



# Government Finance Study

## CONSENSUS QUESTIONS AND BACKGROUND

**Current Taxation and Budgeting Position:** *(to be incorporated into new position titled Government Finance)*

LWVMI supports the development of a state-local tax structure which is adequate, equitable, flexible and moderately progressive.

I. All three broad-based taxes on income, sales and property should be relied upon, with more reliance on the income tax.

\*Both local and state property taxes should be levied, based on statewide use of scientific and uniform assessment methods and administrative procedures. Property exemptions should be reappraised periodically *to ensure accuracy and equitability in the process.* (Preceding phrase in italics is an editorial clarification.)

\*Food and drugs should be exempt from the state sales tax.

\*The state income tax should be graduated as to rate.

\*Other ways to obtain additional revenues should be used, such as nuisance taxes and user fees.

\*Endorse the concept of tax base sharing, a system that is subject to taxation among units of government.

II. The Legislature should have broad and fundamental taxing powers, free of constitutional restrictions except for constitutional provisions requiring a balanced budget and property tax millage limits.

*See items III and IV under Part III, State/Local Fiscal Relationships; items V and VI will be dropped and replaced with clearer language, based on consensus responses.*

### ***This study.....***

*Financing state and local government is the focus for this study which seeks to update the current LWV-MI position on taxation and budgeting. As the questions were developed, the committee was cognizant of the state positions on Education and on Intergovernmental Relations (Local Government). The consensus questions are organized into three sections: state revenue, state expenditures and state/local fiscal relationships.*

### ***Background on Michigan's Budget***

The 2015-16 state budget is \$53.7 billion (adjusted gross appropriations) and the major revenue sources are listed on the accompanying chart. Here is a general picture of how that money is spent:

- 46.7% for health and human services
- 26.5% for public education (K-12) and Dept. of Ed (\$14.2 billion)
- 7.2% for transportation (roads, public transportation, etc.)
- 3.7% for corrections
- 3.6% for community colleges and higher education
- 12.3% for all other programs of state government (agriculture, state parks, Secretary of State, etc.)

Source: Senate Fiscal Agency, April 2016

Michigan's Constitution and state laws provide for three major divisions of the total state budget:

**General Fund** represents the portion of the total state budget where the legislature makes decisions about spending. Comprising only 19 percent of the total, the general fund includes many of the programs and services of state government: agriculture, State Police, Secretary of State, corrections, higher education, natural resources, etc.

**State School Aid Fund** represents the budget for public K-12 education in Michigan.. Sources of revenue for the State School Aid Fund (SAF) include the sales and use tax, income taxes, the state education property tax, the lottery, the federal government and other taxes. SAF funds are distributed to local school districts through the guaranteed foundation allowance

**Restricted Monies** represent 43 percent of the total state budget. Use of these funds is restricted by state or federal law or by the Michigan Constitution. These monies are designated for a specific purpose such as transportation, constitutional revenue sharing, or the federal match for Medicaid.

## I. STATE REVENUE

### 1) Should LWVMI support measures to ensure revenues that are both sufficient and flexible to meet changing needs for state and local government services?

**BACKGROUND:** Changes in tax policy, demographic changes, and economic pressures have contributed to a decade of declining state support for public education, roads and infrastructure and other public programs. The state has eliminated a significant number of deductions from the personal income tax, instituted a tax on pensions, changed the corporate income tax, eliminated the personal property tax and recently approved an increase in transportation taxes and fees as well as earmarking General Fund monies for transportation. A new report shows that in 2013 Michigan ranked 34<sup>th</sup> in the nation with state and local tax revenue of \$96 per \$1000 of personal income.

Citizens' Research Council, Memorandum 1140

**Pros:**

Sound financial decisions require changes to be made in a timely manner.

Current revenues are insufficient to meet the needs of existing state government obligations, such as roads, education, etc.

Economic forecasting allows better understanding of revenue sources to enable governments to make needed changes and corrections.

**Cons:**

Funds can be allocated and budgets adjusted later.

