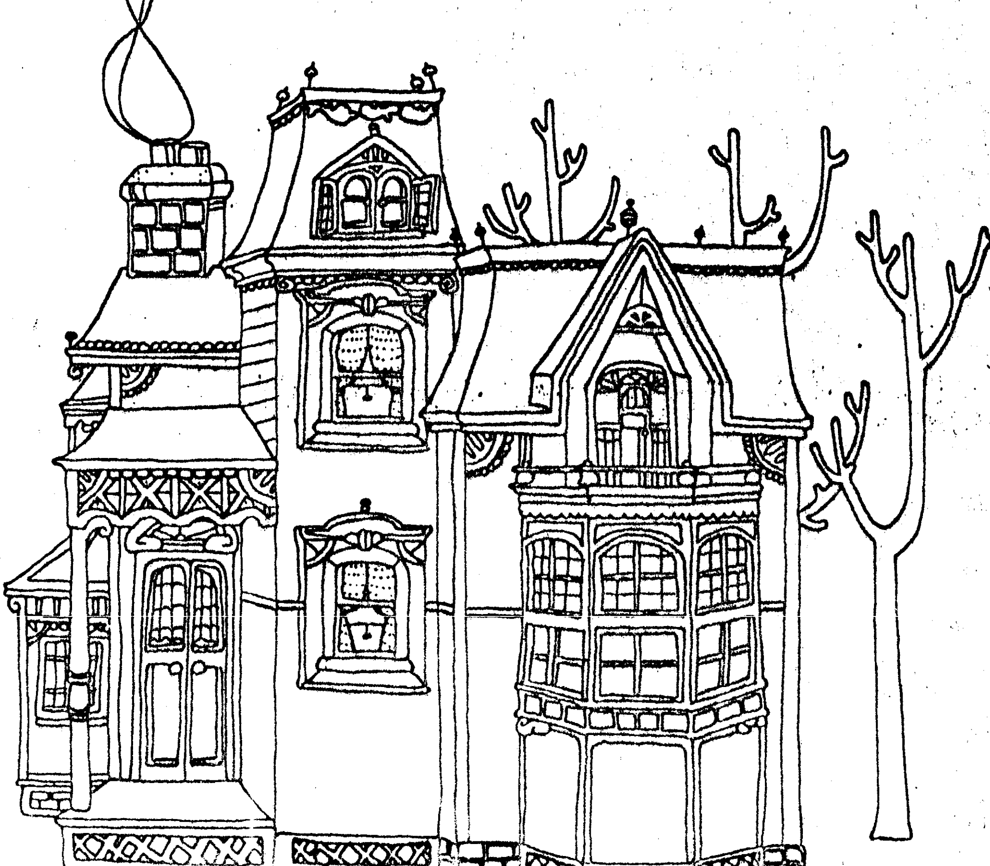
WHAT'S THE CENTS?

PROPOSAL A

A CONSTITUTIONAL AMENDMENT AFFECTING:

PROPERTY TAX
SALES TAX
LOCAL REVENUE GROWTH

MAY 19, 1981



Michigan Association
of School Administrators

1981 PROPERTY TAX CUT BALLOT PROPOSAL

PROGRAM OBJECTIVES

1. Increased Property Tax Relief
2. State and Local Spending Cuts
3. Simplicity
4. Public Accountability
5. Slower Property Tax Growth
6. Visibility
7. Fiscal Equity
8. Balanced Tax Structure
9. Uniformity of Assessments

BALLOT PROPOSAL

1. 50 Percent Homestead Property Tax Cut (directly off tax bill)
   - -- Operating millage only
   - -- $1,400 maximum, indexed
2. Property Tax Growth Capped at 6 Percent Annually
3. 50 Percent Cut in Local Income Taxes
   - -- $100 maximum per each one-half percent rate
4. Revised Property Tax Credit Program
   - -- Relief if property taxes exceed 2.5 percent of income
   - -- Special low income provisions for all taxpayers
5. Voter Approval for Property Tax Millage Increases
6. $250 Million Cut in State Spending
7. 1 1/2 Cent Increase in Sales Tax
   - -- Constitutional amendment
8. Allow Assessment of Farm Property by Its Use Value
9. Earmark Lottery Revenue for Education
   - -- Dedicate to School Aid Fund

FISCAL IMPACT SUMMARY
(millions)

$ 1,200*	50 Percent Property Tax Cut
120**	50 Percent Local Income Tax Cut
115	Increased Property Tax Credits
$ 1,415	....................INCREASED PROPERTY TAX RELIEF
- 800	1 1/2 Cent Sales/Use Tax
- 385	Reduced Property Tax Credits
$ 250	....................NET REDUCTION IN STATE REVENUE

* Could be reduced by up to $50 million due to the 6 percent revenue growth cap; however, this amount may be offset by increased millage rates.

** Assumes 1 percent increase in city income tax rates in Detroit and other cities experiencing fiscal difficulties.

S J R = Senate Joint Resolution

A COMPARISON OF PROPOSAL A AND SJR "G" (TISCH III)*

PROPOSAL A

Proposal A would cut property taxes, increase the sales tax and limit the growth of future property tax revenue for support of schools and other local public services.

SJR "G" (TISCH III)

SJR "G" would roll back property tax assessments from the current 50 percent of market value to one-third and would require the state to make up for revenue lost by local units of government. The proposal provides no shift to new taxes, which means that both state and local units of government would be required to operate with substantially less revenue. In addition, the proposal would limit the growth of local government spending to two percent a year, provide property tax relief measures for senior citizens and restrict the imposition of new taxes.

TAX RELIEF

Proposal A	SJR "G" (Tisch III)
50 percent Homestead Property Tax Cut, $1,400 maximum, indexed.	Reduces property tax assessment from the maximum of 50 percent of true cash value (TCV) to: 41 2/3 percent of 1980 TCV in 1981 33 1/3 percent of 1980 TCV in 1982 33 1/3 percent of TCV in 1983 and thereafter.
50 percent reduction in local income taxes.	Exempts seniors (62 and older) from school operating taxes.
Revised Property Tax Credit Program.	

TAX GROWTH LIMITATION

Proposal A	SJR "G" (Tisch III)
6 percent limit on annual growth of property tax revenue by class. Allows voter approval to increase or waive the limitation.	Rolls back mills so that property taxes cannot increase more than 2 percent. Allows voter approval to restore millage.

STATE REIMBURSEMENT TO LOCAL UNITS OF GOVERNMENT

Proposal A	SJR "G" (Tisch III)
100 percent of revenues lost as a result of the property tax and city income tax rebates.	100 percent reimbursement for revenues lost due to reduction in percentage of true cash value and for senior citizens school tax exemption.

REVENUE REPLACEMENT

Proposal A	SJR "G" (Tisch III)
Raises sales tax from 4¢ to 5 1/2¢ on the dollar. Net reduction in state revenue is approximately $250 million.	No replacement revenue. Net reduction in state revenue estimated at $2.7 billion.

(OVER)

PROPOSAL A

EDUCATIONAL FUNDING

Limits local revenue growth to 6 percent by class.

