The Folly of Michigan's Placemaking Economic Development in Michigan's Municipal Finance Model

Eric Lupher
President, Citizens Research Council of Michigan
August 25, 2023

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Placemaking

- A concept defined by the Michigan Municipal League as,

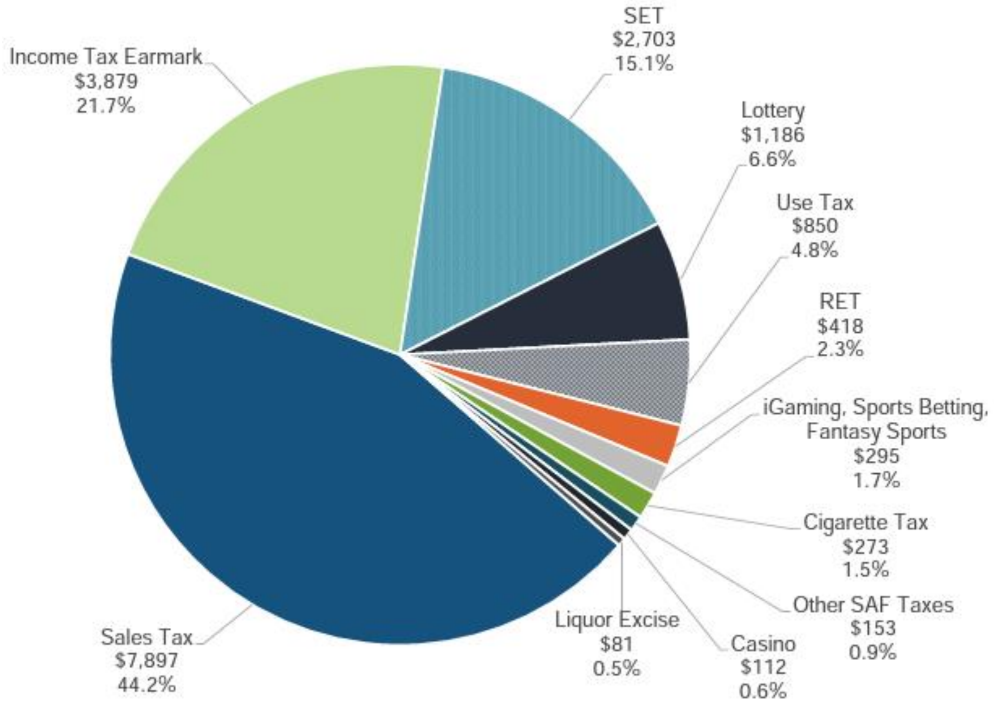
"The process of creating places that people care about and where they want to spend time. These high-quality places are active, unique locations that are interesting and visually attractive, people-friendly, safe, walkable and bikeable, provide mixed uses of businesses and housing, and offer creative amenities and experiences."

Placemaking as an Economic Development Strategy

- Local Government
  - Intentional investments to create a sense of community and individual identity
    - German heritage in Frankenmuth
    - Arts culture in Saugatuck
    - Cherry festivals in Traverse City
    - Walking and horse-drawn carriages on Mackinac Island
- State Government
  - Strategy has evolved from tax relief to investments
    - MEGA – relief from state business taxes
    - SOAR Fund – investments to attract business locations
    - MEDC has developed intentional strategies to invest in placemaking in economically disadvantaged communities

