



**PERSONAL PROPERTY TAX
REDUCTION
IMPACT TO STERLING HEIGHTS**

**SENATE FINANCE COMMITTEE
TESTIMONY**

Wednesday, April 25, 2012

**Richard J. Notte, Mayor
Brian Baker, Finance & Budget Director**

Senate Finance Committee:

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Senator Mark Jansen
Senator John Pappageorge
Senator John Proos
Senator David Robertson
Senator Steven Bieda
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Councilman Paul Smith
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While no one likes to pay taxes, they exist to provide the services that keep a community safe and livable, for both residents and businesses. When someone gets a tax break, someone else has to pay for it.

With this legislation, in the next 8 years Sterling Heights will lose up to \$8 million a year. The plan is to have future Legislatures make up some of the loss using tax credits to partially reimburse us, so that we only lose \$2 million a year. But either way we lose.

If this passes, the best-case scenario of only a \$2 million annual loss is that the State, in effect, is laying off 25 more of our Police Officers or Firefighters. The more likely worst-case scenario however, is that future Legislatures do not honor your promise and do not fully replace the funding. Why do we think this will be any different than the broken promises that led to 10 straight years of cuts to statutory revenue sharing? Sterling Heights, for example ten years ago received \$5.3 million in statutory revenue sharing. Last year, we received less than \$500,000. Without a constitutional guarantee, the same will happen here with the promised reimbursement. We then stand to lose \$8 million a year or 100 public safety employees.

This is why a guarantee is needed, in much the same way that a portion of revenue sharing is constitutionally protected. We live with guarantees that limit how much revenue we can collect (Proposal A & Headlee), why not also have guarantees that set a minimum?

So it is that simple, without a guarantee, history tells us we will not be reimbursed. While some may say there are no guarantees in life, each day we guarantee that a Police Officer or Firefighter will respond to an incident when a senior calls. Or their street will be plowed or their garbage picked up.

If such guarantees cannot be made, then perhaps a better approach is for the State to simply give the tax credits directly to businesses to offset their PPT. Why not eliminate local governments as the middleman and the State can provide the tax relief directly to businesses?

There are technical problems with the bills as well. They make expiring tax abatements permanent through 2016, thereby extending them much further than locals intended. For us, it also means tax revenues we gave up several years ago to save the Chrysler plant will not come back online after we gave them a huge tax break. We were counting on that money.

In simple terms, when this is fully implemented, you are taking \$8 million a year from Sterling Heights and "promising" that others in the future will pay us back \$6 million. If someone came up to me on the street with that offer, if forced, I'd rather just give them the \$2 million now and not have them pay any back – I would lose less that way.

Thank you for listening to our concerns. We are here today not asking for new money or a bailout. We are here to prevent a further erosion of critical services and a tax shift on to every State resident. At the very least, we need a guarantee to replace the funding. Without it, businesses are guaranteed to pay less. There is no guarantee they will invest or hire more. The only other guarantee is more loss of public safety jobs, further cuts to local services, and a greater share of the tax burden placed on residents – the same people who are the customers of the businesses that this law is intended to help.

**LOSS OF TAX REVENUES
CITY OF STERLING HEIGHTS**

**Effect of State Plan To
Cut Personal Property Tax (PPT)**

Tax Year	City PPT Without State Legislation	City PPT With State Legislation	Maximum City Tax Loss	Future State Promise??	Minimum City Tax Loss	Minimum Percent Loss
2013	\$8,223,287	\$7,738,005	(\$485,282)	\$0	(\$485,282)	-6%
2014	8,345,771	7,738,005	(607,766)	0	(607,766)	-8%
2015	8,419,707	7,738,005	(681,702)	0	(681,702)	-9%
2016	8,554,375	3,107,696	(5,446,679)	3,377,025	(2,069,654)	-26%
2017 *	9,807,904	2,876,181	(6,931,723)	4,862,069	(2,069,654)	-26%
2018	9,832,685	2,644,665	(7,188,020)	5,118,366	(2,069,654)	-26%
2019	9,675,004	2,540,680	(7,134,324)	5,064,670	(2,069,654)	-26%
2020	10,053,376	2,245,400	(7,807,976)	5,738,322	(2,069,654)	-26%
2021	10,079,622	1,950,119	(8,129,503)	6,059,849	(2,069,654)	-26%
		Total	(\$44,412,975)	\$30,220,301	(\$14,192,674)	

In addition, the City lost over \$1 million annually when State Tax Commission (STC) reduced PPT on Automotive Manufacturers (Chrysler, Ford, GM) in 2011. If compromise tax tables are not used after 2012, tax loss will exceed \$2 million annually.

* Chrysler SHAP PPT would have come back on tax rolls. Unknown if State will reimburse this amount.

Legislation is being discussed in the State legislature to reduce business taxes up to \$1.2 billion by eliminating the personal property tax, better know as the PPT. The PPT is paid only by businesses on equipment and machinery. The PPT is not paid by individual taxpayers or homeowners. The tax is administered and collected by local governments - none of the funds go to Lansing for the state budget.

Cities use the PPT revenues for:

- ✓ police and fire protection
- ✓ library services
- ✓ senior citizen serices
- ✓ road and bridge repairs
- ✓ and other local services

If the PPT is eliminated whether it's in one year or phased out over a period 5 or more years, cities will have to cut millions more from their budgets.