Has a disequalizing effect on the state aid formula which would have to be adjusted if Proposal A is adopted.

IN GENERAL

Proposal A itself does not cause cuts in local revenue but limits the amount of revenue growth that local units were anticipating and can realize. However, school districts would lose revenue because of declining enrollments and the current method of computing the state aid formula unless it is adjusted as is anticipated should Proposal A pass.

SJR "G" (TISCH III)

Limits local revenue growth to 2 percent.

Total state expenditures per pupil could not be reduced below 1978-79 level, contemporized annually.

It is estimated that SJR "G" would result in a loss to state government of approximately $2.7 billion a year. Such a drastic cut in the state's budget will cause a severe reduction in services provided by the state. Guarantees of full reimbursement to local units of government for property tax losses should be viewed in light of the enormous reduction in available state funds.

WHAT IF PROPOSAL "A" IS DEFEATED?

The threat of Tisch III has legislators so concerned (1982 elections in reapportioned districts) that a more constructive plan has little, if any, chance for legislative consideration. An alternative could well be if Proposal A is defeated on May 19 that the Legislature will interpret nonapproval to mean the tax cuts and budget reductions proposed are not great enough thus resulting in legislative action to provide greater tax relief out of existing state revenues to avoid the constitutional requirement of including a vote of people to increase any state tax.

IN CONCLUSION...

Although there are some inherent problems with Proposal A, the ultimate question of support or opposition revolves around speculations of future tax proposals and political considerations such as:

-- If this proposal is approved, will it diffuse support for Tisch so that any proposal for November, 1982, can be defeated?

-- If this proposal is defeated, what are the prospects for a more destructive proposal, either prior to or for November, 1982?

-- If this proposal is not approved, and no other intermediate action is enacted, can the forces be coalesced to defeat a Tisch proposal in November 1982? Additional considerations: Governor's race, U.S. Senate race (Riegle vs. ?), Representatives and Senators running in reapportioned districts, what will be the perceived voters mood by candidates and what will really be the dominate mood of the likely voters?

*SJR "G" was introduced by Senator Jack Welborn in hopes of obtaining legislative approval to place a Tisch proposal on the May 19 ballot. Mr. Tisch is currently working on a new Tisch III proposal which we understand will surface prior to the May 19 special election. Indications are the next Tisch amendment will have more severe implications for local and state governments.

MARKET OPINION

SURVEY RESULTS

SUMMARY OF RESULTS

Survey of Michigan Voters on May 19, 1981, Tax Plan
MARKET OPINION RESEARCH
April, 1981

This opinion survey included as respondents 400 persons 18 years old or over who are registered voters and who responded to the questionnaire. It is important to recognize that MOR interviewers contacted households and sought opinions on the May 19 Tax Plan from whomever answered the telephone providing that person was a registered voter. It was not a survey of specific persons.

Therefore, the study sought opinions from sample Michigan households and has a confidence level of 95 percent ± 5 percent. MOR also determined that 262 of the 400 respondents were "most likely" voters and tabulated responses of these persons. "Most likely voter" data has a confidence level of 95 percent ± 7 percent.

When asked how often they had voted in the past few years in all elections, including school, local and primary elections, 33.75 percent of all respondents said "all of them" while 31.75 percent of "most likely" respondents said they had voted in every election.

Overall, there is little variance between all respondents and "most likely" voters; 49.6 percent of the "most likely" indicated approval of the tax plan (19 percent not sure, need more information), while 51 percent of all respondents favored the plan with another 17 percent reserving judgment until they have more information.

Most valuable for M.A.S.A.-M.A.S.B. member information is a summary of information from the "most likely" voters. That summary follows:

- 70 percent are 35 years old or older with the heaviest concentration in the 35 to 55 age range
- 86 percent have at least a high school education
- 33 percent belong to a labor union
- 82 percent are homeowners
- 68 percent have a family income of at least $20,000
- 47 percent have children age 17 or younger; 35 percent have children in public school
- 86 percent are white, 12.6 percent black and 1.4 percent other
- 81 percent know that this election has been scheduled

Before being asked to answer any survey questions, all respondents were read five changes that would occur if the proposal is approved: (1) reducing property taxes; (2) cutting city income taxes; (3) increasing the state sales tax; (4) reducing state government spending, and (5) capping at 6 percent growth in local government spending, including schools.

When asked "if the special election were today, how would you vote on this tax plan," 51 percent of the respondents said they would vote "yes," 25 percent would

(OVER)

vote "no." Twenty-four (24) percent said they were not sure, 17 percent said they needed more information to answer, 3 percent didn't know how they would vote and 4 percent would not vote on the plan.

When asked if they approved of the proposed tax changes, item by item, respondents favored all changes but by varying margins: reducing property taxes - 70 percent; cutting city income taxes - 53 percent; increasing sales tax - 53 percent; reducing state government spending - 58 percent and limiting local budgets - 55 percent.

Seventy-eight (78) percent of the respondents had heard that there will be a special election on May 19 to vote on a plan to change taxes. Thirty-six (36) percent of the respondents said they had voted for the Tisch proposal last November.

The sample of registered voters were also asked if they would vote "yes" or "no" on the plan if they learned that certain cutbacks would result. Only 37 percent would vote "yes" if state school aid were cut, 38 percent if support for higher education was reduced, and 28 percent if mental health services were affected. If their family would save money under this plan, 76 percent would vote to approve it; however, if they learned that their federal income taxes would increase, only 31 percent would vote "yes."

The survey also included this question: "When issues are on the ballot in an election campaign, do you find you generally agree or generally disagree with the opinions or stands of these persons?" Several were listed including the Governor, Legislature, Robert Tisch, major and local newspapers, local government officials and school boards.

Highest marks went to "your local school board" with 50 percent saying they generally agreed with its opinions on ballot issues, with Governor Milliken next at 45 percent and issues on which the Governor and Legislature agree at 46 percent.

PROPOSAL A

IMPLEMENTATION

ISSUES

PROPOSED PAYMENT SCHEDULE FOR SCHOOL AID AND HOMESTEAD PROPERTY TAX REIMBURSEMENT

SCHOOL AID PAYMENTS

Beginning October, 1981, through June, 1982

1/9 (87 percent) of state aid entitlement payable on the 20th of every month; districts will receive two payments in December and none in January.

Beginning July, 1982 & Thereafter

6 1/2 percent of state aid entitlement in July (one-half of normal August payment).
6 1/2 percent of state aid entitlement in August.
No payment in September.
1/9 of 87 percent on the 20th of every month; districts will receive a double payment in December and none in January.

Homestead Property Tax Reimbursement under Proposal A

Monthly payments beginning August 20 through December 20 on summer taxes and January 20 through June 20 on winter taxes. State will pay 1 percent monthly interest on unreimbursed balance beginning October 20 on summer taxes and March 20 on winter taxes. Each city and township treasurer will distribute the reimbursements to schools on the first normal business day of the month following receipt of the reimbursement for the state.

