,215	0.1
Isabella	16,652	39.0	42,681	0.4
Jackson	42,026	36.9	113,927	1.0
Kalamazoo	121,394	48.3	251,447	2.3
Kalkaska	6,745	36.2	18,635	0.2
Kent	292,955	48.5	604,148	5.5
Keweenaw	370	13.8	2,679	0.0

**Exhibit 36 - Continued**

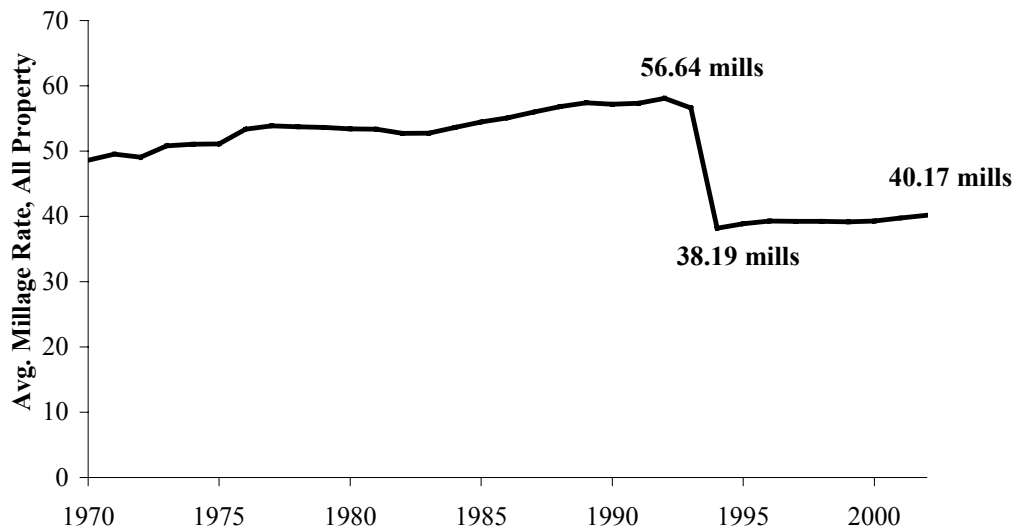
<u>County</u>	<u>CIU Property</u>	<u>CIU Share</u>	<u>All Property</u>	<u>State Share</u>
Lake	2,443	17.2%	14,217	0.1%
Lapeer	16,015	25.6	62,640	0.6
Leelanau	4,697	12.0	39,176	0.4
Lenawee	28,120	32.0	87,899	0.8
Livingston	52,967	29.4	179,978	1.6
Luce	904	22.1	4,092	0.0
Mackinac	7,837	37.4	20,937	0.2
Macomb	364,322	39.2	928,510	8.4
Manistee	9,917	33.7	29,451	0.3
Marquette	19,438	40.4	48,065	0.4
Mason	19,493	48.9	39,880	0.4
Mecosta	9,707	31.2	31,136	0.3
Menominee	5,358	32.6	16,410	0.1
Midland	81,353	60.7	134,077	1.2
Missaukee	3,096	24.0	12,906	0.1
Monroe	98,948	55.5	178,366	1.6
Montcalm	14,633	33.8	43,285	0.4
Montmorency	3,264	26.7	12,205	0.1
Muskegon	55,807	40.4	138,277	1.3
Newaygo	10,903	27.8	39,186	0.4
Oakland	803,172	39.1	2,055,655	18.6
Oceana	4,801	18.1	26,540	0.2
Ogemaw	4,796	24.1	19,934	0.2
Ontonagon	2,695	36.4	7,408	0.1
Osceola	6,380	35.0	18,214	0.2
Oscoda	1,769	19.8	8,915	0.1
Otsego	15,987	47.4	33,748	0.3
Ottawa	97,191	40.0	243,025	2.2
Presque Isle	3,099	21.4	14,491	0.1
Roscommon	4,693	15.6	30,055	0.3
Saginaw	63,369	42.8	147,978	1.3
Saint Clair	85,479	46.2	185,066	1.7
Saint Joseph	20,332	41.2	49,302	0.4
Sanilac	7,852	22.5	34,872	0.3
Schoolcraft	3,210	38.7	8,305	0.1
Shiawassee	12,291	27.1	45,396	0.4
Tuscola	8,480	23.1	36,651	0.3
Van Buren	22,859	31.2	73,194	0.7
Washtenaw	204,153	40.4	505,500	4.6
Wayne	981,959	45.0	2,181,656	19.8
Wexford	10,661	37.1	28,743	0.3
State Total	\$4,443,979	40.3%	\$11,033,307	100.0%

Source: State Tax Commission.

## 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 tax 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 37.)

**Exhibit 37**  
**Property Tax Cut Due to Lower Millage Rates**



Source: State Tax Commission, and Tax Analysis Division, 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 38.) Since 1994, the statewide local school-operating rate has fallen 10.7 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), and
3. The share of homestead property, which is exempt from the local school basic operating millage rate, has grown.