If revenues are insufficient, programs should be reduced or eliminated.

**2) Should there be provisions in place to relieve the income and property tax burdens on low-income citizens?**

**BACKGROUND:** Michigan currently has a number of policies that are designed to provide tax relief for low-income residents. The Homestead Property Tax Credit has specific provisions for senior citizens, veterans, and citizens other than seniors. The 2015 road funding proposal provides for an increase in the Homestead Property Tax Credit to offset the increase in the motor fuel taxes. Low-income residents can also utilize tax credits on rental property and credits for home heating costs.

**Pros:**

This is important to ensure that citizens are able to have an adequate quality of life.

**Cons:**

This places additional tax burdens on others.

**3) Should safeguards (such as Earned Income Tax Credit—EITC) be in place to protect against “regressiveness” of sales and use tax?**

**BACKGROUND:** The Earned Income Tax Credit (EITC) goes to working families and individuals. About 82 percent of the eligible households in Michigan receive this credit. In FY2015 a married couple with three children would be eligible while making up to \$53,000. They would receive about \$5,500 as a tax credit. The Michigan Department of Treasury estimates that in FY2013 the EITC was responsible for helping 88,000 workers move above the poverty line. Workers use their money to purchase things that help them keep working. (Michigan League for Public Policy)

**Pros:**

Sales taxes disproportionately impact lower income residents who have the least discretionary income. The EITC increases their discretionary income.

**Cons:**

Since out-of-state residents pay part of the sales tax, there is less concern about it being regressive.

#### **4) Should the state impose a sales tax on more services?**

**Background:** When the Michigan sales tax was enacted in 1933, the service sector was a relatively small sector of the economy. Presently, the state taxes few services but there is a six percent use tax on telecommunications services, hotel and motels, industrial laundry services and Medicaid services provided by managed care organizations. As the service sector has grown in economic importance, the potential lost revenue has increased relative to the existing sales tax base. In FY 2013, Michigan's exemption on services accounted for an estimated \$10.4 billion loss of state sales tax revenue. (MI Sales & Use Taxes 2013, MI Department of Treasury 9/2014). Services are the largest single exclusion from the state's sales tax base. Michigan approved legislation in September 2007 allowing a six percent tax on certain services but the tax was repealed on December 1, 2007, the same day that it took effect. Only Hawaii, South Dakota, New Mexico and West Virginia tax most services.

#### **Pros:**

Several states, including Connecticut, Iowa, South Dakota, Texas and West Virginia have gradually extended the sales tax to include a variety of consumer services.

The legislature can impose sales taxes on services without voter approval.

#### **Cons:**

If services are taxed, the cost for services will increase and communities will lose services and businesses.

#### **5) Should "nuisance taxes" (liquor, beer, wine, cigarettes, etc.) be regularly adjusted for inflation?**

**BACKGROUND:** Since 1994, Michigan has had a "tobacco products tax" instead of a tax on cigarettes. The rate is \$2.00/pack and 32 percent of wholesale price on other products. Forty-one percent of the proceeds from cigarettes go to the School Aid Fund, the remainder to the Medicaid Benefits fund and the state General Fund. The cigarette tax was last increased in 2004.

The liquor markup tax, at a rate of 65 percent, is on the wholesale price of liquor and it has not changed since 1983. The liquor tax is levied on the privilege of selling spirits. The effective rate on the retail price is 10.8 percent. There are also taxes levied for the privilege of selling beer and wine and mixed spirits. The rates have not changed since 1980. (*Outline of Michigan Taxes*, Citizens Research Council, 2016)

#### **Pros:**

Increased taxes on cigarettes and liquor will help deter use.

A flat tax per pack means that cigarette taxes will contribute less to Michigan revenues over time.

**Cons:**

If these commodities are taxed at a higher rate, people will just buy from neighboring states.