PROPOSED PAYMENT SCHEDULE

1981	HOMESTEAD PROPERTY TAX REIMBURSEMENT				SCHOOL AID		
	Summer Taxes		Winter Taxes		Present Payment Schedule Generally 1st of Month; Proposed Payment Schedule, 20th of Month		
	Pres.	Prop.	Pres.	Prop.	Pres.	Prop.	
July							
Aug.		75.0			(160.7)	160.7	
Sept.		75.0					
Oct.	(450.0)	100.0			(274.5) 20%	125.12 (9.66%)	19.3%
Nov.		100.0				125.12 (9.66%)	
Dec.		100.0			(259.6) 19%	250.24 (19.3%)	
1982							
Jan.				125.0			
Feb.				125.0	(213.6) 17%	125.12 (9.66%)	19.3%
Mar.			(750.0)	125.0		125.12 (9.66%)	
April				125.0	(199.5) 16%	125.12 (9.66%)	19.3%
May				125.0		125.12 (9.66%)	
June				125.0	(186.4) 15%	125.12 (9.66%)	
July						84.13 (6.5%)	
Aug.		75.0			(160.7) 13%	84.13 (6.5%)	
Sept.		75.0					

NOTE: 1/9 of 87 percent = 9.66 Percent

PROPOSED TREATMENT OF "NEW CONSTRUCTION"

1. Calculate percentage of tax reduction excluding value of new construction.

$$\% \text{ Reduction} = 1 - \frac{\text{1980 SEV} \times 1.06}{\text{1981 SEV} - \text{New Construction}}$$

2. Apply reduction to all property including new construction. Rationale: While the revenue on new construction is reduced by the percentage reduction on other property, it maintains uniform treatment between old and new property. This is consistent with the way the Headlee rollback is calculated and applied.

EXAMPLE

1980 SEV (Residential Class) = $100 million

1981 SEV (Residential Class) = $116 million

1981 SEV on New Construction = $2 million

1981 SEV Excluding New Construction = $114 million

1980 Millage Rate = 20 mills

$$\text{1981 Exemption} = 1 - \frac{\text{1980 SEV} \times 1.06}{\text{1981 SEV} - \text{New Construction}}$$

$$= 1 - \frac{100 \times 1.06}{116 - 2}$$

$$= 1 - \frac{106}{114}$$

$= 1 - \underline{.9298}$ = 1981 Tax Limitation Fraction

= 7.02 Percent Exemption (applied uniformly to all pieces of property within the class prior to the 50 percent tax credit.)

1980 Property Tax Revenue = 20 mills x $100 million = $2 million on existing property

1981 Property Tax Revenue = 20 mills x $114 million x .9298 = $2.12 million--a 6 percent increase

1981 Property Tax Revenue = 20 mills x $2 million x .9298 = $37,192 on New Construction

1981 Total Property Tax Revenue = $2,120,000 + $37,192 = $2,157,192.00

THE SCHOOL AID FORMULA AND PROPOSAL A

Because the school aid formula Section 21(1) is based upon SEV and millage and because Proposal A limits local revenue without rolling back either SEV or millage, the proposal has a disequalizing effect on how the school aid formula is calculated as shown in the example below:

1980-81

SEV/pp = $40,000 } State Average
Millage Levy = 30

Formula = $357 + $46.24

Guarantee for this district at 30 mills = $1,744.20

$1,744.20 Guarantee
− $1,200.00 Local
$ 544.20 State Aid

1981-82

SEV/pp = $48,000 (20 percent SEV increase)

Millage levy = 30

Anticipated Formula = $360 + $50.55

Guarantee for this district at 30 mills = $1,876.50

Without Proposal A

$1,876.50 Guarantee
− $1,440.00 Local
$ 436.50 State Aid

With Proposal A and No Adjustment in the Formula

Actual Local Revenue
With 6 Percent Cap = $1,272.00 (106 percent of $1,200)
+ 436.50 (State Aid using Actual SEV & Millage Rate)
$1,708.50 – $15.70 less revenue per pupil than 1980-81

As you can see, the formula is incorrectly interpreting local effort. Should Proposal A pass, it is the Legislature's intent to "revisit" the formula immediately after the election to try and rectify the disequalizing effect it has on the formula. This can be accomplished in one of two ways:

1. Adjust the district's millage rate to an effective average millage reflecting the amount of local revenue actually generated. This would reduce the state's cost thereby necessitating an increase in the formula guarantee.
2. Adjust the district's SEV to reflect the amount of local revenue actually generated. This would increase the state's cost which would most likely result in a lower formula guarantee.

APPENDIX

PROPOSAL A

PROPOSAL TO REDUCE PROPERTY TAXES, REDUCE CITY INCOME TAXES, LIMIT GROWTH OF PROPERTY TAX REVENUES, RETURN ADDITIONAL SALES TAX TO LOCAL GOVERNMENTS AND SCHOOLS AND GIVE STATE LOTTERY PROFITS TO SCHOOL AID FUND.

The proposed amendment would:

1. Reduce by 50 percent homestead property taxes used for operating schools and local governments. Reduction limited to $1,400.00 in 1981 and changed yearly as home values change.

2. Reduce by 50 percent local individual income taxes on first $40,000 of taxable income.

3. Make state return to local governments all funds lost by above reductions.

4. Limit yearly property tax revenue growth to 6 percent by property type unless raised by local voters.

5. Raise sales tax from 4 percent to 5.5 percent. Raise must be returned to local governments and schools.

6. Let farms and forests be assessed at use value.

7. Give state lottery profits to school aid fund.

Should this amendment be adopted?

YES ____

NO ____

Filed with the Secretary of State
March 19, 1981

STATE OF MICHIGAN
81ST LEGISLATURE
REGULAR SESSION OF 1981

Introduced by Reps. Thomas H. Brown, Roy Smith, Trim, Buth, Cropsey, Stacey, Van Singel, Hillegonds, Willoughby, Welborn, Binsfeld, Dutko, Bennett, Sietsema, Bullard, Scott, Spaniola, Lincoln, Griffin, McCollough, Fessler, Gnodtke, Ogonowski, Brotherton, Owen, Anderson, Fitzpatrick, Armbruster, Mueller, Maynard, Ballantine, Dillingham, Cruce, Harrington and Mahalak
Rep. Vanek named co-sponsor

ENROLLED HOUSE JOINT RESOLUTION G

A JOINT RESOLUTION proposing amendments to section 41 of article 4 and sections 3, 8, 30, and 31 of article 9 of the state constitution of 1963, to provide for the deposit of net lottery revenues in the state school aid fund; to provide for the allowance of basing the assessment of agricultural and forestry property on its use as agricultural and forestry property; to provide for an exemption from collection of 50% of ad valorem property taxes levied on a homestead for operating purposes, but not to exceed a maximum of not less than $1,400.00, and for an exemption from collection of 50% of resident and nonresident local individual income taxes, but not to exceed a maximum of not less than $100.00 for each 1/2% levy of local income taxes; to provide for adjustment of the maximum ad valorem property tax exemptions; to provide for reimbursement of local units for revenue not collectible because of these exemptions; to provide for the imposition of an additional 1.5% sales and use taxes for the purpose of providing required local unit reimbursement; to provide for certain adjustments to state revenue and expenditure limitations and to the calculation of state spending paid to local units of government; to eliminate the required reduction in the maximum authorized millage rate due to increases in the assessed valuation of property over the change in the general price level; and to provide that a certain percentage of ad valorem property tax levy for operating purposes be exempt from collection from each class of property; to require approval of a majority of the qualified electors of the local unit thereon to increase the millage rate above the rate levied in the previous year.

