

State and Local Government News

MICHIGAN STATE
UNIVERSITY
EXTENSION

March 2008

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About the STATE AND LOCAL GOVERNMENT TEAM

Michigan State University Extension's State and Local Government Area of Expertise Team helps the people of Michigan improve their civic lives through an educational process that applies knowledge to critical needs, issues, and opportunities.

For more than 50 years, state and local government education has been an integral part of MSU Extension's work to link the concerns of the people of Michigan with the knowledge resources of the state's land grant university (MSU).

State and Local Government Program

Michigan State University Extension

Volume 2, Issue 1

ECONOMIC SNAPSHOT AND FORECAST: What does it mean for Michigan?

By Nicole Bradshaw

National Snapshot and Outlook

The big buzzword in economic and financial circles right now is recession. A recession occurs when national economic growth declines for two or more successive quarters. While Michigan has been walking this line for some time now, the Federal Reserve, financial sector professionals, and economists are debating whether or not the nation has entered a recession and if not already, then when? Economists and fiscal analysts predict that the real gross domestic product in 2008 will average 1.7%, down from 2.1% in 2007; nevertheless, growth is expected in 2009. Economic predictions, however, are a

tricky art since there are a number of variables affecting the U.S. economy.

With nationwide new housing projects at the lowest level since the early 1990s, falling home prices, a rising number of foreclosures, and climbing unemployment, consumers feel less wealthy and have little optimism. Despite all the bad news, there is some good news; employment in the United States grew in all sectors between November 2006 and November 2007, except for in construction, manufacturing, and financial activities. Personal incomes continue to grow, albeit at a slower rate. Additionally, President Bush

"Economic Snapshot" continues on pg. 5

WHY ARE MY PROPERTY TAXES GOING UP WHEN MY PROPERTY VALUE IS FALLING?

By Dr. Mark Skidmore

Over the past year, local government offices have been flooded with complaints from property owners about their tax bill. The complaints largely focus on the fact that for many longtime residents, tax payments are increasing even though their estimated property values are falling. How could this be so?

This is the result of Michigan's taxable value cap, which was implemented by referendum with the passage of Michigan's Proposal A in 1994. The taxable value restricts the growth of property valuation for tax purposes to the rate of inflation or 5 percent, whichever is less. Since the passage of this proposal, local authorities have been required to report for each property within their jurisdiction the actual state equalized value (equal to one half of estimated market value) as well as taxable value. In 1994, each property's state equalized value equaled its taxable value. Through time, however, the growth in state equalized value has outpaced growth in taxable value because housing prices tended to increase at a rate faster than inflation. Further, there is significant

variation across communities in the rate at which taxable value has fallen behind state equalized value.

To illustrate differences across the state in tax base erosion, consider the ratio of taxable value to state equalized value (TV/SEV) for counties across Michigan. According to the Michigan Department of Treasury State Tax Commission, in 2007 the average TV/SEV for all counties was 0.78. Leelanau County had the lowest ratio of taxable to state equalized value (0.58) and Midland County had the highest ratio of taxable to state equalized value (0.87). The single largest property tax expenditure (foregone property tax revenues that might have been generated in the absence of the exemption) arises from the taxable value cap. The tax expenditure associated with the taxable value cap is now so large that if it were to be removed, holding total property tax revenues constant the statewide average statutory property tax rate could be reduced by 22 percent. In some counties the average statutory tax rate could be reduced by more than 40

"Property Taxes" continues on pg. 4

GOVERNOR GRANHOLM'S GOALS FOR MICHIGAN'S PRESENT AND FUTURE: A Summary of the State of the State Address and the Governor's Budget Proposal

By Nicole Bradshaw

In February Governor Granholm released her proposed budget for Michigan's 2008-09 fiscal year beginning October 1. The Governor designed her budget to achieve the four priorities she outlined in her State of the State address in January: a job for every worker, a quality education for every child, health care for every family and safe places to live and work. The governor's total proposed departmental budget is over \$44.8 billion, up 2.89 percent from the current fiscal year. However, pressures from the current fiscal year may make even a modest budget increase unattainable. The January 2008 Consensus Revenue Estimating Conference estimated that the general fund revenue for 2008 will actually be \$234 million below the figure legislature used in determining the current budget. This decline may be a result of less than expected revenues from the business tax and the continually declining economy, both on the state and national levels.