**6) Should businesses pay their share of the income, sales, and property taxes for services and benefits they use?**

**BACKGROUND:** The current corporate income tax encompasses three taxes on businesses: six percent on corporate income, 1.25 percent on insurance premiums, and a 0.29 percent franchise tax on financial institutions. The corporate income tax, enacted in 2011, applies to entities doing business in Michigan and having gross receipts in the state that exceed \$350,000. The tax is administered by the Michigan Department of Treasury.

In 2013-2014, the corporate business tax raised \$1,074,494,000. Much of this revenue is offset by MEGA credits and other business tax credits. MEGA (Michigan Economic Growth Authority) is a tax credit program used to attract and retain businesses in Michigan. Net business taxes accounted for only one percent of total state government revenue in 2015. Direct business taxes in Michigan have been steadily decreasing in the last two decades. In 1991, business taxes were 15 percent of total state taxes; in 2013 they were 4.8 percent. (Citizens Research Council of Michigan, *Outline of Michigan Taxes, 2016*)

**Pros:**

Every sector of the economy should pay for the services and benefits it uses.

**Cons:**

Small businesses (such as partnerships) do pay taxes in the form of personal income taxes.

Increased business taxes put the state at a competitive disadvantage in attracting and retaining businesses.

**7) Should business tax credits be reviewed on a regular basis to see if they are achieving their purpose?**

**BACKGROUND:** Business privilege tax credits are predicted to increase from \$712.6 million to \$746.7 million from FY 2015 to FY 2016. Estimates under the business privilege tax category reflect the credits, deductions, and exemptions in place under the corporate income tax and the most significant credits that may be claimed under the Michigan business tax. (Citizens Research Council, *Outline of Michigan Taxes, 2016.*)

**Pros:**

States and communities offer tax relief to entice businesses. These tax credits should be reviewed in relation to the benefit of having the business.

Communities must provide services such as roads, police and fire protection to businesses and they should pay for these services.

**Cons:**

Communities need to offer tax breaks to attract businesses.

Businesses may leave the community if tax credits are changed.

Reviewing annually is too time consuming and expensive. Reviews should take place as needed.

**8) *Should the state maximize the use of federal funds to increase revenue for state and local programs?***

**BACKGROUND:** Michigan receives federal funds as grants or revenue matches that are generally designated for specific programs or for a defined purpose. The FY16 state budget assumes federal funding of \$22,503.9 million, a decrease of \$573.9 million or 2.5 percent less than the prior year. Most state departments receive federal funding.

The Medicaid program receives the most federal funds of any program in the state budget. The federal government finances 65.60 percent of Medicaid expenditures, and the state finances the remaining 34.40 percent.

**Pros:**

Michigan should accept its fair share of federal funds relative to federal taxes collected in the state.

Accepting federal funds allows the state to support programs that wouldn't otherwise be funded, such as Medicaid expansion.

**Cons:**

Accepting federal funds may obligate Michigan to using current or future state funds.

Grants or matching funds may come with too many restrictions.

**9) *Should the impact of fees on low-income residents be considered when establishing the amount of the fee?***

**BACKGROUND:** Fees, fines and permits have become an increasingly important source of revenue for state and local units of government. Examples include drivers'

license fees, library fines, building permits, special assessments, court fines, museum admissions, etc. According to the National Conference of State Legislatures (NCSL), states are relying more on user fees. "State revenue from highway tolls, sewage assessments, park visitor charges and other user fees is up 5 percent over FY 1992. In FY 2011, user fees provided, on average, 17.1 percent of the revenues directly raised by the state."

In 1998, the Michigan Supreme Court ruled in *Bot v. City of Lansing*, that three criteria distinguish a fee from a tax: 1) User fees must serve a regulatory purpose rather than a revenue-raising purpose; 2) User fees must be proportionate to the necessary costs of the services or commodity, and imposed on those benefitting from the right/service/improvement supported by the fee; and 3) User fees are voluntary in nature. (Citizens Research Council)

**Pros:**

Fees, such as license plates and park fees, disproportionately impact low-income citizens.

**Cons:**

Fees are a good revenue resource for the state or local unit of government and should be used to generate needed revenue.