Resolved by the Senate and House of Representatives of the state of Michigan, That the following amendments to section 41 of article 4 and sections 3, 8, 30, and 31 of article 9 of the state constitution of 1963, to provide for the deposit of net lottery revenues in the state school aid fund; to provide for the allowance of basing the assessment of agricultural and forestry property on its use as agricultural and forestry property; to provide for an exemption from collection of 50% of ad valorem property taxes levied on a homestead for operating purposes, but not to exceed a maximum of not less than $1,400.00, and for an exemption from collection of 50% of resident and nonresident local individual income taxes, but not to exceed a maximum of not less than $100.00 for each 1/2% levy of local income taxes; to provide for adjustment of the maximum ad valorem property tax exemptions; to provide for reimbursement of local units for revenue not collectible because of these exemptions; to provide for the imposition of an additional 1.5% sales and use taxes for the purpose of providing required local unit reimbursement; to provide for certain adjustments to state revenue and expenditure limitations and to the calculation of state spending paid to local units of government; to eliminate the required reduction in the maximum authorized millage rate due to increases in the assessed valuation of property over the change in the general price level; and to provide that a certain percentage of ad valorem property tax levy for operating purposes be exempt from collection from each class of property; to require approval of a majority of the qualified electors of the local unit voting thereon to increase the millage rate above the rate levied in the previous year, are proposed, agreed to, and submitted to the people of the state:

ARTICLE 4

Sec. 41. The legislature may authorize lotteries and permit the sale of lottery tickets in the manner provided by law. Net revenues received by the state from the operation of lotteries shall be deposited in the state school aid fund.

ARTICLE 9

Sec. 3. (1) The legislature shall provide for the uniform general ad valorem taxation of real and tangible personal property not exempt by law. The legislature shall provide for the determination of true cash value of such property; the proportion of true cash value at which such property shall be uniformly assessed, which shall not, after January 1, 1966, exceed 50%, and for a system of equalization of assessments. For purposes of assessing agricultural and forestry property, true cash value may be based, as provided by law, on its use as agricultural and forestry property.

Effective for taxes levied after December 31, 1980, 50% of the ad valorem property tax levy for operating purposes but not to exceed a maximum of not less than $1,400.00, as this maximum shall be adjusted in accordance with this section, shall be exempt from collection on the homestead of an individual who is a resident of this state. This exemption shall be applied after the exemption provided in section 31 of this article is applied. Effective for the 1981 tax year and each tax year thereafter, 50% of the resident and nonresident local individual income taxes shall be exempt from collection. However, the legislature shall establish a maximum amount of local individual income taxes which shall be exempt from collection which maximum shall not be less than $100.00 for each 1/2% levy of local income taxes. The maximum amount of ad valorem property taxes that may be exempt from collection under this section shall be adjusted annually for ad valorem property tax levies in the 1982 calendar year and for ad valorem property tax levies in each calendar year thereafter pursuant to law by the same percentage as the percentage increase or decrease in the state equalized value of residential and agricultural real property in this state, excluding new construction and improvements. The legislature may provide for alternative means of taxation of designated real and tangible personal property in lieu of general ad valorem taxation. Every tax other than the general ad valorem property tax shall be uniform upon the class or classes on which it operates.

(2) The state shall reimburse units of local government in the manner provided by law for not less than 100% of the revenues not collectible for ad valorem property tax levies in 1981 and each year thereafter because of the exemption from collection of ad valorem taxes for operating purposes on the homestead of a resident of this state as provided by this section. The legislature shall reimburse a unit of local government for 100% of the amount of revenues not collectible by a unit of local government because of the exemption for local income taxes provided in this section. Reimbursements for the exemptions provided in this section which are returned to units of local government shall be excluded from computations to determine the proportion of total state spending paid to all units of local government as annually required by section 30 of this article. Reimbursements to units of local government for the exemptions provided in this section shall not be considered a transfer of responsibility for funding a program as defined in section 26 of this article. An amount equal to the payments made to units of local government for reimbursement of the exemptions provided in this section shall be excluded from the annual determination of total state revenues for purposes of section 26 of this article, and shall not be considered an expense of state government for purposes of section 28 of this article.

Sec. 8. Except as provided in this section, the Legislature shall not impose a sales tax on retailers at a rate of more than 4% of their gross taxable sales of tangible personal property.

Beginning July 1, 1981, the Legislature shall impose additional sales and use taxes at a rate of 1.5% on the sale or use of tangible personal property, the revenue from which shall be used exclusively for purposes of reimbursing units of local government for the revenues not collectible because of the exemptions provided in section 3 of this article. The revenue from this additional sales tax shall not be included within the allocation made pursuant to sections 10 and 11 of this article.

No sales tax or use tax shall be charged or collected from and after January 1, 1975 on the sale or use of prescription drugs for human use, or on the sale or use of food for human consumption except in the case of prepared food intended for immediate consumption as defined by law.

This provision shall not apply to alcoholic beverages.

To compensate units of government other than the state for loss of revenue resulting from repeal of the sales tax on food and prescription drugs, each present allocation of sales tax revenue to such units shall be increased by one fifth.

Sec. 30. The proportion of total state spending paid to all units of Local Government, taken as a group, shall not be reduced below that proportion in effect in fiscal year 1978-79. As used in this section, total state spending shall not include transfers to or from a counter-cyclical budget and economic stabilization fund created pursuant to law.

Sec. 31. Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon. If the definition of the base of an existing tax is broadened, the maximum authorized rate of taxation on the new base in each unit of Local Government shall be reduced to yield the same estimated gross revenue as on the prior base.

Effective for taxes levied after December 31, 1980, a percentage of the ad valorem property tax levy for operating purposes shall be exempt from collection on each class of property. The percentage exemption shall be separately calculated and applied for the levy of each unit of Local Government on each class of property, but shall not apply to revenue generated by the class of property from the levy of an increased number of mills over the millage rate levied by the unit of Local Government in the previous year. This exemption shall limit the annual increase in revenues generated from ad valorem property tax levies by the unit of Local Government on the class of property of the unit of Local Government, excluding new construction and improvement, to 6%, as if the current year's millage rate, excluding the increased number of mills over the millage rate levied in the previous year, had been levied in the previous year. A millage rate shall not be increased above the rate levied in the previous year without approval of a majority of the qualified electors of the unit of Local Government voting thereon. The 6% limit may be increased or waived by approval of a majority of the qualified electors of the unit of Local Government voting thereon.

The limitations of this section shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments or contract obligations in anticipation of which bonds are issued which were authorized prior to December 23, 1978.