# Exhibit 38

## Average Statewide Millage Rates, All Property <sup>(1)</sup>

<u>Purpose</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Change, 1993-1994</u>		<u>Change, 1994-2002</u>		<u>Change, 1993-2002</u>	
											<u>Mills</u>	<u>Percent</u>	<u>Mills</u>	<u>Percent</u>	<u>Mills</u>	<u>Percent</u>
County	6.22	6.27	6.28	6.36	6.32	6.30	6.28	6.27	6.26	6.29	0.05	0.8%	0.02	0.3%	0.07	1.1%
Township	3.36	3.56	3.68	3.74	3.87	4.02	3.99	4.09	4.06	4.26	0.20	6.0	0.70	19.7	0.90	26.8
City	15.45	15.75	15.95	16.06	16.18	16.23	16.17	16.36	16.28	16.15	0.30	1.9	0.40	2.5	0.70	4.5
Village	11.94	12.13	12.34	12.54	12.57	12.22	12.37	12.20	12.17	12.09	0.19	1.6	-0.04	-0.3	0.15	1.3
Total Non-School	15.89	16.13	16.23	16.37	16.40	16.41	16.30	16.37	16.22	16.25	0.24	1.5%	0.12	0.7%	0.36	2.3%
Local School Operating	33.91	9.26	9.26	9.28	8.79	8.74	8.59	8.41	8.27	8.02	-24.65	-72.7%	-1.24	-13.4%	-25.89	-76.3%
Local School Debt <sup>(2)</sup>	2.54	2.56	3.03	3.27	3.57	3.63	3.80	4.01	4.28	4.59	0.02	0.8	2.03	79.3	2.05	80.7
ISD/Comm College <sup>(3)</sup>	4.30	4.24	4.36	4.40	4.48	4.48	4.47	4.51	5.01	5.31	-0.06	-1.4	1.07	25.2	1.01	23.5
State Education Tax (SET)	0.00	6.00	6.00	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	40.75	22.06	22.65	22.95	22.85	22.86	22.86	22.95	23.56	23.92	-18.69	-45.9	1.86	8.4	-16.83	-41.3
TOTAL MILLS	56.64	38.19	38.88	39.32	39.25	39.27	39.16	39.32	39.78	40.17	-18.45	-32.6%	1.98	5.2%	-16.47	-29.1%
Local School Operating and SET	33.91	15.26	15.26	15.28	14.79	14.74	14.59	14.41	14.27	14.02	-18.65	-55.0%	-1.24	-8.1%	-19.89	-58.7%

(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: 1993-2002 county, township, city, village mills; 1993, 1995-2002 total school and total mills: State Tax Commission.  
Other mills from Tax Analysis Division, Michigan Department of Treasury.

While the statewide local school operating rate fell, the statewide local school debt millage rate rose sharply. Between 1994 and 2002, the statewide average local school debt millage rate rose from 2.56 mills to 4.59 mills, a 79.3 percent increase.

The statewide township millage rate climbed steadily through most of the period between 1994 and 2002. As a result, the average township millage rate increased 19.7 percent over this period. The statewide average millage rates levied by cities has risen slightly since 1994, rising 2.5 percent. For villages, the statewide average millage rate declined 0.3 percent. The 2002 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, rental homes 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 2002 (16.47 mills, 29.1 percent), the reduction for homestead property was much greater (24.04 mills, 42.4 percent) than the nonhomestead property reduction (5.64 mills, 10.0 percent). (See Exhibit 39.) 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 39**  
**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>	<u>2001</u>	<u>2002</u>
All Property	56.64	38.19	38.88	39.32	39.25	39.27	39.16	39.32	39.78	40.17
Homestead	NA	30.22	31.00	31.36	31.36	31.43	31.40	31.54	32.12	32.60
Nonhomestead	NA	48.17	48.79	49.54	49.63	49.68	49.76	50.10	50.72	51.00

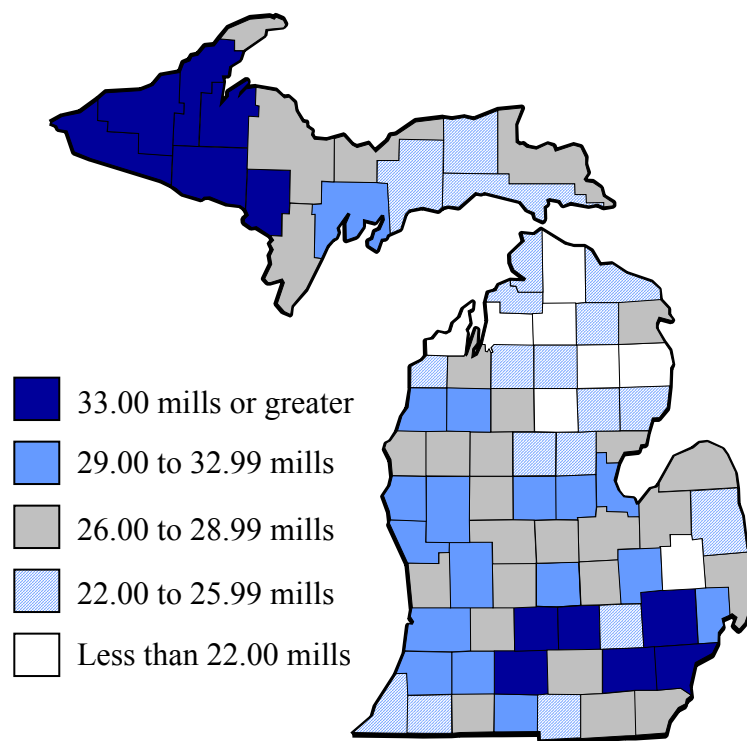
Sources: State Tax Commission: All Property Rates, 1993, 1995-2002.  
Tax Analysis Division: 1994 all property rate and homestead and nonhomestead rate estimates.

Between 1994 and 2002, the statewide average millage rate for homestead property increased by 2.38 mills while the nonhomestead rate rose 2.83 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 (1.98 mills).