Local units of government need the money from fees for revenue since state funds have been reduced.

**10) Should transportation taxes and fees be used to pay for maintenance and building of roads and mass transit?**

**BACKGROUND (questions 10-11)** Michigan's system of transportation is financed by monies from the federal government and the Michigan Transportation Fund. In 2014-15 the state spent approximately \$3.7 billion on transportation. Fuel taxes and vehicle registration fees are the major sources of state funds for transportation. Public Act 51 of 1951 specifies that monies be distributed, according to a formula, for bridges and public transportation and then for state and county roads as well as for local units of government.

In recent years fuel consumption has decreased because cars are more efficient. This has led to lower gas tax revenues while inflation has led to higher costs for maintaining roads. The growing popularity of electric cars that pay no fuel tax while still adding to road costs and congestion caused government leaders throughout the country to reconsider the funding of transportation. Most of these changes were intended to track the economy by following either the price of fuel or inflation. In 2016 Michigan was one of ten states voting to change the rates of taxes and fees for transportation.

After years of legislative debate and a failed ballot proposal, the Michigan Legislature approved measures to provide additional money for roads. Public Acts 174-180, signed in November 2015, will increase taxes on motor fuels, raise vehicle registration fees and

designate other monies for the Michigan Transportation Fund. Here are the major components of the road funding package.

- Gasoline and diesel fuel taxes will increase from 15 and 19 cent to 26.3 cents per gallon, effective January 1, 2017.
- Registration fees will increase by 20 percent, with higher fees for heavier vehicles and for plug-in hybrid and all electric vehicles.
- Gas and diesel fuel taxes will be indexed to inflation starting in 2022.
- A portion of the income tax revenue will be earmarked for the Michigan Transportation Fund: \$150 million in FY2018-19, \$325 million in 2019-20 and \$600 million in FY2020-21 and each following year.
- The Homestead Property Tax Credit will be expanded.

(Road Funding Enacted Analysis, House Fiscal Agency, 11/16/15)

**Pros:**

Transportation taxes and fees help to ensure good roads for those who use them most. They place part of the cost of mass transit on those who use it.

**Cons:**

Those who don't pay taxes and fees still benefit from roads.

Earmarking gas taxes and fees for those purposes reduces budget flexibility.

**11) Should transportation taxes and fees on fuel be indexed to inflation?**

**Pros:**

Transportation taxes and fees should be indexed to inflation in order to keep up with the rising costs of road repair and replacement.

Indexed taxes and fees lead to more stable and growing revenue.

**Cons:**

Indexed taxes and fees will rise over time.

Drivers, especially truckers, will go to other states for lower rates, resulting in less revenue for the state.

**12) Should hybrid and electric vehicle users pay their fair share of transportation funding?**

**BACKGROUND:** As of the 2015 legislative session, Michigan was one of ten states that placed fees on hybrid or electric vehicles. In contrast, at least 20 states have considered incentives to promote adoption of these green vehicles and eight states plan to put a total of 3.3 million zero-emission vehicles on the road by 2025, fifteen times the number for last year.

**Pros:**

Hybrid and electric vehicles cause as much congestion and road maintenance as conventional vehicles, possibly even more due to their greater weight from larger batteries.

**Cons:**

Such fees tend to discourage purchase of green vehicles that are already more expensive than conventional ones. Most states incentivize rather than discourage use of greener vehicles.

## II. STATE EXPENDITURES

**BACKGROUND—Questions 13-15:** Michigan’s annual budget shows projected revenues and expenditures and specifies how much each department of government may spend to carry out its responsibilities. The budget also represents political decisions about the division of available funds among competing interests and demands.