Resolved further, That the foregoing amendments shall be submitted to the people of the state at a special statewide election on May 19, 1981 which shall be held in the manner provided by law.

I hereby certify that on the seventeenth day of March, nineteen hundred eighty-one, the foregoing joint resolution was agreed to by the House of Representatives, by a two-thirds vote of all the Representatives-elect.

Thomas S. Husband

Clerk of the House of Representatives.

I hereby certify that on the eighteenth day of March, nineteen hundred eighty-one, the foregoing joint resolution was agreed to by the Senate, by a two-thirds vote of all the Senators-elect.

Willis C. Kandler

Secretary of the Senate.

IMPACT OF PROPOSAL A ON TAXES PAID BY VARIOUS HOMEOWNERS

Here are some examples of how the tax proposal would affect various selected homeowners according to the calculations of the Department of Management and Budget. The amount of sales taxes used in each example assumes average consumption for an average family of three. Note the changes in the Circuit Breaker credit are due to the proposed replacement of the current Circuit Breaker which provides credits for property taxes over 3.5 percent of income with a new system based on a graduated income formula, up to 2.5 percent of income.

Column A: $10,000 income household paying $500 in property taxes with $450 of that in operating taxes subject to the 50 percent cut.

Column B: $20,000 income farm household paying $2,000 in property taxes with $1,800 of that in operating taxes.

Column C: $35,000 income household paying $2,250 in property taxes with $2,025 of that in operating taxes.

Column D: $15,000 income senior citizen household paying $750 in property taxes with $675 of that in operating taxes.

Column E: $30,000 income household in Detroit paying $2,000 in property taxes with $1,800 of that in operating taxes and $600 in income taxes.

Column F: $50,000 income household paying $2,750 property taxes with $2,475 in operating taxes.

	A	B	C	D	E	F
50 percent operating tax cut	$225	$900	$1,012	$337	$900	$1,237
Minus current credits under Circuit Breaker	90	780	615	225	570	600
	$135	$120	$ 397	$112	$330	$ 637
New Circuit Breaker	15	360	218	38	210	158
New tax cut	$150	$480	$ 615	$150	$540	$ 795
City income tax credit	0	0	0	0	300	0
Sales tax increase	60	105	150	83	143	180
Net Benefit	$ 90	$375	$ 465	$ 67	$697	$ 615

THE 1981 PROPERTY TAX CUT BALLOT PROPOSAL

Department of Management and Budget
Office of Revenue and Tax Analysis

1. WHAT DOES IT DO?

The Property Tax Cut Proposal which will appear on a statewide ballot May 19, 1981 reduces summer and winter tax bills directly, and provides additional property tax relief for renters, senior citizens and other taxpayers by increasing homestead property tax relief credit benefits. It also restricts increases in property tax revenue. A state credit is also provided for half of city income taxes paid.

2. HOW MUCH PROPERTY TAX RELIEF WILL A HOMEOWNER RECEIVE, ON AVERAGE?

Net property tax relief (after reduced credits) per household will amount to about $425. Tax bills sent by the local treasurer in the summer and winter will be reduced by 50 percent. The reduction will apply to all operating property taxes (that is, excluding the amount of property taxes levied to pay for building and debt obligations). Operating taxes generally amount to about 90 percent of the total property tax bill.

3. WHAT IS THE MAXIMUM AMOUNT OF RELIEF A HOMEOWNER MAY RECEIVE?

Property taxes will be reduced by no more than $1,400 in 1981. The maximum will increase every year as residential and agricultural property taxes increase statewide to reflect inflationary increases.

4. ARE THERE ANY OTHER LIMITATIONS?

The 50 percent property tax cut will apply only to a primary residential homestead. A second home or resort property would not qualify for the increased property tax relief. Farmers may have the 50 percent reduction apply to all farmland property taxes if gross farm receipts exceed household income. Otherwise, the cut applies to farmland adjacent and contiguous to the homestead if the owner lived there ten years or more, or the homestead and five acres of land if the owner lived on the farm property less than ten years.

5. HOW DOES ONE APPLY FOR THE 50 PERCENT PROPERTY TAX CUT?

For 1981, local treasurers will provide with the property tax bill, an affidavit to taxpayers who wish to receive the tax cut. If qualified, the taxpayer would return the signed affidavit with a reduced property tax payment. In future years the affidavit would be sent to the taxpayer in February, to be returned by mid-April, to have the tax bill halved. Lending institutions would return the affidavits directly to the local treasurer for the taxpayer.

6. HOW WILL CURRENT PROPERTY TAX RELIEF CREDITS BE TREATED?

Current, all senior citizens, renters, and other property taxpayers are eligible to receive a property tax credit when the property tax (or, for renters, imputed property tax) is high relative to total household income.* As property taxes increase, so does the property tax credit benefit.

This ballot proposal would provide relief if, after the 50 percent property tax cut, property taxes exceed 2 1/2 percent of income. Those whose income is under $7,000 would receive even greater relief as shown below.

If income is	Credit Base is Property Tax in Excess of this Percent of Income
≤ $5,000	0
>$5,000 - $6,000	1%
>$6,000 - $7,000	2%
>$7,000	2 1/2%

Senior citizens and the disabled would receive 100 percent of the credit base computed as shown above. Others would receive a credit of 60 percent of the credit base.

This improved property tax relief formula will, in effect, provide greater relief to low income taxpayers and also increase the number of taxpayers eligible to participate in the program.

7. HOW WILL RENTERS BENEFIT?

Renters will receive increased property tax relief credits. Currently, a renter is eligible to claim a credit if 17 percent of annual rent paid exceeds 3 1/2 percent of income. The ballot proposal would change the 3 1/2 percent to 2 1/2 percent of income exceeding $7,000 as illustrated above.

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*NOTE: General taxpayers may obtain a property tax relief credit equal to 60 percent of the amount by which their property taxes exceed 3 1/2 percent of their total household income. Senior citizen property tax relief is even greater. Additional information may be found by referring to the state income tax forms/instruction booklet.

8. HOW WILL LOCAL GOVERNMENT OPERATIONS BE MAINTAINED IF TAXES ARE CUT 50 PERCENT?

The state will reimburse local governments (including school districts) the full amount of reduced property taxes.

9. WHERE WILL THE STATE FIND THE FUNDS TO REIMBURSE LOCAL GOVERNMENTS?

More than half the property tax cut will be funded by increasing the state sales tax rate from 4 percent to 5 1/2 percent. This increase may be used only for property tax relief. The balance will be funded by a cut in state expenditures ($230 million in the first year) and the reduced property tax credits due to the proposed property tax cut.

10. WHEN WILL LOCAL GOVERNMENTS RECEIVE THEIR REIMBURSEMENT?

Local treasurers will complete a statement indicating the amount of property taxes foregone due to the property tax cut and send the statement to the state. The state will reimburse the locals within 90 days of when the taxes are due.

