

# 'Cut and cap' hikes assets, economist says

By TIM RICHARD  
STAFF WRITER

Michigan property owners would see the value of their assets rise under the "Cut and Cap" Proposal C on the Nov. 3 ballot, says economist Patrick Anderson.

Anderson's study puts the value increase at \$19 billion by 1997, the year the tax cut in Proposal C would take full effect.

"This would be over \$2,000 for every Michigan resident in real, spendable wealth — a further stimulus to the Michigan economy," said Anderson.

The phenomenon is called tax capitalization. "Whenever the cost of holding an asset declines, its value increases, since the owner now will be required to pay less each year," he said.

Proposal C would cut school property taxes 30 percent over five years, requiring the state treasury to reimburse school districts for the lost revenue. It also would cap assessment increases at 3 percent or the rate of consumer price inflation, whichever is less.

Anderson is an assistant vice president at Alexander Hamilton Life Insurance Co. in Farmington Hills. He also is a senior policy advisor for the Mackinac Center, which published his study. Mackinac Center is a conservative, Midland-based think tank which opposes taxes and favors privatization of governmental services.

## Local impact

Proposal C is favored by Gov. John Engler, most Republicans, chambers of commerce and business. It is being fought by nearly all local governmental associations, teachers unions, the AFL-CIO labor federation and the League of Women Voters.

For a house with a current market value of \$100,000 and assessed at half of that value, a homeowner might expect to see the value rise \$4,400 to \$7,400 by 1997 — over and above any normal increase due to inflation, Anderson said.

Here are his calculations for our Oakland County communities showing market valuation followed by 1997 tax bill savings:

- Birmingham, \$4,820, \$637.
- Bloomfield Hills, \$4,411, \$579.
- Farmington, \$5,477, \$730.
- Farmington Hills, \$5,557, \$741.19.
- Rochester, \$5,999, \$804.

- Rochester Hills, \$5,958, \$798.
- Southfield, \$6,093, \$817.
- Southfield Township, \$4,825, \$637.
- Troy, \$5,403, \$719.
- Walled Lake, \$6,245, \$839.
- West Bloomfield Township, \$5,636, \$752.

"Investors in commercial properties, such as apartment and office buildings, routinely capitalize the expense and revenue streams predicted for a property when estimating its market value," Anderson says in an appendix.

For example, if an apartment building returns rents of \$12,000 a month and has expenses of \$10,000, its income stream is \$2,000 a month or \$24,000 a year. If the market value is 10 times annual income, the building is worth \$24,000 times 10 or \$240,000.

This explains why high-tax rate communities such as Walled Lake would see valuation increases in the \$6,245 range while lower-tax communities, such as Bloomfield Hills, would see smaller valuation increases.

## Other effects

Total benefit to property owners by 1997 will be a net \$2 billion by most estimates, including Anderson's.

Giving consumers and businesses more to spend would stimulate the economy generally, resulting in higher sales tax, income tax and single business tax revenues, Anderson said. But he did not make estimates of how much revenue this stimulation would produce.

Engler contends the state could reimburse local school districts their lost revenue by dedicating half the historical 5 percent a year growth in state revenue. He sees no need for a state tax increase.

Others are skeptical, saying some increase in state taxes would be necessary to pay for the property tax cut.

## C's drawbacks

Anderson sees some disadvantages to Proposal C. One is the 3 percent "cap" on assessments. A property would be reassessed when it's sold. Thus, neighbors with identical houses would pay different tax bills.

"An assessment growth cap also creates an incentive to remain in a house long after it serves an efficient function," he said.

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