### Average 2002 Homestead and Nonhomestead Millage Rates by County

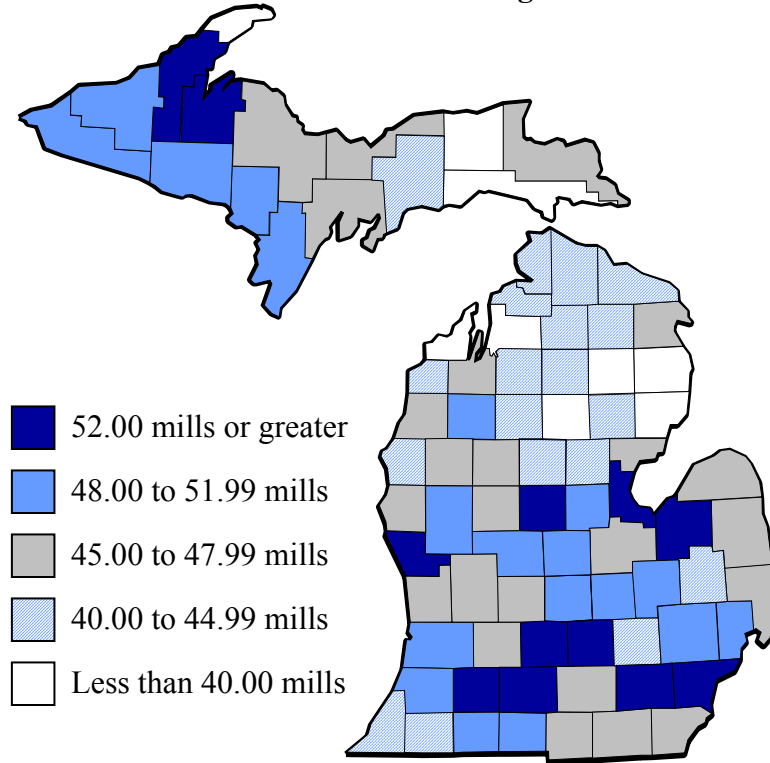
Average 2002 homestead millage rates varied widely across counties, ranging between 18.97 mills and 42.67 mills. Average nonhomestead millage rates ranged between 33.30 mills and 64.82 mills. The median county rates (27.54 mills and 46.39 mills) are substantially below the statewide weighted averages of 32.60 mills and 51.00 mills. This occurs because smaller (lower taxable value) counties tend to have lower millage rates than larger counties (higher taxable value). (See Exhibits 40 and 41.)

**Exhibit 40**  
**2002 Homestead Millage Rates**



Source: Tax Analysis Division, Michigan Department of Treasury.

**Exhibit 41**  
**2002 Nonhomestead Millage Rates**



Source: Tax Analysis Division, Michigan Department of Treasury.

Nearly all homeowners benefited from the sharp millage reduction following property tax reform. Between 1993 and 2002, the average homestead millage rate fell in all 83 counties. (See full-page Exhibit 42.) However, average county homestead millage rate declines varied widely. Jackson County saw the largest homestead millage rate reduction between 1993 and 2002 (31.45 mills), while Leelenau County saw the smallest decline (8.52 mills). Fifty-four counties saw homestead millage rate declines exceeding 20.0 mills.

Compared with 1993, the average nonhomestead millage rate declined in 64 counties. Average nonhomestead millage rate changes between 1993 and 2002 ranged between a 11.51 mill decline in Jackson County and a 6.40 mill increase in Emmet County. Twenty-nine counties saw a nonhomestead millage rate reduction of greater than 5.00 mills, while three counties saw an increase exceeding 5.00 mills.



**Exhibit 42**  
**Average Millage Rates by County**  
**Pre- and Post-Proposal A**

<u>County</u>	<u>1993 Rate</u>	<u>2002 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	18.97	36.86	-12.35	-39.4%	5.54	17.7%
Alger	51.46	27.30	45.69	-24.16	-46.9	-5.77	-11.2
Allegan	52.40	29.46	49.99	-22.94	-43.8	-2.41	-4.6
Alpena	47.42	27.65	47.23	-19.77	-41.7	-0.19	-0.4
Antrim	37.45	21.89	39.88	-15.56	-41.5	2.43	6.5
Arenac	43.26	28.05	47.43	-15.21	-35.2	4.17	9.6
Baraga	54.21	37.74	52.68	-16.47	-30.4	-1.53	-2.8
Barry	52.13	26.03	46.29	-26.10	-50.1	-5.84	-11.2
Bay	57.24	32.95	52.64	-24.29	-42.4	-4.60	-8.0
Benzie	38.90	22.74	40.39	-16.16	-41.5	1.49	3.8
Berrien	42.61	25.36	40.34	-17.25	-40.5	-2.27	-5.3
Branch	56.78	29.00	51.34	-27.78	-48.9	-5.44	-9.6
Calhoun	65.35	35.06	56.38	-30.29	-46.3	-8.97	-13.7
Cass	49.93	24.60	43.69	-25.33	-50.7	-6.24	-12.5
Charlevoix	43.57	25.40	44.00	-18.17	-41.7	0.43	1.0
Cheboygan	40.30	21.08	40.39	-19.22	-47.7	0.09	0.2
Chippewa	49.15	28.04	46.83	-21.11	-42.9	-2.32	-4.7
Clare	46.04	22.89	41.51	-23.15	-50.3	-4.53	-9.8
Clinton	57.56	31.21	50.66	-26.35	-45.8	-6.90	-12.0
Crawford	43.54	24.66	43.60	-18.88	-43.4	0.06	0.1
Delta	55.65	30.37	46.62	-25.28	-45.4	-9.03	-16.2
Dickinson	57.48	33.32	49.82	-24.16	-42.0	-7.66	-13.3
Eaton	59.83	33.34	53.08	-26.49	-44.3	-6.75	-11.3
Emmet	36.77	25.67	43.17	-11.10	-30.2	6.40	17.4
Genesee	61.59	30.46	51.50	-31.13	-50.6	-10.09	-16.4
Gladwin	48.70	24.78	43.35	-23.92	-49.1	-5.35	-11.0
Gogebic	55.64	36.36	51.59	-19.28	-34.6	-4.05	-7.3
Grand Traverse	48.44	26.58	45.96	-21.86	-45.1	-2.48	-5.1
Gratiot	54.37	26.02	49.42	-28.35	-52.1	-4.95	-9.1
Hillsdale	50.95	24.52	46.42	-26.43	-51.9	-4.53	-8.9
Houghton	55.17	34.45	52.81	-20.72	-37.5	-2.36	-4.3
Huron	44.36	27.68	46.44	-16.68	-37.6	2.08	4.7
Ingham	72.27	42.22	61.45	-30.05	-41.6	-10.82	-15.0
Ionia	53.80	26.04	46.91	-27.76	-51.6	-6.89	-12.8
Iosco	39.48	22.00	39.61	-17.48	-44.3	0.13	0.3
Iron	57.55	33.37	48.80	-24.18	-42.0	-8.75	-15.2
Isabella	53.43	30.40	52.89	-23.03	-43.1	-0.54	-1.0
Jackson	59.42	27.97	47.91	-31.45	-52.9	-11.51	-19.4
Kalamazoo	62.00	31.90	54.43	-30.10	-48.6	-7.57	-12.2
Kalkaska	41.89	23.67	41.42	-18.22	-43.5	-0.47	-1.1
Kent	54.76	29.02	47.24	-25.74	-47.0	-7.52	-13.7
Keweenaw	38.40	26.33	37.73	-12.07	-31.4	-0.67	-1.8