Michigan’s Constitution requires the governor to present a budget proposal each year to the legislature. It also specifies that the budget must be balanced annually. Article III, Section 2, states that the powers of government are divided into three branches. *“No person exercising powers of one branch of government shall exercise powers properly belonging to another branch except as expressly provided in this constitution.”*

The state budget office coordinates preparation of executive budget proposals, estimating expenditures and projected revenue. After the governor presents the proposal, appropriations bills are introduced in each house to fund the agencies of state government. Working with fiscal agency staff and with representatives of various interests, legislators debate the budget proposals, making additions and deletions and debating basic policy differences. When the budget bills are approved by both houses of the legislature, they are sent for the governor’s signature. The governor may veto any item in any budget bill. The new budget takes effect October 1<sup>st</sup> and the executive departments are already developing budget proposals for the next fiscal year.

Descriptions of the state budget process indicate balanced roles for the executive and legislative branches, with opportunities for citizen input. Long-time observers of the budget process raise the following concerns about changes in that balance and the reduced opportunities for input.

- Legislative committees are playing a reduced role in the oversight of executive agencies.
- The governor’s budget proposal provides minimal details and the budgets for several departments are grouped together.
- The role for citizen’s advisory committees has been greatly reduced or eliminated.

- In the past, appropriations sub-committees gathered public input by holding hearings around the state.
- Increasingly, the legislature adds an appropriation into a controversial measure so that the bill cannot be the subject of a referendum by the citizenry.

**13) Should the legislative and executive branches of government have equal responsibility for allocating the state's resources?**

**Pros:**

Shared responsibility between the executive and legislative branches provides checks and balances for this important government function.

The legislative branch is closer to and more responsive to the electorate, thus allowing for greater public participation in the budget process.

Debate and scrutiny of the budget in the legislature allows for more viewpoints to be expressed and allows for partisan consideration and debate.

**Cons:**

If the executive branch has the primary responsibility for the budget, significant money could be saved by reducing the size of the legislative staff.

The budget timeline would be shorter if principal responsibility rested with the executive.

The legislature would have more time to deal with non-appropriations issues if the executive had primary budget responsibility.

**14) Should the proposal, adoption and administration of the state budget be transparent and accessible to residents throughout the appropriations process?**

**Pros:**

The monies distributed through the state budget come from taxes paid by Michigan's citizens and businesses and they should have a say in their expenditure.

The state budget process provides an opportunity for citizens to learn about the state's priorities. It helps to create a more informed and involved electorate.

Transparency helps assure accountability and efficiency; it can help to discourage the misuse of state resources.

**Cons:**

Executive and legislative staffs are the experts and do not need any public input.

Encouraging transparency and accessibility causes more work and increases the amount of time it takes to create, adopt and administer the budget.

**15) Should the budget process emphasize performance and outcomes and incorporate accountability through annual executive department evaluation?**

**Pros:**

Periodic department evaluations help identify problems before they grow too large or become institutionalized; programs can be redirected.

Outcome and performance benchmarks measure and evaluate yearly progress. They may permit comparison to programs in other states.

Preparing budget estimates on a one year basis results in more accurate numbers, as the projections do not have to account for unknowns over a 24-month period.

**Cons:**

Program benchmarks require a longer timeline to determine success.

Staff time has to be spent documenting and preparing budget program evaluations rather than implementing programs.

Biannual evaluations of budget expenditures allow staff to dedicate more time to implementing programs rather than preparing documentation for budget hearings.

**16) Should Michigan's budget process include a budget review committee in the legislature, supported by a legislative budget staff similar to the federal Congressional Budget Office?**

**BACKGROUND:** The House Fiscal Agency and the Senate Fiscal Agency are nonpartisan agencies within the Michigan House and Senate. Staff members provide expertise to all members and support to their respective appropriations committees. The State Budget Office is within the Michigan Department of Technology, Management and Budget. Staff members are responsible for developing and presenting the governor's executive budget recommendations and implementing the budget after it becomes law.

During times of budget cutbacks, some have recommended eliminating the fiscal agencies in order to save money. The State Budget Office would provide the needed support.

**Pros:**

Legislators have many responsibilities that cover different subject areas so they cannot be experts on everything. A staff dedicated to the budget allows legislators to effectively participate in the budget process.

Legislative budget staff must be responsive to both parties and to legislators from all over the state, allowing for a broader array of interests to be represented and considered.