The conference also projected revenues for the 2009 fiscal year to be \$9.194 billion for the general fund and \$11.871 for the School Aid Fund. Of the general fund revenues, \$316 million are savings from revenue sharing and \$208 million comes from suspending county revenue sharing. To help fund appropriations, the governor wants to use surpluses from 2007 to cushion severe cuts in the 2009 budget by carrying over \$126 million, while also depositing \$100 million into the state's "rainy day" fund. The state has a surplus of \$259 million in the general fund and \$84 million in the School Aid Fund.

Significant reductions in general fund appropriations are being made to several departments. Community health will lose \$62 million but the governor has recommended a gross increase of 3.2 percent in total appropriations (see "General Fund Versus Gross Appropriations" on page 3 for more information). The Department of Corrections will lose \$50 million from their general fund over the previous fiscal year, but ends up with a gross appropriation of 0.2 percent over 2008. Additionally, government reforms have helped to trim the governor's budget. One hundred and two million dollars will be saved from the new state employee health benefits contract, \$63 million of which is in the general fund.

Job Creation

The governor has vowed to focus on job creation in this year's budget. Thirty-five million dollars have been set aside from the revenue stream and allocated for the Michigan Job Creation Tax Credit, a one-time initiative to encourage businesses to create new jobs in the state. Forty million dollars will be used to expand the governor's No Worker Left Behind initiative, which trains displaced workers for advanced careers free of charge. Part of this initiative expansion will be funded through the refinancing of some of the state's bonds at lower interest rates.

The additional expenditure on Capital Outlay in this budget is reserved to expand airports and military training facilities and is projected to create an additional 3,900 construction and other jobs.

Education

The 2009 budget increases funding per pupil in our K-12 schools by a minimum of \$108 per student, bringing the minimum expenditure per student to \$7,420. The budget also allocated funds to expand the Great Start preschool program and the services of the Early Childhood Investment Corporation. Also a central funding priority is the replacement of large high schools with smaller more "personal" high schools.

Community colleges and universities would receive a three percent funding increase under Governor Granholm's plan, which would help them to meet her goal of doubling the number of college graduates in Michigan. The governor's proposal includes a new funding formula for the state's 15 funded universities that is based on a combination of degree completion, federal research expenditures, and opportunities for low income enrollment. The funding formula for the three research universities – Michigan State University, University of Michigan, and Wayne State University, will emphasize research and commercialization activities. A three percent increase has been proposed for Extension and the Agricultural Experiment Station, which translates to allocations of \$30.2 million and \$35.0 million, respectively.

Health Care

The governor proposed a 4.3 percent increase for medical services and long term care related to Medicaid. Additional funding, about \$15 million, has been allocated to the Michigan Nursing Corps to address the state's nursing shortage. The funds will be used to expand nursing programs and provide scholarships. Also, after saving \$32.1 million from decreased nursing home utilization, the budget proposes to reinvest this money into services allowing more seniors to remain in their homes.

Safety

To help promote public safety at a local level, the governor has proposed a four percent increase in statutory revenue sharing payments. This would be the first increase in revenue sharing payments since 2001. Additionally, monies have been allocated to the Michigan State Police to train 100 new troopers.

See page three for more details on the Governor's budget proposal.

More information regarding the governor's budget can be obtained from the Office of the State Budget: <http://www.michigan.gov/budget>

