

# State to pay cities under Prop A, says expert

Proposal A on the May 19 statewide ballot is partly a tax cut, partly a tax shift.

Operating property taxes for local schools, cities, villages, townships, counties and community colleges will be cut by half if this amendment to the Michigan Constitution passes. Benefit to homeowners: \$1.2 billion.

But it will also raise the sales tax from the current 4 percent to 5.5 percent as of July 4. Cost to consumers and businesses: \$800 million.

The net cost is expected to be \$250 million to state government, which must use the sales tax revenue to reimburse local government for lost property taxes.

Observer & Eccentric Newspapers staff members recently quizzed Dr. Douglas Roberts on the

effect of the sales tax measure. Roberts is deputy director to Dr. Gerald Miller of the state Department of Management and Budget.

Here are excerpts:

**Q. What makes you think the sales tax will generate as much revenue as you expect (\$890 million)? Consider the nature of Michigan's economy.**

**A.** It's interesting you raise the issue that way because I've been hit with both sides.

One side says the sales tax won't raise enough money, and the other says the sales tax will raise more money than needed for reimbursements.

My judgment is that this reimbursing local governments for lost property taxes is a constitutional requirement (if Proposal A passes), and that payment will be made.

Does it mean that other payments will have some difficulty? The answer is clearly yes. But I think that if we work out a payment agreement with the locals, and particularly with schools, we'll be able to solve our payments schedule.

But if you're asking, "Will there be cutbacks in the future?" the answer is there could be cutbacks. I can't say categorically there won't be.

But this payment (to locals) will be made.

**Q. What's been the state's experience with the sales tax?**

**A.** In terms of growth? The sales tax (revenue) has been growing in the order of 6 or 7 percent a year. This last year, I think it was substantially less than that, something in the order of 2 percent, not very much.

**Q. If a local community or school district passes a millage increase after this goes into effect, is it correct that the state would reimburse half that amount?**

**A. Yes.**

**Q. Where is that money coming from?**

**A.** In our estimates, we included some adjustments for upward revision.

I guess it comes down to what you believe. If you believe a property tax revolt exists, as we do, I do not believe that even with the 50 percent "incentive," people are going to be rushing out and enacting new millages.

Let me point out that in the tax law right now, there is quite an incentive (the circuitbreaker) which has had no significant effect. Right now, if a community has a fairly large property tax levy, most of the citizens there, right now, receive fairly

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**— Dr. Douglas Roberts  
deputy budget director**

large rebates. The rebate is 60 percent (of property taxes in excess of 3.5 percent of household income).

**Q. What happens to municipalities that are levying less than their charter limits?**

**A.** The situation is clear, and there is legislation moving through the legislature at the present time, that the cities will not be able to levy the unused millage.

Suppose you live in a city with a charter limit of 20 mills, but the City Council has opted to levy only 10 mills. The council has authority to raise the millage to 20 mills because the people, in the charter, gave the council the authority.

The legislation that will implement Proposal A says that, even if the city council wanted to, if Proposal A passes, they are going to be limited to 10 mills unless there's another vote of the people.

**Q. If Proposal A passes, the sales tax will go from 4 cents on the dollar to 5.5 cents. If I go to the drug store and buy a six-pack of beer, how do I figure 5.5 cents on the dollar?**

**A.** The question can be asked right now, what is 4 percent of 87 cents?

The point is that there's a little chart, and it's on the cash register right now, which shows that between certain amounts there's this much tax, and between other amounts there's that much tax.

A new chart will absolutely handle all of that type of question.

Granted, it's not as easy to calculate mentally 5.5 cents times \$5.50 as it may be to calculate 4 percent times \$5.50.

**Q. What about the price of a car?**

**A.** There will be an increase in the price of a car. If you buy a \$10,000 car, it will be an increase of \$150.



Dr. Douglas Roberts: "I guess it comes down to what you believe."

## how tax cut plan looks on ballot

Here is the official ballot text of Proposal A as it will appear in the May 19 statewide special election.

### 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 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?

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