### Exhibit 42 - Continued

<u>County</u>	<u>1993 Rate</u>	<u>2002 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	28.87	45.93	-17.58	-37.8%	-0.52	-1.1%
Lapeer	50.21	21.55	42.28	-28.66	-57.1	-7.93	-15.8
Leelanau	27.99	19.47	33.30	-8.52	-30.5	5.31	19.0
Lenawee	56.58	28.50	47.98	-28.08	-49.6	-8.60	-15.2
Livingston	52.56	24.08	43.82	-28.48	-54.2	-8.74	-16.6
Luce	45.07	22.02	39.47	-23.05	-51.1	-5.60	-12.4
Mackinac	33.71	22.08	36.15	-11.63	-34.5	2.44	7.2
Macomb	59.79	32.18	50.39	-27.61	-46.2	-9.40	-15.7
Manistee	48.28	29.98	47.98	-18.30	-37.9	-0.30	-0.6
Marquette	51.88	28.52	47.29	-23.36	-45.0	-4.59	-8.9
Mason	43.11	26.97	43.88	-16.14	-37.4	0.77	1.8
Mecosta	48.59	26.28	46.06	-22.31	-45.9	-2.53	-5.2
Menominee	57.02	28.84	49.22	-28.18	-49.4	-7.80	-13.7
Midland	46.96	30.90	49.04	-16.06	-34.2	2.08	4.4
Missaukee	47.12	26.21	44.36	-20.91	-44.4	-2.76	-5.9
Monroe	49.25	26.20	47.67	-23.05	-46.8	-1.58	-3.2
Montcalm	52.06	28.12	49.91	-23.94	-46.0	-2.15	-4.1
Montmorency	36.97	22.28	40.04	-14.69	-39.7	3.07	8.3
Muskegon	58.23	31.67	52.01	-26.56	-45.6	-6.22	-10.7
Newaygo	53.55	31.58	51.74	-21.97	-41.0	-1.81	-3.4
Oakland	55.17	35.00	50.10	-20.17	-36.6	-5.07	-9.2
Oceana	46.01	29.14	46.45	-16.87	-36.7	0.44	1.0
Ogemaw	42.63	24.10	42.58	-18.53	-43.5	-0.05	-0.1
Ontonagon	54.16	33.37	50.34	-20.79	-38.4	-3.82	-7.0
Osceola	50.42	26.59	46.25	-23.83	-47.3	-4.17	-8.3
Oscoda	40.06	21.75	39.83	-18.31	-45.7	-0.23	-0.6
Otsego	38.67	21.87	42.40	-16.80	-43.5	3.73	9.7
Ottawa	49.06	26.73	45.63	-22.33	-45.5	-3.43	-7.0
Presque Isle	39.95	22.38	40.12	-17.57	-44.0	0.17	0.4
Roscommon	40.65	21.11	38.50	-19.54	-48.1	-2.15	-5.3
Saginaw	54.34	27.09	46.42	-27.25	-50.2	-7.92	-14.6
Saint Clair	50.34	27.54	46.78	-22.80	-45.3	-3.56	-7.1
Saint Joseph	52.07	27.18	49.25	-24.89	-47.8	-2.82	-5.4
Sanilac	47.79	25.73	46.26	-22.06	-46.2	-1.53	-3.2
Schoolcraft	52.24	23.82	42.47	-28.42	-54.4	-9.77	-18.7
Shiawassee	53.29	28.09	49.41	-25.20	-47.3	-3.88	-7.3
Tuscola	52.53	28.53	52.53	-24.00	-45.7	0.00	0.0
Van Buren	53.25	32.44	51.75	-20.81	-39.1	-1.50	-2.8
Washtenaw	59.97	37.56	54.45	-22.41	-37.4	-5.52	-9.2
Wayne	67.77	42.67	64.82	-25.10	-37.0	-2.95	-4.4
Wexford	56.78	31.72	51.40	-25.06	-44.1	-5.38	-9.5
<b>State Average</b>	<b>56.64</b>	<b>32.60</b>	<b>51.00</b>	<b>-24.04</b>	<b>-42.4%</b>	<b>-5.64</b>	<b>-10.0%</b>