**Cons:**

Significant savings would occur if the legislative budget committee staff was eliminated.

The legislature could utilize staff expertise from executive agencies,

**17) Should tax expenditures (exemptions and credits) be reviewed periodically by the legislature?**

**BACKGROUND:** Tax expenditures, which include tax exemptions and credits, are essentially government spending programs administered through the tax code. State tax expenditures have risen from \$14 billion in FY2000 to \$27 billion in FY2016. Tax expenditures are exemptions, deductions, credits, exclusions, deferrals, preferential tax rates or other deviations from the “normal” tax structure. Tax expenditures may be used to economically benefit taxpayers who the government has identified as needing assistance. Tax expenditures also serve as an incentive to encourage certain economic or social behavior. Tax expenditures are government spending programs administered through the tax code. Since 1980, the Department of Management and Budget (now, Treasury) prepares tax expenditure reports.

**Pros:**

In recent history, tax expenditures--also referred to as tax breaks--have grown faster than revenues and therefore represent a significant loss of funds available for spending.

Tax expenditures are usually open-ended and often have no built-in cost limits.

**Cons:**

It is difficult to quantify tax expenditures.

**18) Should the distribution of revenue ensure adequate, equitable and flexible funding of public programs?**

**Pros:**

If programs are not adequately funded, they cannot fulfill their mission.

Underfunding creates expectations that will not be met and contributes to public disenchantment and skepticism.

**Cons:**

Sometimes the only way to adopt a program budget is to underfund it.

Budgeting is an inexact process and invariably some programs will be underfunded because projections can be wrong.

### III. STATE/LOCAL FISCAL RELATIONSHIPS

**Current Position:** III. The Legislature should exercise its authority to delegate to local units of government a variety of alternatives to the property tax to enable the local units to meet responsibilities delegated to them.

IV State-collected revenues which are returned to local units should be distributed on the basis of need, minimum level of local support, and cost of needed services.

**BACKGROUND for Part III:** Michigan's local governments vary greatly in the services they provide and the capacity to fund those services. The property tax is the primary source of revenue for all local government in Michigan. Counties and cities can levy other taxes (e.g. city income, city or county hotel-motel tax, county real estate transfer tax) but few have done so and the amounts collected are relatively small.

The taxable value of property is the base for levying the property tax; that value varies greatly between communities, based on economic factors. The Citizens Research Council (Report 387) says that the average per person amount of taxable value is \$31,000, but about 50 percent of all communities have less than that.

The crisis in Flint and the ongoing struggles in Detroit are focusing more attention on the plight of local governments and the role played by state government. The MSU Extension report, *Beyond State Takeovers*, discusses how the most severe examples of local government fiscal stress seem to be clustered in some states. Michigan had 17 appointed Emergency Managers last year; California had 12 cities and counties close to defaulting on general obligation bonds. The authors emphasize that state laws and policies have great influence over the ability of local governments to manage their revenue. They show how state policies limit the ability of local units to raise revenue while, at the same time, the state requires local units to provide more services. "Michigan must also recognize that, in comparison with similar states it provides a particularly difficult environment for its cities."

#### **19) Should Michigan provide the funding when it requires local units to provide specific services?**

**BACKGROUND:** The 1978 "Headlee" amendment to Michigan's Constitution prohibits the state from mandating local governments to provide additional services without providing additional funds. In practice, however, that provision has been circumvented by a legal definition of "optional" services which seems to apply to virtually all services. A series of court challenges and legislative efforts have not changed the reality that local governments have to pay for services mandated by the state. Examples include: providing additional training for EMS personnel in response to new regulations; health department programs to implement the smoking ban. State policy decisions also affect local governments less directly. For example, the closing of state mental health facilities has increased the population of people needing care in local communities.

**Pros:**

If the state considers the program important, it should provide all of the funds.

Finding the local revenue to fund state mandates further restricts the funding of local priorities.

**Cons:**

Michigan doesn't have the necessary revenue.