11. WHY INCREASE THE SALES TAX?

Many studies have shown that Michigan underutilizes its sales tax relative to other states. To help balance the state tax structure more equitably, while still providing significant property tax relief, statewide polls indicate that the sales tax is the best possible revenue source to replace reduced property taxes. Both the electorate and Legislature have rejected all proposals to fund local governments with other tax sources such as the income tax. No sales tax is paid on such essentials as housing, food consumed at home, prescription drugs, and services.

12. HOW MUCH INCREASED SALES TAX WILL A HOUSEHOLD PAY?

A household with a $20,000 income will pay about $105 a year in increased sales taxes. A family earning $35,000 a year may pay up to $150 in additional sales taxes, but for both cases, the increased property tax relief will be greater than the increased sales tax. The actual amount a family would pay in increased sales taxes depends on its individual buying patterns.

13. HOW MUCH NET TAX RELIEF CAN A HOUSEHOLD EXPECT UNDER THIS PROGRAM?

The actual amount of net tax relief one receives is dependent on household income level, property tax levy, and taxable purchases. A family with a $20,000 income and a $1,500 total property tax bill would receive $870 in total property tax relief and pay about $105 in increased sales tax, thereby receiving a total tax relief of $765.*

14. WHAT DOES THE PROPOSAL DO TO HELP KEEP PROPERTY TAXES LOWER?

The proposal requires that property tax revenue increase no greater than 6 percent a year. The growth restriction applies to each classification of property by local unit of government. Individual properties may actually be levied property taxes in excess of 6 percent over the prior year. A reduction in property taxes required by this provision would be in the form of a direct reduction in the property tax levy. (Millage rates and assessment levels would not be altered.)

15. WHAT DOES THE PROPOSAL DO ABOUT SCHOOL PROPERTY TAXES?

All property taxes are reduced uniformly 50 percent. School districts will be reimbursed directly for the full amount of the reduction in property taxes.

16. WHAT DOES THE PROPOSAL DO TO REDUCE OTHER LOCAL TAXES?

A 50 percent cut in local income taxes is provided through a credit against the taxpayer's city income tax liability. This 50 percent cut supersedes the current city income tax credit. The local income tax credit may be up to $100 for every half percent levied.

17. HOW DOES THIS PROPOSAL AFFECT THE STATE SPENDING AND REVENUE LIMIT OF 1978?

The state spending and revenue limit approved by the electorate in 1978 will not be affected by this proposal. The increase in sales tax collections and reduced payments of the existing property tax relief credits will not alter the level of revenues the state may raise or level of spending the state may incur.

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* Actual net tax relief would be $285 after adjusting out $480 which would have been received under the current property tax relief program prior to the tax cut.

18. WHAT IS REQUIRED TO ENACT THIS PROPOSAL?

The State Legislature approved a resolution putting this proposal on the May 19, 1981 Michigan ballot. To be in effect by summer, the electorate must approve the measure in May. If approved by the electorate, property taxes will be reduced beginning this summer. A constitutional amendment is required to change the sales tax rate; the amendment would guarantee property tax relief. The increase would take effect July 3.

19. WHAT ARE THE OBJECTIVES OF THIS PLAN?

There are a number of objectives that this reasoned program is intended to address, including the need for:

a. increased property tax relief;

b. slower growth in property tax revenue;

c. a simple-to-understand program;

d. a visible form of property tax relief;

e. reduction in state and local expenditures;

f. maintaining uniformity of property assessments;

g. fairness in property tax levies among taxpayers; and

h. an overall balanced state and local tax structure.

20. HOW IS THIS PROGRAM BETTER THAN ANY OTHERS?

The 1981 Property Tax Cut Ballot Proposal differs from all others in that it directly addresses the objectives taxpayers have asked for. It does not harm the fiscal structure of state or local government but still reduces overall expenditures while providing significant levels of property tax relief. It puts a check on local government's increasing property taxes and it provides property tax relief up front -- right off the tax bill.

IN SUMMARY

The 1981 Property Tax Cut Ballot Proposal provides $1.2 billion of direct property tax relief for the primary homesteads of all property owners. After the tax cut, $160 million of property tax relief credit payments will still be paid to renters and residential property owners, supplemented by approximately $115 million in increased benefits due to provisions of a more generous program. City income taxes will also be reduced by $100 million. In total, the Tax Cut Proposal provides approximately $1.415 billion of overall tax relief directly to the taxpayers. In all, the property tax cuts amount to half of total residential and farm property taxes.

A portion of the total tax cut will be offset with $800 million in sales and use taxes by increasing the rate from 4 percent to 5 1/2 percent. The property tax cuts will reduce payments from the existing homestead property tax relief program by about $375 million and this savings will also be used to help finance the program. The balance of $240 million will be provided by reductions in state expenditures in fiscal year 1982.

For additional information about the property tax cut proposal, contact the Office of Revenue and Tax Analysis, Department of Management and Budget, Lewis Cass Building, P.O. Box 30026, Lansing, Michigan 48909, phone (517) 373-2697.

HOUSE OF REPRESENTATIVES
LANSING, MICHIGAN

FOURTEENTH DISTRICT
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CHAIRMAN:
TAXATION COMMITTEE
MEMBER:
ECONOMIC DEVELOPMENT & ENERGY COMMITTEE
SOCIAL SERVICES & YOUTH

MEMORANDUM

TO: All Interested Parties

FROM: Gary S. Olson, Committee Aide, House Taxation Committee 20

SUBJECT: Analysis of HJR G (as approved by the Legislature, March 19, 1981).

DATE: March 20, 1981

The following is an analysis of the property tax relief constitutional amendment HJR G approved by the Michigan legislature, March 19, 1981. This constitutional amendment will be placed before Michigan voters for their consideration May 19, 1981.

Article 4, Sec. 41

The amendment to Sec. 41 requires that the net revenues generated from the operation of the state lottery be deposited in the state school aid fund. Currently, this revenue is deposited in the general fund of the state.

Article 9, Sec. 3

This section provides the basis for the tax relief contained in this proposal. The first amendment to this section would allow the legislature to assess agricultural and forest property on its use value. The constitution currently requires these lands to be assessed solely on their market value or true cash value.

This section also provides tax relief to resident homesteads and individuals who pay property taxes and city income taxes. The property tax relief will take the form of a 50%

exemption, of the operating property taxes, on a homestead. The relief, which would be deducted directly from a taxpayers property tax bill, is to be capped at a maximum of $1,400 per household. The relief from the city income tax will be a 50% reduction for all individual resident or nonresident taxpayers. This relief will be capped at a maximum of $100 for each ½% of local income taxes levied. Therefore, the cap in 1% resident income tax cities, such as Lansing, will be $200 and the maximum amount of local income tax relief nonresidents in all income tax cities can receive is $100.

The state must reimburse local units of government for all the tax revenues foregone by the 50% property and city income tax reductions. Any overall shortfalls of revenue under this proposal must be absorbed entirely by the state budget.

Sec. 3 also contains new language that places the new property and income tax relief outside the provisions of Sections 26, 28 and 30 of Article 9 of the State Constitution. The changes insure that this new tax relief will not disrupt the balanced relationships between state and local government revenues and expenditures, established in the "Tax Limitation Amendment" of 1978.