2009 Budget At A Glance

Appropriations (in thousands of dollars)						
	2009 GF	2009 Gross	2008 GF	2008 Gross	GF % Change	Gross % Change
AGRICULTURE	32,490.2	102,980.0	30,848.8	107,768.0	5.3%	-4.40%
CAPITAL OUTLAY	450.0	249,966.7	0.0	0.0	0.0%	100.00%
COMM. COLLEGES	302,228.8	302,228.8	318,928.8	318,928.8	-5.2%	-5.20%
COMMUNITY HEALTH	3,086,105.8	12,485,130.4	3,122,814.7	12,044,119.6	-1.2%	3.70%
CORRECTIONS	1,978,262.8	2,062,052.2	1,983,946.7	2,065,956.2	-0.3%	-0.20%
EDUCATION	8,074.5	94,743.2	6,885.6	95,902.8	17.3%	-1.20%
ENVIRON. QUALITY	44,998.6	368,478.7	31,538.2	369,217.0	42.7%	-0.20%
GENERAL GOVT	657,228.2	3,146,693.7	678,325.3	3,154,256.2		-0.24%
HIGHER EDUCATION	1,675,926.0	1,799,426.0	1,761,775.7	1,896,375.7	-4.9%	-5.10%
HISTORY, ARTS & LIBRARIES	40,111.7	52,779.9	39,086.8	49,291.4	2.6%	7.10%
HUMAN SERVICES	1,376,552.2	4,658,689.4	1,307,263.1	4,573,083.6	5.3%	1.90%
JUDICIARY	159,933.4	261,912.7	157,996.7	259,291.5	1.2%	1.00%
LABOR & ECONOMIC GROWTH	94,350.1	1,362,852.7	46,002.7	1,298,848.7	105.1%	4.90%
MILITARY & VETERAN AFFAIRS	40,120.6	130,388.7	39,619.8	128,508.4	1.3%	1.50%
NATURAL RESOURCES	23,458.9	286,968.7	22,601.9	286,426.3	3.8%	0.20%
SCHOOL AID	43,000.0	13,515,227.7	34,909.6	13,006,025.1	23.2%	3.90%
STATE POLICE	286,041.2	529,412.2	272,588.2	564,686.2	4.9%	-6.20%
TRANSPORTATION	0.0	3,424,465.5	0.0	3,357,851.6	0.0%	2.00%
Total Budget	9,849,333.0	44,834,397.2	9,855,132.6	43,576,537.1		
Budget Percent Change	-0.06%	2.89%				

General Fund Versus Gross Appropriations

In the state budget, the General Fund accounts for most of the resources allocated by the state for each department as well as some expenditure and receipt transactions which are constitutionally and statutorily permitted. While gross appropriations includes funds designated for the general fund, it also includes dollars from the federal government and other funds with restricted use. For example, the governor has appropriated over \$32 million to the Department of Agriculture from state funds, while a combination of user fees, grants, and federal dollars make up the additional \$70 million, for a total of almost \$103 million. The Department of Corrections is mostly funded by state appropriations, while the Department of Community Health receives a significant portion of its funds from fees and management of services such as Medicaid.



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PROPERTY TAXES (CONTINUED FROM PG. 1)

percent.

Over the past year or two, Michigan has experienced significant declines in property values. According to Standard and Poor, the housing price index for Detroit, MI fell 9.6 percent in 2007. The Michigan Realtors Association reports the statewide average home sale price has fallen by 6.19 percent compared to one year ago. This circumstance was, for many, not well understood and we are now experiencing an unanticipated consequence. Under Proposition A, as long as state equalized value is greater than taxable value, property tax officials are required by law to increase taxable value by the rate of inflation as measured by the consumer price index. Those who enjoyed tax relief associated with the taxable value cap when housing prices were rising are now seeing their taxes increase despite falling home values.

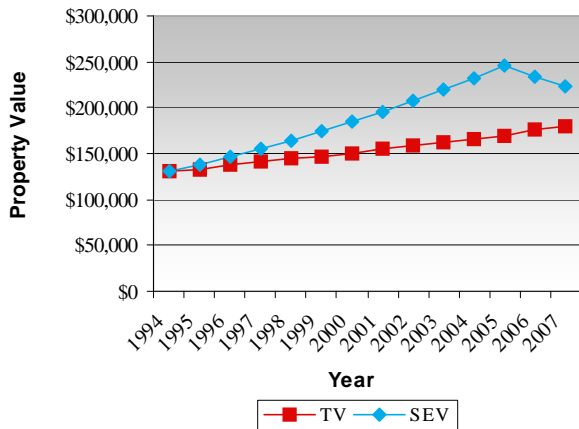
Those recently purchasing a home have typically experienced the “pop up” effect. That is, taxable value on their properties increased to state equalized value upon sale of the property. Some have pointed to the inequities of the taxable value cap, citing examples of equally valued homes in the same taxing jurisdiction which have substantially different property tax payments. A homeowner who has owned the property for many years pays relatively little in property taxes, whereas the homeowner who recently purchased a home pays significantly more. For example, the

person who recently owned the home I purchased in June 2007 paid more than \$2,000 less than I am currently paying.