**20) Should the authorized amount of state statutory revenue sharing funds be provided by the state?**

**BACKGROUND:** Over the past 60 years policymakers in Michigan have instituted a system for sharing state revenues with local governments instead of approving diverse methods for raising local revenue. The state has also shared revenue in order to replace revenue that was lost due to changes in state law and constitutional tax limitations.

There are two distinct types of revenue sharing from the state to local governments.

**Constitutional Revenue Sharing**— Article IX, Sec. 10, of Michigan's 1963 Constitution specifies that 15 percent of the sales tax rate, at 4 percent, will be distributed to cities, villages and townships (CVTs) on a per capita basis. Constitutional revenue sharing is not given to county governments. Proposal A of 1994 increased the sales tax rate by two percentage points, dedicating all of that to the State School Aid Fund.

Constitutional revenue sharing is distributed based on census data and is not linked to local need.

**Statutory Revenue Sharing** is paid to eligible CVTs (currently 587) and to counties.

The amounts and programs are determined annually in the state budget process. These funds come from 21.3 percent of the 4 percent of the sales tax and are distributed according to P.A. 532 of 1998. There are also funds available for financially distressed CVTs.

Michigan's severe economic downturn, starting in 2000, drastically reduced revenue sharing funds for local governments. Not only were the constitutional funds reduced because of a decline in the sales tax, but funds normally appropriated for statutory revenue sharing were diverted to other state purposes. More than \$6.9 billion has been diverted from statutory revenue sharing since 2001. These reductions eliminated revenue sharing to more than 900 of Michigan's 1,773 units of local government. Total revenue sharing payments, including constitutional, are down 45 percent since 2001. Citizens Research Council Report, *Reforming Statutory State Revenue Sharing*, p. 28.

**Pros:**

If the state is going to have such a program, then it should fully fund it.

Local units count on receiving that revenue and the state should provide it.

There is great disparity between units of government in terms of tax base per capita, needs for services, etc. A fully funded state revenue sharing program is imperative for many local units.

**Cons:**

The state should give revenue sharing monies to local units only for specific services such as public safety, not for unrestricted uses.

There are too many different units of local government. Money should be given only if local units consolidate services.

**21) Should local units of government have more options for offsetting the loss of property taxes for tax exempt properties?**

**BACKGROUND:** Property taxes are the major source of revenue for local units of government. Nearly every community has tax exempt properties (TEP) which include properties owned by religious, charitable, or educational organizations, as well as government property such as forest land. In addition, there is a local residence exemption for people in poverty. Local units receive “payments in lieu of taxes” (PILOT) from the state for certain properties such as forest land. The state reimburses local communities with colleges and universities for the cost of fire protection. However, in recent years the state has reduced expenditures for such reimbursements. A 2013 report from the University of Michigan Center for Local, State and Urban Policy suggests that local government leaders are exploring policy options such as: fees for service, special assessment districts, new millages, negotiating new “PILOTS”.

**Pros:**

Such properties require police and fire protection, utilities and other municipal services and yet they pay no property taxes.

Reductions in state reimbursements have affected local government finance.

**Cons:**

Such properties provide valuable assets to a local government: workers, educational or cultural benefits, economic benefit, etc.

**22) Should local units periodically reappraise the impact of property tax exemptions?**

**BACKGROUND:** Local governing bodies give property tax exemptions to attract economic development. The large number of local units in Michigan fosters a competitive environment for economic development. For local councils and township boards, granting property tax exemptions can become a spiraling initiative that needs periodic review.

**Pros:**

Periodic re-examinations will determine whether the benefits justify the loss of revenue.

Because of changing economic or political conditions, local officials can suddenly face unexpected burdens on the budget because of past willingness to grant property tax exemptions.

Criteria for exemptions should be developed that match the priorities of the community.

**Cons:**

Exemptions are important for economic development and should be left in place.

Property tax exemptions are a primary economic development tool that shouldn't be jeopardized.

Economic development is a very competitive endeavor—if one community doesn't use such exemptions, another community will do so.

*June 5, 2016*