Article 9, Sec. 8

The amendments proposed to this section provide the funding mechanism for this tax relief proposal. If approved by the state's voters, beginning July 1, 1981, the state sales and use tax rates shall be increased from 4% to 5.5%. The revenue generated from this tax increase will be used solely to provide funding for the state reimbursement to local units of government for the tax relief outlined in Section 3. The section also states that this additional sales tax revenue shall not be subject to the allocations outlined in Sections 10 and 11 of Article 9. These allocations deal with local units of government and the school aid fund.

Article 9, Sec. 31

The amendments to this section are designed to limit future increases in property tax levies. Currently, this section of the constitution calls for millage reductions when the growth in the total assessed valuation of an individual taxing unit exceeds the rate of inflation. This so-called millage rollback provision will be repealed under this proposal and replaced by a new property tax growth limitation section.

The new language limits the growth in property tax revenue from one year to the next, in each class of property, in each local tax authority, to 6%. Therefore, if the growth in property tax revenue from the residential class of property in a city increases by more than 6% in a year a reducing factor will have to be applied to the property tax bill of all taxpayers within that class. This reducing factor will take the form of an accross-the-board percentage reduction on the tax bills of all property taxpayers in that class of property. The end result will be a cap in growth in property tax revenue for each class of property at 6%.

Millage increases approved by voters in the current year will not be subject to the 6% growth limitation. The local unit will receive the full revenue yield from that mill in the first year of its approval. However, in the following years that millage will be subject to the same 6% growth limitations that apply to all other voted mills.

Fiscal Implications

The following is an estimate of the fiscal implications of HJR G:

Fiscal Year 1982
(in millions)

Tax Relief

Property Tax Cut (50%)	$1,200
City Income Tax Cut (50%)[1]	170
Additional Circuit Breaker Relief[2]	116
TOTAL	$1,486

Revenue

Sales & Use Tax (1.5%)[3]	$ 797
Circuit Breaker Savings[4]	375
City Income Tax Credits[5]	23
Distressed Cities[6]	40
	$1,235

Tax Cut	$ 251
State Share	251
Local Share	0

[1] Assumes an increase in Detroit resident income tax rate to

4%, Flint 2%, Pontiac 2% and Muskegon 1%.

2 The existing homestead property tax credit would be amended to provide $116 of additional property tax relief to homeowners and renters by lowering the 3.5% of household income ceiling to 2.5%.

3 Net of collection fee for retailers. The sales tax exemption for retailers will be increased from the current $50 to $100 effective October 1, 1981, and to $150 effective October 1, 1982. In addition, a 1/4% collection fee will be allowed, effective October 1, 1981, and will increase to 1/2% effective October 1, 1982. The maximum collection fee allowed will be $10,000 per month.

4 The 50% property tax reduction will reduce the cost of the existing homestead property tax credit saving the state approximately $375 million of circuit breaker payments.

5 The existing state city income tax credit will be repealed.

6 The $40 million in the 1982 fiscal year state budget will be used to provide tax relief.

March 23, 1981

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SPECIAL ELECTION TAX PROPOSAL

Michigan voters will have an opportunity May 19 to vote on a constitutional amendment which would cut property taxes, increase the sales tax, and limit the growth of future property tax revenue for support of schools and other local public services. The proposal was approved by the State Legislature March 19 and has the backing of the Governor. If the voters approve the proposal, it will become effective July 4, 1981.

The following is a description of the property tax relief proposal and its impact on K-12 education. This is the first of several reports before the statewide election on May 19. At this point, the language for the constitutional amendment is set. However, additional details to be included in companion legislation are still pending before the Legislature.

Property Tax Relief

The proposal would reduce property taxes levied for operating purposes on the homesteads of state residents by 50%, up to a $1,400 maximum. The relief would be deducted directly from the individual's property tax bill. The $1,400 maximum would be indexed to inflation to reflect the percentage increase or decrease in the SEV of residential and agricultural property in the state excluding new construction and improvements.

In addition, the proposal grants a 50% city income tax credit to taxpayers capped at a maximum of $100 for each 1/2 percent of local income taxes levied. It is intended that this relief will be in the form of lower withholding rates.

Property Tax Growth Limitation

The amendment imposes a 6% limitation on annual growth on local property tax revenues. The 6% limitation applies to each class of property separately, and can be exceeded only by voter approval. The classes of property are agricultural, developmental, residential, commercial, industrial, and timber cutover. The amount of revenue that could be generated by a local unit of government on any class of property would be limited to 106% of the amount which had been raised by the same levy on that class of property in the previous year. This would be true no matter how much the state equalized valuation of that class increases, excluding new construction and improvements. A governmental unit which did not levy its maximum authorized millage as a result of a voluntary millage rollback or a millage rollback required by the Tax Limitation Amendment of 1978 would have to obtain voter approval to impose the higher millage rate.

A school district's net property tax revenue growth will depend upon the mix of the classes of property in the district. For example, if residential property in the district increases in value by 12% and commercial property increases by only 3%, while the tax rate remains constant, the revenue limitation would affect only the residential property tax. A reducing factor will be applied to the property tax bill of all taxpayers within that class. This reducing factor will take the form of a percentage reduction in the tax bills of all property taxpayers in that class of property. The end result will be a cap on growth in property tax revenue for each class of property at 6% per year.

Millage increases approved by voters in the current year would not be subject to the 6% revenue growth limitation. The local unit will receive the full revenue yield from the additional millage in the first year of its approval. However, in the following years that millage will be subject to the same 6% growth limitation that applies to all other voted mills. The 6% limit may be increased or waived by a majority vote of the electors in a school district or other taxing unit. Millage renewals are not considered millage increases and will be subject to the 6% growth limitation. The revenue growth limitation will affect the actual taxes levied, not the millage or assessment rates used in computing the state school aid entitlement under the present equalization formula.

The constitutional amendment repeals the millage rollback provision contained in the Tax Limitation Amendment of 1978 so that a school district would not be subject to both a millage rollback and the new property tax growth limitation.

Revenue Replacement

The property and city income tax relief would be partially offset by raising the sales and use taxes from 4¢ to 5.5¢ on the dollar effective July 1, 1981. The 1½¢ increase in the sales tax would yield approximately $797 million. In addition, the state would save an estimated $398 million in revised homestead property tax and city income tax credits. When adjustments are made in the Governor's 1982 budget proposal, the net result will be a loss of approximately $251 million to the state.

The new revenues resulting from the sales and use tax increase will be reserved for making reimbursement to local governments for reduced property and city income tax revenues. Current constitutional provisions governing the distribution of sales tax revenues to local governments, including the state school aid fund, and the exemptions for prescription drugs and food are not affected by the proposed constitutional amendment.

The constitutional amendment guarantees 100% reimbursement to schools and other units of local government beginning in 1981 for revenues lost as a result of the property tax and city income tax rebates. Since the state will replace 100% of revenue which local governments would lose, the state general fund will absorb the estimated $251 million shortfall. Government officials have not yet indicated how the state will absorb the shortfall. The state school aid package for 1981-82 likely will be adjusted if the proposal is approved on May 19.