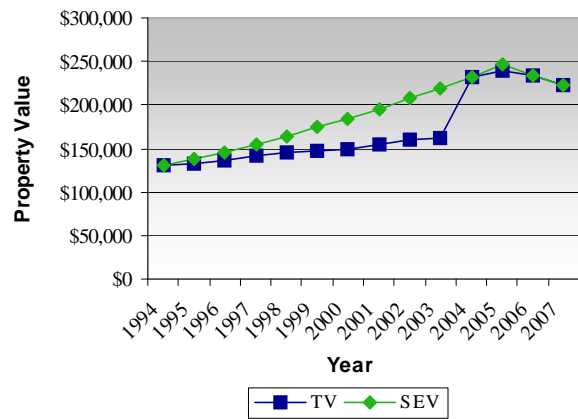
However, the person who recently purchased a home may actually see their property taxes fall in the face of declining home values. To see this, consider two illustrations, which are graphed below. In scenario A, the property owner enjoyed protection from property taxes during the period of housing price increases. However, between 2005 and 2007 housing prices began to fall, but for many their taxable value is still increasing. In Scenario B, the property was sold in 2003 and so we observe the “pop up” effect. Two years later, however, this property owner experiences a decline in property tax payments because taxable value cannot exceed state equalized value.

The taxable value cap is somewhat controversial. Long-term property owners stand to benefit over time from the law during periods of increasing property values, but first time homeowners and homeowners who move more frequently experience higher tax payments. In the face of falling property values, long-term homeowners face increasing tax payments. Homeowners are likely to experience frustration especially during these difficult times, but we cannot blame tax assessors nor can we blame legislators: This law was put into place through referenda processes and the only way to revise the law is with another referendum.

TV-SEV Scenario A



TV-SEV Scenario B



ECONOMIC SNAPSHOT (CONTINUED FROM PG. 1)

and federal legislators passed a bill last month that will distribute extra tax rebates of up to \$600 for singles, \$1200 for married couples, and an additional \$300 per child, with the hope of increasing national consumer spending. These rebates are expected to be distributed in May 2008.

Michigan Snapshot and Outlook

While Michigan has been leading the way in the nation’s declining economy, our state is facing a different set of problems than many of our neighbors, mostly due to the state’s disproportionate reliance on manufacturing. With a focus on rising unemployment rates and foreclosures, many reports fail to give the entire economic picture. As measured by inflation adjusted personal income, the Michigan economy is estimated to have grown 1.8% in 2007. Similar indicators predict that 2008 will see a 1.4% decline and only a 0.4% growth in 2009. These projections are below both the national average and the historical state average.

Employment

In the last year approximately 27,000, or 4.3% of all manufacturing jobs were lost. The Michigan House Fiscal

Agency predicts Michigan’s unemployment rate will hit 8.2% in 2008 and 8.5% in 2009, versus the estimated 7.2% unemployment the state saw in 2007. These estimates are more conservative than the 2.0% and 1.1% decreases in employment in 2008 and 2009, respectively, predicted by the Department of Treasury. The Treasury is not expecting declines in unemployment until the fourth quarter of 2009.

Housing Market

Depending on the data source, Michigan, particularly Detroit and surrounding areas, is leading the nation in foreclosure rates. However, unlike other states experiencing turmoil from the housing market, Michigan never saw the booming housing prices that contributed to the crisis in most other U.S. markets. Michigan’s problems likely stem from its high unemployment rates relative to other states. Another hit to Michigan is falling housing prices and a plethora of homes on the market with relatively few buyers. From October 2006 to October 2007 home prices declined 5.1%, one of the largest declines in the country over that period.