State Government Goals

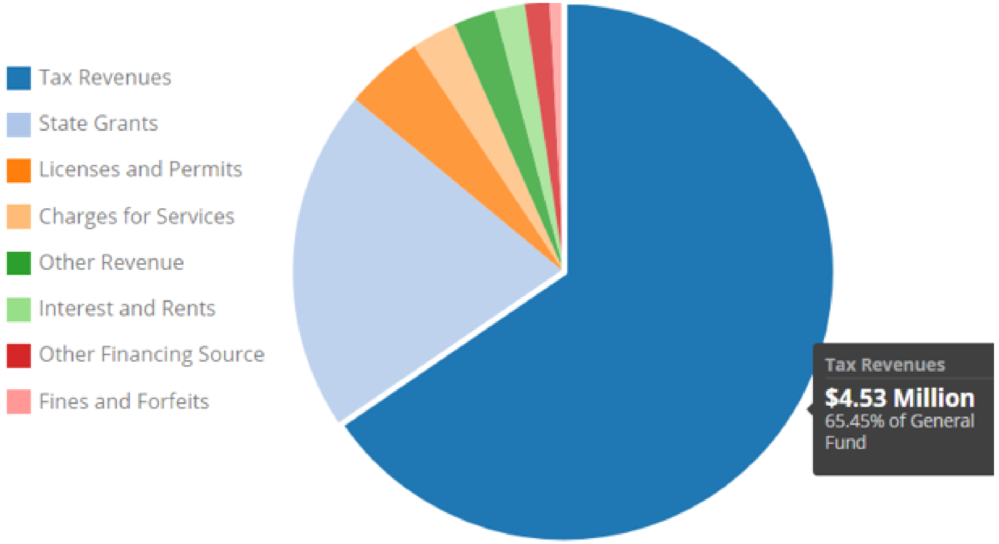
- State revenues generated from 42 different taxes, majority from
  - Sales and Use taxes
  - Individual Income Tax
- Investments in placemaking spurs
  - Economic activity – sales tax revenue
  - Restaurant meals – sales, beer, wine, and liquor tax revenue
  - Creates jobs – income tax revenue
  - Attracts visitors – hotel tax revenue, motor fuel tax revenue



Source: Michigan House Fiscal Agency

Local Government Goals

- Local government tax revenue generated primarily from
  - Property taxes
  - State revenue sharing
  - 24 cities levy income taxes



- Investments in placemaking
  - Increase value of properties nearby
  - Make community more attractive (indirect appreciation of property value)
  - But, successful local governments do no fair any better than other communities because of tax limitations.

Source: Michigan Municipal League

The Headlee Amendment – Levy Limit

- Adopted in 1978 to add 10 new sections to Michigan Constitution
- Article IX, Section 31, limits local property taxes in two ways:
  1. Requires voter approval to adopt new tax or increase rate of existing tax
  2. Limits total property tax revenue growth on jurisdiction-wide basis to the rate of inflation
- Created check on the growth of property tax collections overall
  - ➢ Headlee rollback: requires tax rate adjustment if tax base increases by rate greater than inflation
  - ➢ Headlee rollups allowed prior to 1993
  - ➢ Now Headlee override vote required for tax rate to be rolled up
- Failed to protect individual taxpayers from excessive yearly increases

Proposal A of 1994 – Assessment Limit

- Market-value based system of assessing property (SEV) replaced with modified acquisition value system (TV)
    - ➢TV increases in property limited to lesser of rate of inflation or 5%
    - ➢Excludes value of new construction
    - ➢When property sold, tax base reverts to SEV and annual changes capped with new owner
- Layered a new tax limitation onto the general property tax and Headlee Amendment
- Instituted differential taxation of business and homestead residential property