The mechanics for reimbursement by the state to local governments will be determined through future legislation. The reimbursement will be paid directly to the local unit of government, not through the school aid formula.

Since the 6% revenue limitation factor is applied to the homeowner's tax bill before the 50% credit is applied, school districts and other units of local government will not be reimbursed for property tax revenue lost as a result of the 6% revenue limitation factor.

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Other Provisions

The existing Michigan homestead property tax credit ("circuit breaker") is expected to be amended through further legislation to provide additional property tax relief to homeowners and renters. Currently, the general taxpayer is allowed a credit equal to 60% of the amount by which either the property taxes on the taxpayer's homestead or the rental credit on the taxpayer's homestead for the year exceeds 3.5% of the taxpayer's total household income. It is expected that the percentage of income will be lowered from 3.5% to 0% for people having annual incomes of less than $5,000 and to 2.5% for those having incomes of $7,000 or more per year.

The constitutional amendment provides that net revenues generated from the state lottery would be deposited in the state school aid fund. Currently, this revenue is deposited in the state general fund.

The proposal would allow the legislature to assess agricultural and forestry property according to its use value, rather than market value.

State reimbursement to local units of government for property tax cuts would not be subject to sections 26, 28, and 30 of Article 9 of the State Constitution which establish state revenue and spending limits and the proportion of state revenue paid to local units of government. Thus, the new tax relief proposal will not disrupt the relationship between state and local government established in the Tax Limitation Amendment of 1978. Revenues flowing into and out of the counter-cyclical budget and economic stabilization fund (the rainy day fund) would not be included in the definition of total state spending as used in Section 30 of Article 9 of the State Constitution.

Implications for State Aid

It is too early to fully ascertain the effects the proposed constitutional amendment would have on state aid to schools. Clearly the state shortfall of dollars will affect the money appropriated. Another issue which must be addressed is the effect of the 6% revenue limit on the power equalizing formula which guarantees a gross allowance--state and local--based upon a school district's SEV per student and the millage levied. Since the 6% revenue adjustment does not rollback millage on SEV, the two figures will remain unchanged for purposes of computing a district's state aid allowance, unless the present formula is modified. The state aid bill, which was moving toward passage by mid-April, will now be delayed to consider these issues.

MASA and MASB

MASA and MASB have participated in an educational coalition along with the MEA, MFT, the Department of Education and several other educational groups in presenting our positions and concerns during the legislative deliberations on this proposal. The cooperative effort and united front provided by the coalition was invaluable in expressing our concerns to the Legislature and the Governor's office, even though the final product includes the revenue growth limitation. MASA and MASB policy bodies are undertaking the task of evaluating the ballot proposal to determine our position. Obviously, additional concerns and questions will be addressed in the weeks ahead. We will keep you informed through our regular publications of the issues and events leading to the special May 19 statewide election.

A Summary of Benefits and Problems Which May Ensue if Proposal A is Approved by the Electorate on May 19, 1981

Positive Attributes

1. It does give property tax relief.

2. The Proposal frontloads the relief.

3. It reimburses local government for 100% of the tax relief, up to a maximum of $1,400 per homestead (it does not reimburse local government for the 6% cap placed on individual classes of property).

4. The $1,400 tax relief will increase in future years as statewide increases in residential property occur.

5. The Proposal would have the effect of limiting reassessment or increases in S.E.V. to a maximum of 6% per class of property (not individual parcels of property).

6. The Proposal would have the State matching most new millages which might be approved by the electorate dollar for dollar for the residential property owner. As an example, if the taxes in a community were to increase $200, the residential property owner, as long as they were under the $1,400 cap, would pay $100 of that increase and the State of Michigan would be obligated to reimburse the local unit of government the other $100.

7. The above has the effect of increasing State participation in the support of public education.

8. Some argue that this proposal may forestall a future "Tisch" type of proposal.

9. This proposal creates relief for city income tax payers.

10. Because it creates relief for city income tax payers, it may increase the probability of cities levying additional income tax. The State of Michigan, in effect, would be helping to support local city income taxes with this proposal.

11. It changes the assessment for agricultural and forestry property to that of its use value as opposed to its true market value.

12. Continues some elements of the "circuit breaker." Theoretically, depending upon income, an individual might receive up to $1,400 property tax relief under this proposal and still be eligible for an additional $1,200 of tax relief under the "circuit breaker."

Potential Problems

1. It is estimated that the State of Michigan will experience a shortfall in revenue of not less than $85 million and perhaps as high as $385 million if this proposal were to pass. This type of shortfall will likely create problems for school districts, especially in-formula districts, for the history of the State has been that when they are short of money executive orders have reduced substantially the amount of money available to school districts via the State General Fund.

2. Out-of-formula districts would lose any growth in S.E.V. that is in excess of 6%. This loss is not reimbursed in any fashion.

3. Out-of-formula districts would be forever limited to a maximum increase in revenue of 6% unless the voters were to approve new millages. At a time when inflation is in the double digit category, a 6% cap forever may be unrealistic.

4. The State will be responsible for supporting new voted mills (residential property only) and increases in the local income tax. This could substantially decrease now and in the future the State's ability to fund this program and its other General Fund obligations.

5. Even under the best circumstances, it is estimated that the State will experience a serious cash flow problem. Apparently, the State cannot borrow enough money to fund the replacement programs stipulated by this amendment and also make state aid payments in a timely fashion. It appears, as of this date, the only recourse to the State is to bond. This, then, increases the shortfall, for the State will now have an interest component when it bonds in order to meet its obligation under these conditions.

6. In-formula districts may experience the same problem as they have with Headlee in that the S.E.V. may be higher for state aid calculations, yet local revenues would be capped at a 6% maximum, or perhaps even less, depending upon the classes of property and how they have increased.

7. One minor change, i.e., changing the sales tax back from 5.5% to 4% would make this nearly like the Tisch proposal. Some say that would be his next effort if this were to pass. In this event, the State would be short all of the revenue from the sales tax increase and would have a cash shortfall that approximates the figures cited last November when Tisch II was on the ballot.

8. This proposal increases the sales tax, which is generally conceded by most tax experts as a regressive tax. It is less regressive in Michigan since we have removed prescription drugs and food from the sales tax provisions.

9. This proposal would result in millions of dollars of local money which has been available to local units of government now being transferred to the

Potential Problems, cont'd

federal government, in that people will no longer have a property tax write off as a tax deduction. Some have estimated that the minimum amount of additional money to be transferred to Washington would be in excess of $200 million.

10. This proposal has the effect of freezing all operating millage rates at their current level, irrespective of the voter authorization.

11. This proposal limits local governments to a maximum of 6% increase in local revenue while placing no such restrictions on state government.

12. Under this proposal, some people will pay more total taxes than they are currently paying.

13. Some school districts are very near the Constitutional 50-mill limitation. This proposal does not alter that; hence, the ability of a local district to make up any shortfall may be limited by the mills available under the 50-mill limitation.