The Center for Local, State, and Urban Policy

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Local leaders support eliminating Michigan's Personal Property Tax if funds are replaced, but distrust state follow-through

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As state lawmakers consider reform and partial elimination of Michigan's Personal Property Tax (PPT), this report presents local government leaders' assessments of the PPT and its impact on their jurisdictions, as well as their views on potential reforms. The findings are based on statewide surveys of local government leaders in the Spring 2012 wave of the Michigan Public Policy Survey (MPPS).

>> The **Michigan Public Policy Survey (MPPS)** is conducted by the **Center for Local, State, and Urban Policy (CLOSUP)** at the University of Michigan in partnership with the **Michigan Association of Counties, Michigan Municipal League**, and **Michigan Townships Association**. The MPPS takes place twice each year and investigates local officials' opinions and perspectives on a variety of important public policy issues. Respondents to the MPPS this wave include county administrators and board chairs, city mayors and managers, village presidents and managers, and and township supervisors, clerks, and managers from over 1,300 general purpose local governments across the state.

For more information, please contact: **closup-mpps@umich.edu**/ (734) 647-4091.

Key Findings

- Among all jurisdictions that report receiving Personal Property Tax (PPT) revenue, 51% report that the funds are important for their budgets. This increases to 83% among the state's largest jurisdictions, as well as 84% of its counties and 85% of its cities.
- Local officials believe the PPT is difficult to administer (42% agree vs. 24% disagree), yet more think the PPT revenues are worth the costs of administration (46% vs. 30%).
- Nearly three-quarters (74%) of affected local leaders would support elimination of the PPT if the state were to replace the revenues in full. However, this support drops sharply if the state were to provide less than full replacement funding. Even if the state were to replace most of the revenue, just 44% would support elimination of the PPT under those circumstances.
- Distrust of the state may be a factor in concerns about PPT reform. In the absence of a constitutional guarantee, more than two-thirds (67%) of local leaders would not trust the state to follow through on commitments it might make to replace lost PPT revenues, while just 13% would trust the state government.
  - Levels of distrust are highest in the state's largest jurisdictions, where 86% of leaders would not trust the state to follow through on commitments it might make. By comparison, 63% of leaders in the smallest jurisdictions also would not trust the state to follow through.
- If the PPT is eliminated in whole or in part, over two-thirds (68%) of local leaders would want replacement revenue to be collected and retained at the local level, while just 12% would prefer it to be collected by the state and redistributed to local governments.

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Background

The Michigan Personal Property Tax (PPT) is assessed on businesses for their property that is not permanently affixed to land (for example, equipment, furniture, tools, or computers) and raises revenue in nearly every local jurisdiction in the state. Across the nation, about 40 states levy some form of personal property tax.[1] However, most other states in the Great Lakes region either do not tax personal property at all or provide many exemptions from their PPT.[2]

The PPT has been a target of tax reform in Michigan among those who argue that its complexity makes it burdensome for both businesses and local governments, and that it discourages economic development by penalizing business investments. Based on these and other critiques, the state government in Lansing is moving toward PPT reform, possibly eliminating major portions of the tax. Meanwhile, "Replace, Don't Erase," a coalition of organizations whose members receive PPT revenues, argues that local jurisdictions may not be able to withstand the loss of their PPT revenues without significant further reductions in services, given the revenue cuts they've already taken due to decreases in state revenue sharing and the plunge in real property tax revenues. [Disclosure: two of CLOSUP's partners in the MPPS program—the Michigan Municipal League and the Michigan Association of Counties—are members of the "Replace, Don't Erase" coalition. However, the analysis in this report has been conducted independently by CLOSUP alone.]

For more detailed information about the PPT, see the Senate Fiscal Agency's issue paper by David Zin cited above and chapter 28 on the property tax in Michigan by Naomi Feldman, Paul Courant and Douglas Drake in "Michigan at the Millennium."[3]

To help inform policy discussions around the state, the Spring 2012 MPPS asked leaders of Michigan's local governments for their views on the PPT and issues related to potential reform options.

Most officials say the PPT is an important source of revenue

According to figures from the Michigan Department of Treasury, revenues raised by the PPT vary dramatically across jurisdictions, from less than $100 in some communities to millions of dollars in others.[4] The MPPS asked officials whose jurisdictions generate at least some PPT revenue whether the tax is an important source of funding for their budgets, and just over half (51%) of these leaders agree it is (see *Figure 1a*).