Vehicle Production

Through October 2007, Michigan vehicle production rose 2.4%. While auto production was down 10.6%, Michigan truck production rose 15.1%. Forecast sales for light vehicles are projected to be in the range of 15.6 to 16.3 million units for 2008 and 2009, the lowest level in 10 years. The import share of all light vehicle sales is estimated to be as high as 25% by 2009, up from about 22.4% in 2006.

Information from this summary was collected from reports by Michigan’s Department of Treasury, House Fiscal Agency, and Senate Fiscal Agency.

Economic Snapshot				
Indicator	Actual	Estimate	Projection	
	2006	2007	2008	2009
Unemployment Rate (%)				
U.S.	4.6	4.5 - 4.6	4.9 - 5.3	5.1 - 5.6
Michigan	6.9	7.2	8.2 - 8.3	8.5 - 8.9
Light Vehicle Sales (millions of units)	16.5	16.0 - 16.1	15.6 - 15.8	15.6 - 16.3
Housing Starts (millions of units)	1.801	1.331	0.827	0.986

STATE AND LOCAL GOVERNMENT TEAM ACTIVITIES

Budget Support: SLG continues to work with the cities of Saginaw and Lansing to determine how to manage, develop, and implement performance measures.

Mortgage Foreclosure Workshop: Dr. Mark Skidmore, Professor in the Department of Agriculture, Food, and Resource Economics (AFRE) and member of the State and Local Government Team along with Dr. David Schweikhardt, Professor in the Department of AFRE, have spent much time in the month of February educating Michigan regarding the foreclosure crisis. Their presentation, “Economic and Fiscal Foundations of the Foreclosure Crises,” has been presented to county commissioners and administrators, MSU faculty, staff, and students, as well as at a legislative breakfast sponsored by Representative Joan Bauer.

Benchmarking Consortium: SLG is currently kicking off a new local government benchmarking consortium this month in collaboration with the Michigan Municipal League, Michigan Association of Counties, Michigan Local Government Management Association, Michigan Government Finance Officers Association, and others. The consortium, which will be organized and run through the campus SLG team, is designed to help local governments utilize performance measures and share best practices. Please see our webpage for more information: www.msue.msu.edu/slg

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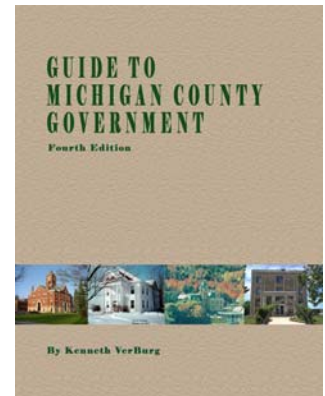
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STATE AND LOCAL GOVERNMENT TEAM MEMBER SPOTLIGHT

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John Amrhein is a district state and local government educator with Michigan State University Extension, based in the Wexford County MSUE office in Cadillac. He works primarily with local governments in northern lower Michigan and the upper peninsula, providing workshops and technical assistance in local government finance, intergovernmental cooperation, strategic planning, and effective leadership. John is the field co-chair of the Extension State and Local Government Team. Prior to joining MSUE in 1994, his experience included non-profit organization management, advisory and training roles with boards and committees, agriculture, and broadcasting. He received his BA and MBA degrees from MSU.



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Julie Pioch is the county Extension director for Van Buren County MSUE. Julie earned her BS and Masters Degrees from Western Michigan University. She has been with MSUE since 1993 and active in MSUE's State and Local Government Area of Expertise Team since 1999. She is a certified parliamentarian and an active member of the Kalamazoo Parliamentary Law Unit and National Association of Parliamentarians.

Throughout her career with MSUE Julie has been successful in helping local decision makers develop leadership skills and in assisting non-profit organizations with organizational development and goal setting. She has worked closely with township governments to develop local ordinances and implement sustainable land use policies and engage in community visioning processes. Julie's recent accomplishments include building a county-wide coalition to work on the development of a county ordinance to promote the preservation of farmland.