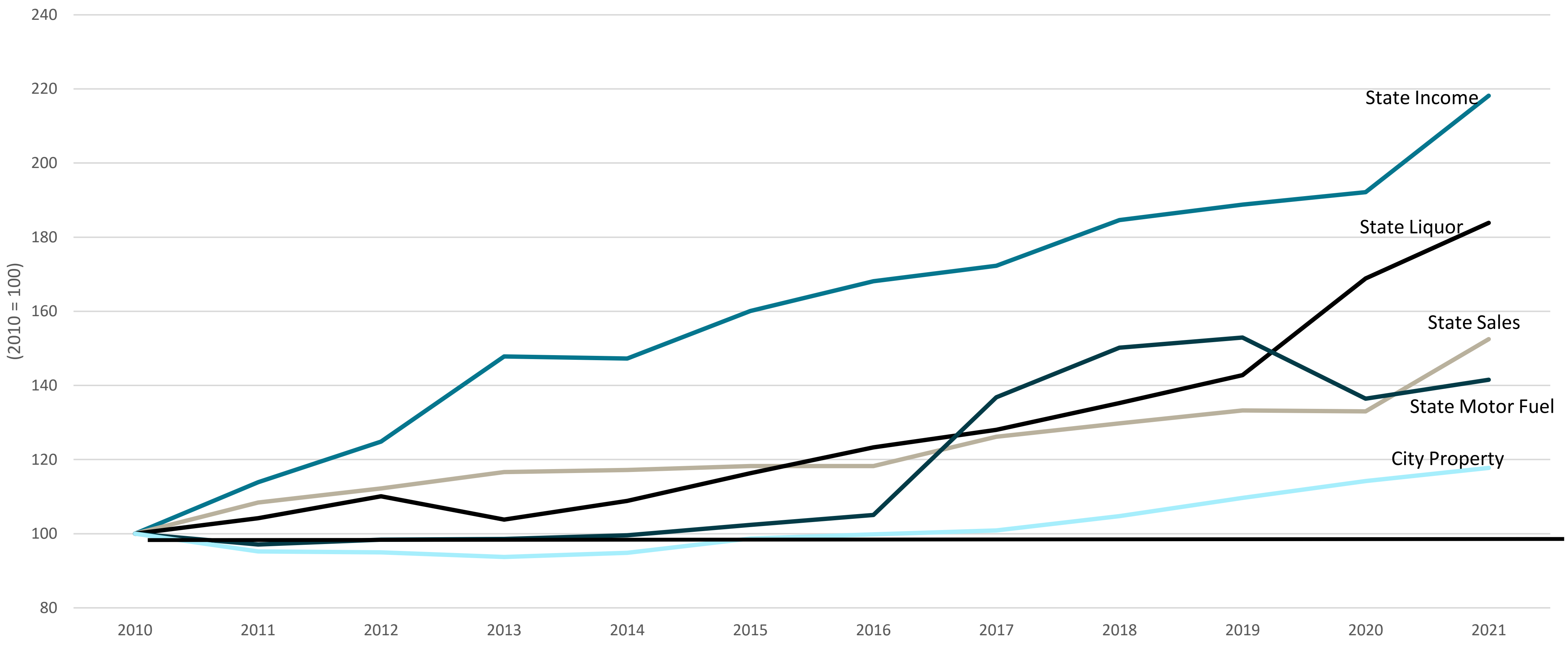
Tax Limitation Interaction

- Two property tax limitations work to control taxes in very different ways
  - ➢ Headlee Amendment limits unit-wide growth of the amount of taxes collected on existing property to the rate of inflation
  - ➢ Proposal A limits growth in the taxable value of individual parcels of property to the rate of inflation
- Interaction is very restrictive
  - No change in ownership – TV results in inflationary growth of revenues
  - Change in ownership – TV pops up to SEV (> inflation) to trigger Headlee tax rate rollbacks to result in inflationary growth of revenues
- System creates pressure to
  - Increase tax rates
  - Chase new development (urban sprawl)
  - Not sustainable

Consequences of Placemaking for Local Governments

- Successful placemaking:
  - Significant appreciation of value of nearby properties
  - Attractiveness of all properties in city, village, or township
  - ➢ But, <u>tax base growth limited to rate of inflation</u>
- Desire to live nearby leads to turnover of ownership of properties
  - Tax bases reverts from TV to SEV ("pop up")
  - Tax base of city, village, or township grows faster than rate of inflation
  - ➢ <u>Tax rate is rolled back to yield inflationary growth</u>
- **Property tax system is as rewarding for local governments successfully engaging in placemaking activities as it is for governments that do the minimum**

Comparison of Tax Revenue Growth, 2010-2021



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