Officials from larger jurisdictions are much more likely to say the PPT is an important source of revenue, including 83% of leaders from the state's largest jurisdictions (those with over 30,000 residents). Still, 44% of leaders from the state's smallest jurisdictions (those with fewer than 1,500 residents) also agree the PPT is important for their jurisdictions' funding (see *Figure 1b)*. By jurisdiction type, most leaders from cities (85%), counties (84%), and villages (62%) believe the PPT is important to their revenue, compared to just 36% of township officials.

Figure 1a
Percentage of local leaders who agree or disagree the PPT is important to their jurisdictions' budgets (among jurisdictions that receive PPT revenue)

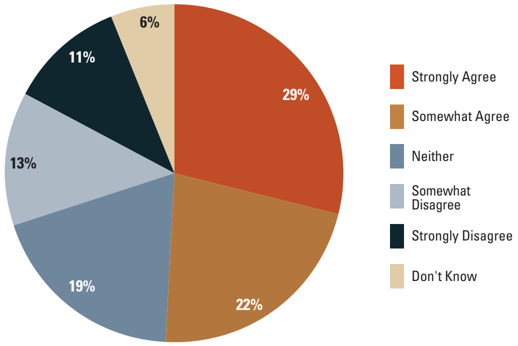
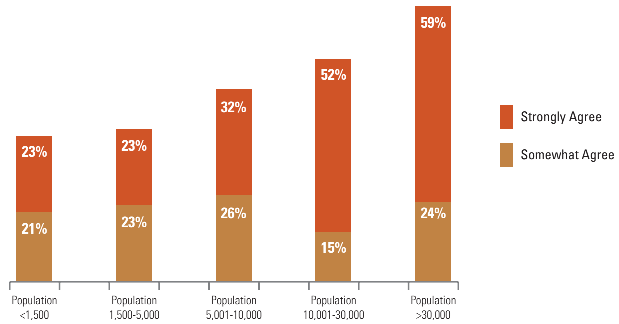


Figure 1b
Percentage of local leaders who agree the PPT is important to their jurisdictions' budgets (among jurisdictions that receive PPT revenue), by population size



Local officials split over PPT concerns; many think it is too complex, but revenues are worth the costs

Many stakeholders who support reform or elimination of the PPT raise concerns about particular aspects of administering or paying the tax. To get the perspective of Michigan's local government leaders, the MPPS asked about the following issues: whether it is difficult to administer because it is too complex; whether it is audited frequently enough to ensure accuracy; whether businesses accurately report their taxable value; whether the tax is a barrier to economic development; and whether the revenues raised are worth the difficulties the tax may present.

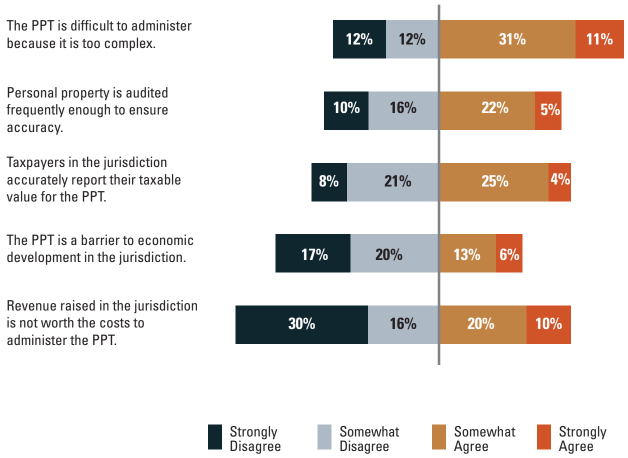
On one hand, local leaders largely agree with the argument that the tax is too complex. Among jurisdictions that receive PPT revenue, 42% of local leaders agree it is complex and difficult to administer, while 24% disagree (see *Figure 2*).

Meanwhile, local leaders are about evenly split on other logistical questions regarding whether the tax is audited frequently enough to ensure accuracy, and whether businesses accurately report their taxable value.

However, when asked whether the PPT discourages economic development in their jurisdictions, local leaders are more likely to disagree than to agree that it does. About one-fifth (19%) of officials believe the PPT is a barrier to economic development in their jurisdiction, while more than one-third (37%) disagree with that view. Of course, others involved in economic development—such as leaders of regional economic development agencies around the state—might feel differently about the PPT's impact on their efforts to attract or retain employers.

Ultimately, despite substantial levels of concern among local leaders about problems associated with the PPT, 46% believe the revenue raised is worth the difficulties and costs involved, compared to only 30% who feel the costs outweigh the benefits. Not surprisingly, these views are strongly correlated with whether or not the PPT is an important source of revenue in the eyes of local leaders. Among those who say the PPT is <u>not</u> very important to their jurisdictions' funding, 72% believe the PPT's revenues are <u>not</u> worth the costs of administering the tax. But among those who say the PPT <u>is</u> important to their jurisdictions' funding, 89% say the revenues are indeed worth the costs.