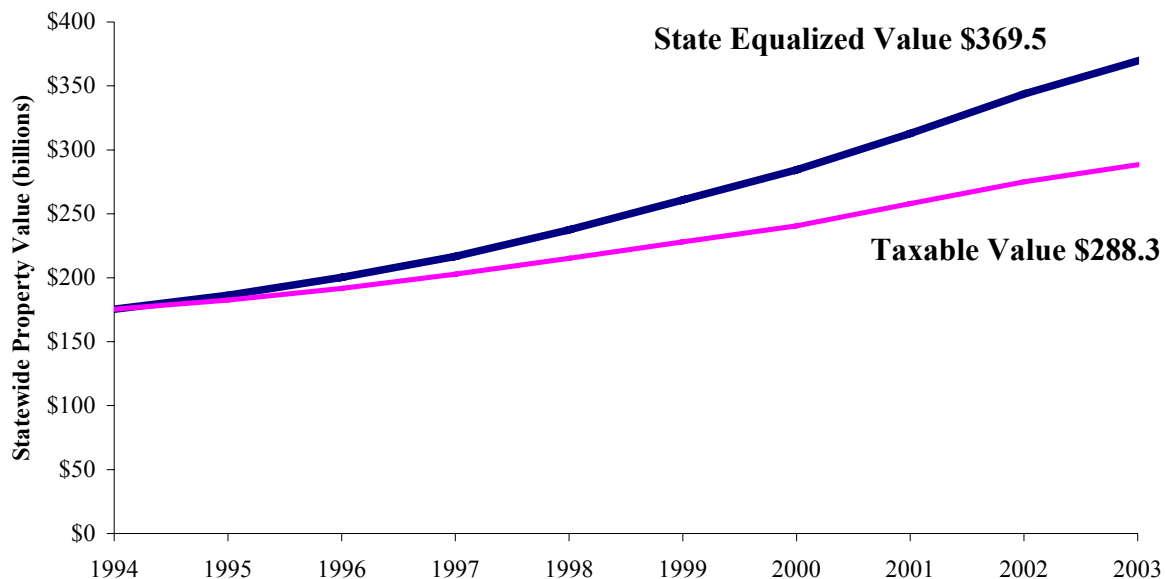
Source: 1993 average millage rates from State Tax Commission; 2002 average millage rates from Tax Analysis Division, Michigan Department of Treasury.

## SECTION 8: TAXABLE VALUE CAP

Before school property tax reform in 1994, 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).<sup>20</sup> 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 steadily. By calendar year 2003, statewide taxable value was \$81.2 billion (22.0 percent) less than SEV. Exhibit 43 provides a history of the growing gap between SEV and taxable value.

**Exhibit 43**  
**Gap Between SEV and Taxable Value Grows**

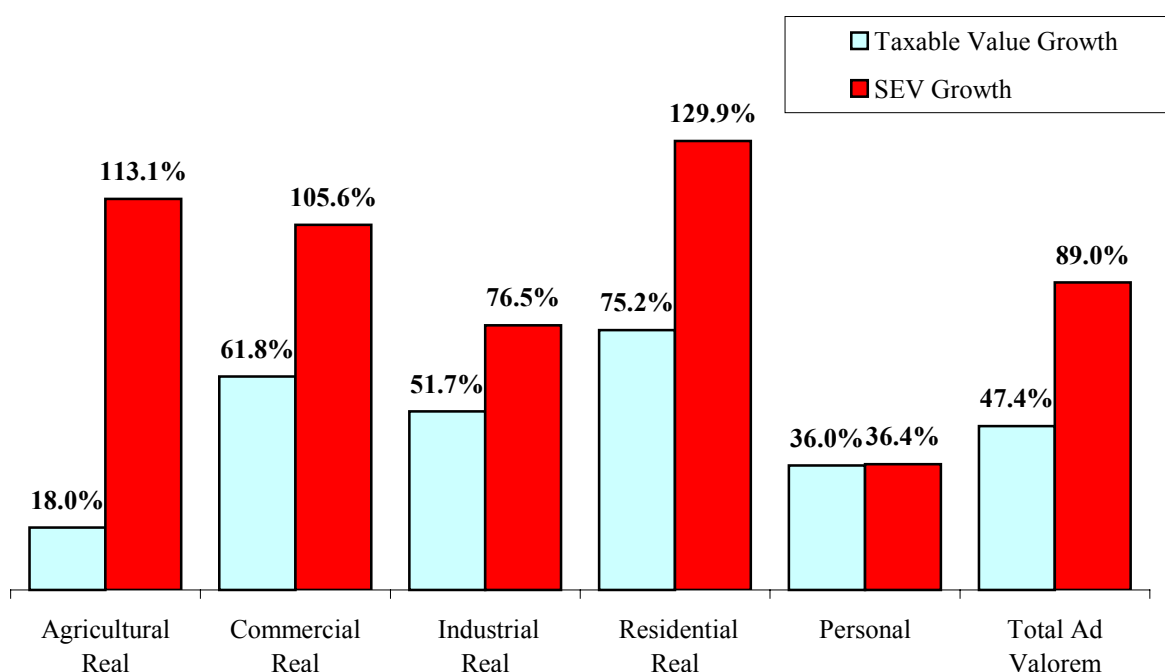


Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury.

<sup>20</sup>More specifically, the taxable value cap limits a property's taxable value growth in a given calendar year (e.g., 2003) to 5 percent or inflation in the previous fiscal year (e.g., FY 2002). 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 2002) by the average U.S. CPI from the previous fiscal year (e.g., FY 2001).

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 113.1 percent, while agricultural taxable value has increased only 18.0 percent. (See Exhibit 44.) 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 44**  
**Taxable Value and SEV Growth**  
**Cumulative Growth, 1994 – 2003**

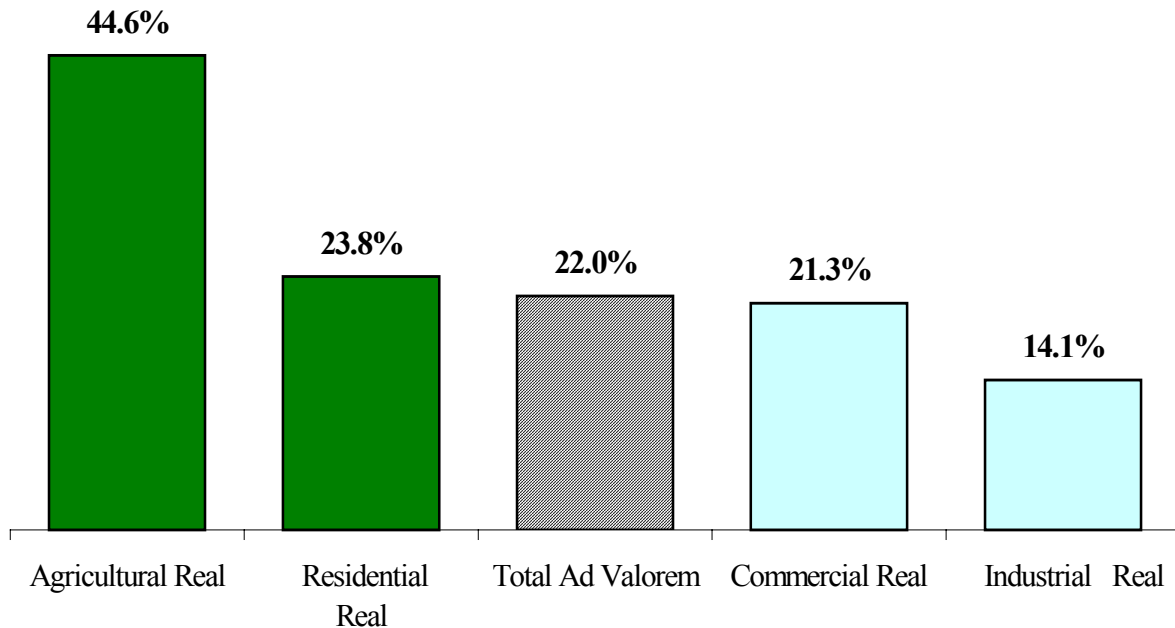


Source: State Tax Commission and Tax Analysis Division, Michigan Department of Treasury.

As a result, 2003 statewide agricultural taxable value equaled only 55.4 percent of SEV. Thus, 2003 agricultural taxable value was 44.6 percent less than agricultural SEV, twice the overall property value difference of 22.0 percent. (See Exhibit 45.) Residential property has seen the second largest percentage reduction. Since 1994, residential real property SEV has grown 129.9 percent, while residential taxable value has increased 75.2 percent. Given this, 2003 residential taxable value equaled 22.1 percent less than residential SEV. A strong housing market over this time period has 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 105.6 percent, while commercial real property

**Exhibit 45**  
**Percent Difference, Taxable Value and SEV**  
**2003**



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

taxable value has grown only 61.8 percent. As a result, 2003 commercial real taxable value equaled 21.3 percent less than commercial real SEV.

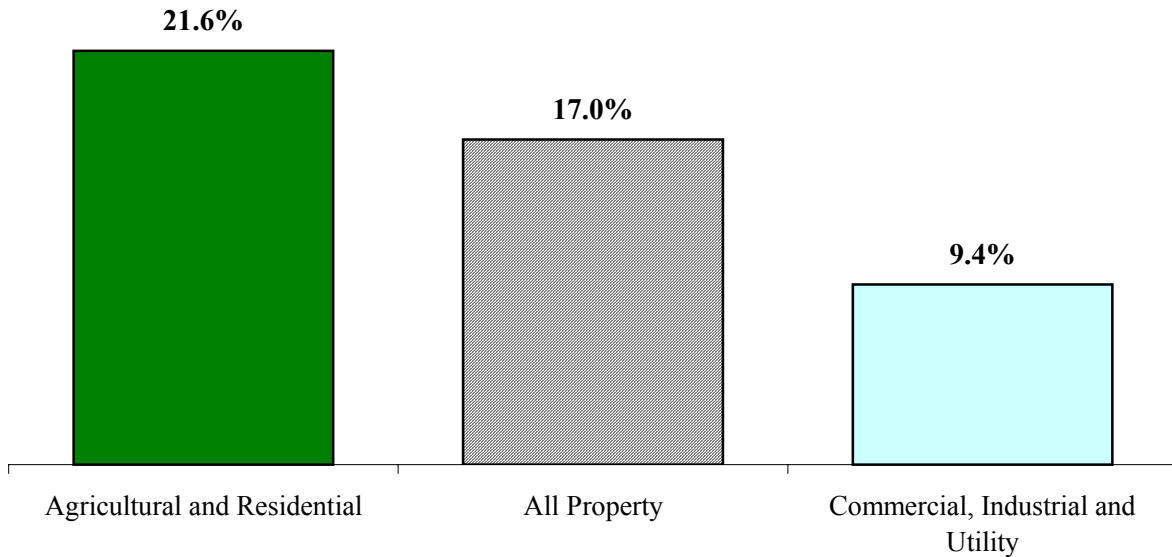
Compared to the other three major real property classifications, industrial property has seen the smallest divergence between SEV and taxable value growth. With 76.5 percent SEV growth and 51.7 percent taxable value growth between 1994 and 2003, 2003 industrial real taxable value equaled 14.1 percent less than industrial real SEV.