Figure 2
Percentage of local leaders who agree or disagree with various statements about the PPT (among jurisdictions that receive PPT revenue)



Note: Figure does not display "Neither Agree nor Disagree" and "Don't Know" response categories

Widespread support for PPT elimination if funds would be fully replaced

Local leaders were asked whether or not they would support elimination of the PPT if the state were to provide full replacement revenue, and alternatively, if the state were to provide full replacement revenue, and alternatively, if the state were to replace most (but not all) of the revenue. Nearly three-quarters (74%) of local leaders would support elimination of the PPT if the state were to replace their jurisdictions' PPT revenues in full (see *Figure 3*). However, levels of support drop sharply—to just 44% of leaders—if the state replaces most, but not all, of the lost PPT revenue.

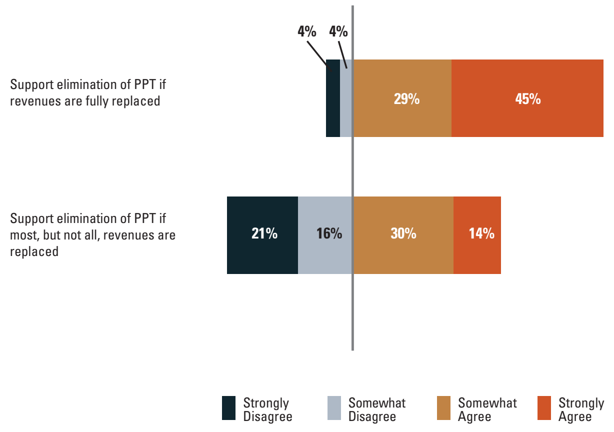
Among jurisdictions that say the current PPT revenues are important to their budgets, 77% would support elimination of the PPT if the funds were fully replaced. This drops even more sharply, to just 23% support, if the funds are mostly (but not fully) replaced.

Most local officials do not trust the state to provide committed replacement revenue

One barrier to local leaders' support for eliminating the PPT is that they largely do not trust the state government to deliver on potential promises to replace lost funding. In the absence of a constitutional guarantee, over two-thirds (67%) of local leaders say they would not trust the state government to follow through on commitments it might make to replace lost PPT revenues, while just 13% would trust the state on such commitments (see *Figure 4*).

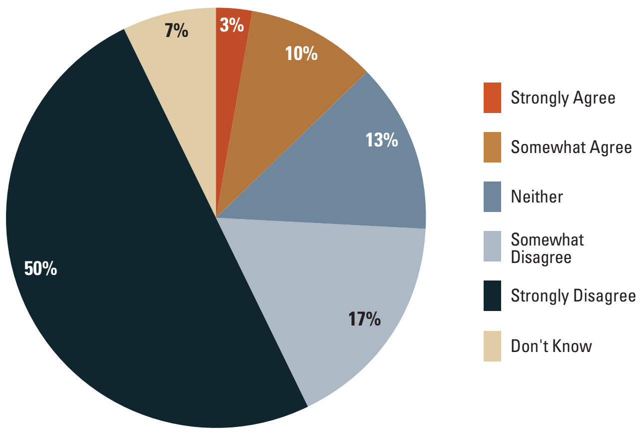
Trust in the state government is low among leaders from all sizes of jurisdictions, though it is lowest in the state's largest local governments. Among the largest jurisdictions, 86% of leaders distrust the state to follow through, while the same is true for 63% of leaders from the smallest jurisdictions.

Figure 3
Local leaders' support for and opposition to eliminating the PPT (among jurisdictions that receive PPT revenue)



Note: Figure does not display "Neither Agree nor Disagree" and "Don't Know" response categories

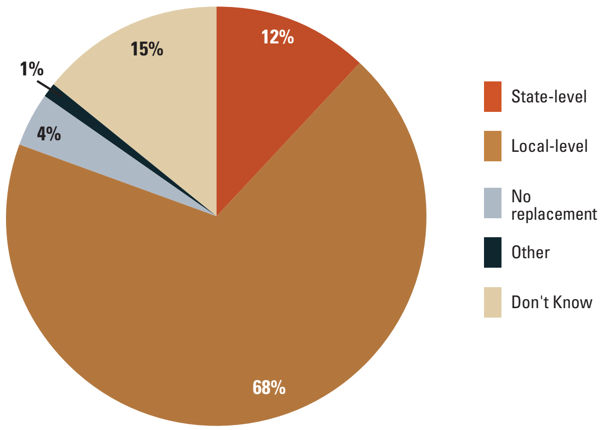
Figure 4
Whether local leaders' trust that the state would provide promised replacement funds (among jurisdictions that receive PPT revenue)