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

In 2002, the taxable value cap reduced property taxes by \$2.1 billion (17.0 percent) statewide. The savings for the taxable value cap in 2000 was \$1.6 billion. 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 21.6 percent while reducing property taxes on commercial, industrial, and utility property by 9.4 percent. (See Exhibit 46.)

With the strong housing sector, market values have generally been increasing steadily throughout the state. This in turn has helped widen the gap between taxable value and SEV for residential property and increase the savings provided by the taxable cap.

**Exhibit 46**  
**Taxable Value Cap Percentage Property Tax Savings, 2002**



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

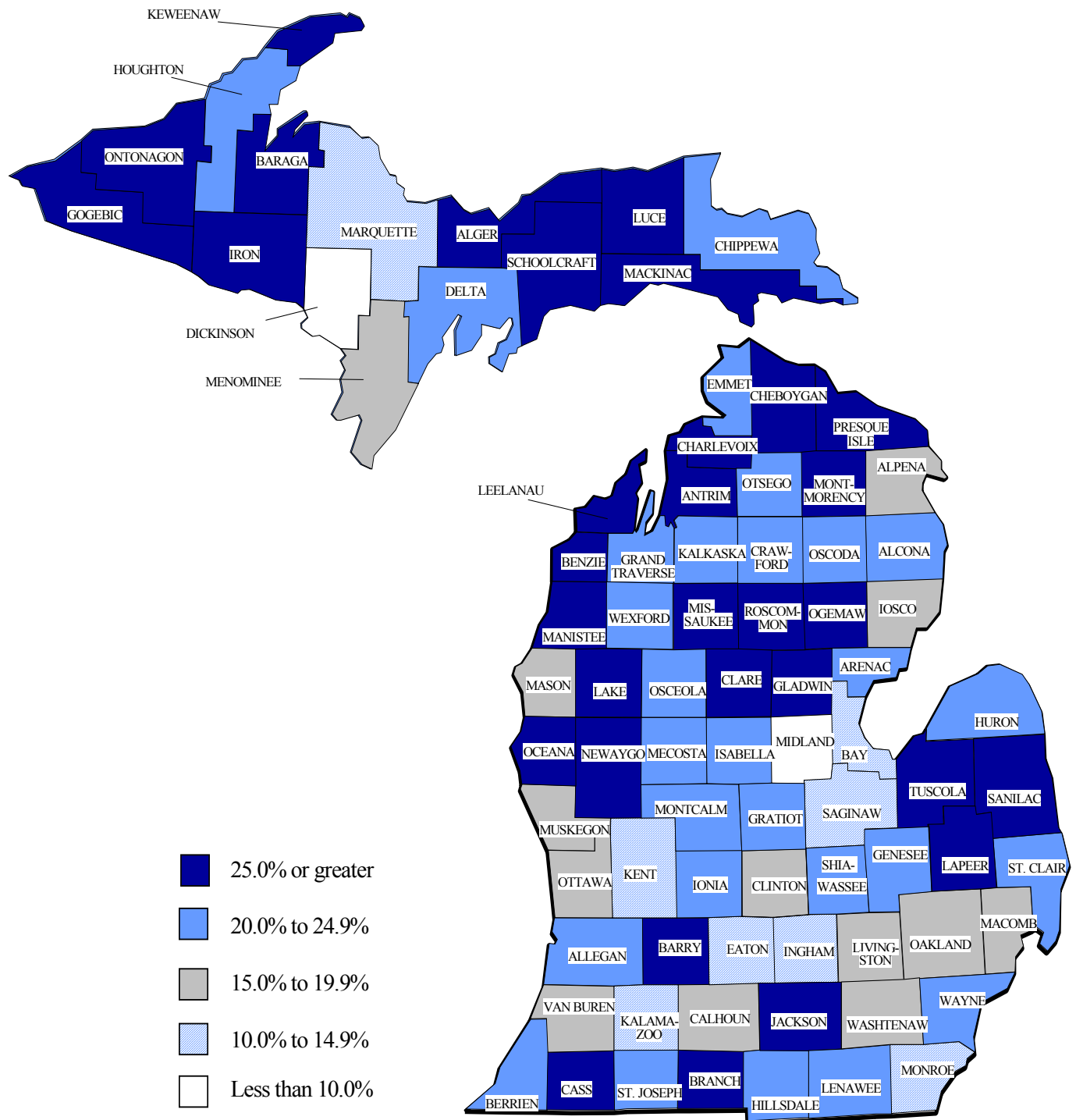
Given the differing rate of property tax growth and differing property composition across counties, the impact of the taxable value cap has varied across counties. (See Exhibit 47.) In 58 of the 83 counties, the taxable value cap reduced property taxes by 20.0 percent or more in 2002. In two counties, the taxable value cap reduced property taxes by less than 10.0 percent. In 33 counties, the cap reduced property taxes by 25.0 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. Benzie County saw the greatest percent tax savings (36.4 percent), followed by Leelanau County (35.5 percent) and Keewenaw County (34.8 percent). Counties with relatively high shares of industrial real property and personal property have seen the smallest taxable value cap savings: Midland County (5.6 percent) and Dickinson County (9.4 percent).

Because taxable value returns to SEV when nonagricultural 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 47**  
**Taxable Value Cap Percentage Savings by County, 2002**



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

## **SECTION 9: 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.<sup>21</sup> Fully implemented, the updated tables would have reduced 2003 personal property ad valorem taxes by an estimated \$66.3 million compared to previous depreciation multiplier tables.<sup>22</sup> However, in 2003, local assessors still 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. The local units have appealed the decision to the Court of Appeals where the case has not yet been taken up.

### **Interstate Comparisons**

Most states tax some form of personal property. (See Exhibit 48.) 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. Maryland also enacted legislation in 1999 that fully exempts personal property used for research and development instead of the partial exemption previously afforded. Iowa fully phased out its property tax on all machinery and equipment in 2002.

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<sup>21</sup>Prior 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.

<sup>22</sup>Estimate is subject to revision as more and better information becomes available.



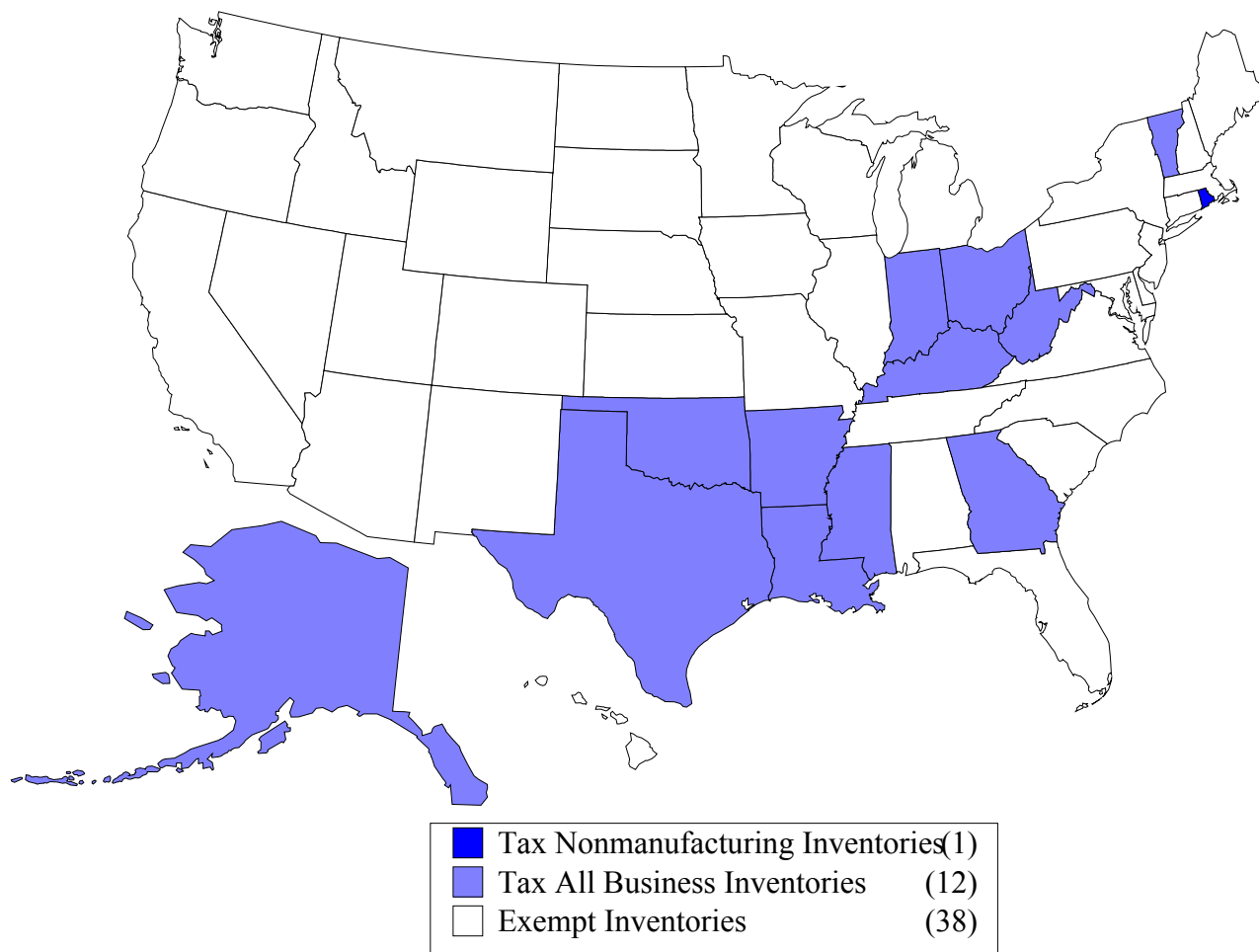
■ Exempt All Personal Property (4)  
■ Exempt Substantial Portion (8)  
■ Tax Personal Property (39)

As Exhibit 49 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.

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 1999. Beginning in 2002, Ohio started to phase-out its personal property tax on inventories by 2031.<sup>23</sup> (See Exhibit 51.)

#### Exhibit 49 Twelve States Tax Inventory Personal Property



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

<sup>23</sup>Prior 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. Personal property tax collections grew in 2002 and 2003; therefore, in tax year 2003, inventories were assessed at 23 percent. The tax year 2005 rate is also 23 percent. Beginning in 2007, the assessment ratio is reduced one percentage point each year regardless of property tax growth until the rate reaches zero.