Jurisdictions want local control of potential replacement revenue

The MPPS asked local officials in jurisdictions that report receiving PPT revenue, in the event the PPT is eliminated in whole or in part, whether they thought any potential replacement tax revenue should be collected by the state and then redistributed to local governments, or whether it should be collected and retained on a completely local basis. Perhaps not surprisingly, given the high levels of distrust noted above, leaders from over two-thirds (68%) of jurisdictions that currently receive PPT revenue would prefer to collect and retain the funds at the local level, while just 12% would prefer it to be collected and redistributed by the state government (see *Figure 5*). The state's largest jurisdictions are most likely to favor local-level control (78%) compared to state-level control (8%).

Figure 5
Local leaders' preferences for control of potential replacement tax revenues



Conclusion

The MPPS finds that a majority of Michigan's local government leaders from jurisdictions that receive PPT revenue say the tax is important to their budgets, including 83% of officials from the state's largest jurisdictions. At the same time, many local leaders believe the PPT has significant drawbacks, especially its complexity. Despite those drawbacks, 46% of local leaders whose jurisdictions receive PPT revenue believe the funding is worth the problems the tax presents, compared to just 30% who feel the opposite.

Still, there appears to be significant interest at the local level for alternatives to the PPT. As state policymakers continue discussion of potential reform or partial elimination of the PPT, they should understand that a large majority of local leaders would support elimination of the PPT if the revenues would be replaced in full. However, they should also realize that there is a high level of distrust among local officials about any promises the state might make regarding replacement funds, and that absent constitutional guarantees, local leaders would prefer to collect and retain the funds at the local level.

Notes

1. Zin, D. (2011, September). The state and local impact of property taxes levied on Michigan personal property. Lansing, MI: Michigan Senate Fiscal Agency. Retrieved from http://www.senate.michigan.gov/sfa/Publications/Issues/PersonalPropertyTaxes/PersonalPropertyTaxes.pdf

2. Horwitz, J., & Rosaen, A. (2012, April). Personal Property Tax reform in Michigan: The fiscal and economic impact of SB 1065-SB 1072. East Lansing, MI: Anderson Economic Group. Retrieved from http://www.andersoneconomicgroup.com/Portals/0/AEG_MIPPT_ReformReport.pdf

3. Feldman, N., Courant, P. N., & Drake, D. (2003). The property tax in Michigan. In C. L. Ballard, et al. (Eds.), *Michigan at the millennium: A benchmark and analysis of its fiscal and economic structure* (pp. 577-602). East Lansing, MI: Michigan State University Press.

4. Marusich. D., Michigan Department of Treasury (personal communication, May 30, 2012).

Survey background and methodology

The MPPS is a biannual survey of each of Michigan's 1,856 units of general purpose local government, conducted once each spring and fall. While the spring surveys consist of multiple batteries of the same "core" fiscal, budgetary and operational policy questions and are designed to build-up a multi-year time-series of data, the fall surveys focus on various other topics.

In the Spring 2012 iteration, surveys were sent by the Center for Local, State and Urban Policy (CLOSUP) via the internet and hardcopy to top elected and appointed officials (including county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers) from all 83 counties, 277 cities, 256 villages, and 1,240 townships in the state of Michigan.

The Spring 2012 wave was conducted from April 9-June 18, 2012. A total of 1,329 jurisdictions in the Spring 2012 wave returned valid surveys, resulting in a 72% response rate by unit. The margin of error for the survey as a whole is +/- 1.43%. However, the margin of error may differ for analyses that include only a subset of respondents. The key relationships discussed in the above report are statistically significant at the $p<.05$ level or below, unless otherwise specified. Missing responses are not included in the tabulations, unless otherwise specified. Data are weighted to account for non-response. Contact CLOSUP staff for more information.

Detailed tables of the data analyzed in this report are available online, broken down three ways: by jurisdiction type (county, township, city, or village); by population size of the respondent's community; and by the region of the respondent's jurisdiction. See the MPPS homepage: http://closup.umich.edu/mpps.php.

The survey responses presented here are those of local Michigan officials, while further analysis represents the views of the authors. Neither necessarily reflects the views of the University of Michigan.

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