- ✓ These cuts will have to be in form of fewer Police and Fire Fighters, since we have cut everywhere else.
- ✓ Alternatively communities will have to increase taxes which will place an unfair burden on residential property owners, who are now struggling much more than manufacturers.
- ✓ Communities have already lost billions in property tax revenue and state shared revenue. Quality of life will erode if more cuts are made at the local level.

**Some say Michigan is not
competitive with other states.**

The data indicates otherwise.

Michigan businesses share of total state and local taxes is **6th lowest** in country (before the \$2 billion tax cut to businesses in Michigan approved last year).

Source: Ernst & Young LLP, July 2011

In addition Michigan now ranks **12th best** in overall business tax climate nationwide.

Source: Tax Foundation 2012

State & Local Taxes			
State	Business	Total	% of Total
1 Connecticut	\$6.9	\$22.9	30.1%
2 Maryland	8.8	27.9	31.5%
3 New Jersey	20.9	54.9	38.1%
4 North Carolina	13.0	34.0	38.2%
5 Wisconsin	10.0	25.8	38.8%
6 Michigan	15.4	38.8	39.7%
7 Oregon	5.6	14.1	39.7%
8 Arkansas	3.7	9.3	39.8%
9 Massachusetts	14.3	35.7	40.1%
10 Minnesota	10.3	25.4	40.6%
11 Virginia	13.5	32.9	41.0%
12 Ohio	19.3	47.0	41.1%
13 Hawaii	2.8	6.7	41.8%
14 Utah	3.7	8.8	42.0%
15 Pennsylvania	24.1	56.2	42.9%
16 Indiana	10.0	23.2	43.1%
17 New York	60.9	141.2	43.1%
18 Idaho	2.0	4.6	43.5%
19 Rhode Island	2.3	5.2	44.2%
20 Missouri	8.9	20.1	44.3%
21 New Hampshire	2.4	5.4	44.4%
22 Georgia	14.4	32.1	44.9%
23 California	85.4	186.7	45.7%
24 Iowa	5.7	12.4	46.0%
25 Kentucky	6.6	14.2	46.5%
26 Kansas	5.8	12.2	47.5%
27 Illinois	29.1	60.9	47.8%
28 Alabama	6.6	13.6	48.5%
29 Nebraska	3.7	7.6	48.7%
30 Colorado	9.7	19.9	48.7%
31 Maine	3.0	6.1	49.2%
32 South Carolina	6.4	13.0	49.2%
33 Montana	1.7	3.4	50.0%
34 Vermont	1.5	3.0	50.0%
35 Tennessee	9.8	19.5	50.3%
36 Mississippi	4.7	9.2	51.1%
37 Oklahoma	5.9	11.5	51.3%
38 Nevada	5.8	11.1	52.3%
39 Arizona	10.8	20.6	52.4%
40 Washington	15.3	28.9	52.9%
41 West Virginia	3.5	6.6	53.0%
42 Florida	40.6	75.4	53.8%
43 Delaware	2.0	3.7	54.1%
44 New Mexico	3.7	6.8	54.4%
45 South Dakota	1.5	2.6	57.7%
46 Dist. of Col.	3.3	5.5	60.0%
47 Louisiana	9.9	16.4	60.4%
48 Texas	53.7	87.7	61.2%
49 North Dakota	2.5	3.7	67.6%
50 Wyoming	2.6	3.6	72.2%
51 Alaska	5.1	6.1	83.6%
United States	\$619.0	\$1,344.4	46.0%

Personal Property Tax

Legislators say eliminating the PPT will result in more businesses coming to the state.

The following illustrations do not support this theory.

**The majority of our economy is made up of small businesses.
Here is what they would save.**

Personal Property Tax

- The average commercial business in Sterling Heights pays:
 - \$111 in CITY personal property tax
 - \$371 in TOTAL personal property tax

This accounts for 80% of all businesses in the State.

Businesses are not going to relocate from other states to save a few hundred dollars a year from the PPT.

Personal Property Tax

- The average industrial business in Sterling Heights pays:
 - \$1,234 in CITY personal property tax
 - \$2,953 in TOTAL personal property tax

This represents approximately only 20% of total businesses in the state.

Likewise, typical industrial businesses are not likely going to relocate from other states to save a few thousand dollars a year.

Who Really Benefits?

- **Major manufacturers like Ford, Chrysler, GM**
- **Ford and Chrysler alone account for 50% of the personal property tax paid in Sterling Heights and this is the case in communities across the state.**
 - ✓ **These are the same companies that lost major tax credits from the State with the new Corporate Income Tax; so by eliminating the PPT, the State in essence, can pay them back.**
 - ✓ **The question is will these companies invest even more?**

Sterling Heights had its best year ever in terms of corporate investments in the community last year under the current tax structure. Over \$1 billion was invested by major manufacturers last year including:

- Chrysler**
- Ford**
- BAE**
- General Dynamics**

This is further validation that the current tax structure in the State, and especially in Sterling Heights, is not necessary a deterrent to business.

These companies have invested in Sterling Heights because it made economical sense to do so and because we are a good community with excellent services and a high quality of life.

However, quality of life services may be in jeopardy if the personal property tax is eliminated.

Studies show that business owners and CEO's look at many factors when deciding where to locate their businesses.

Quality of Life factors are near the top.

**Taxes are
not the only
factor in
deciding
where a
company
locates.**

2010 Corporate Factors Survey

Site selection factors

Ranking		2010	2009
1	Highway accessibility	97.3	92.9 (2)**
2	Labor costs	91.0	96.7 (1)
3	Tax exemptions	90.9	88.4 (3)
4	Occupancy or construction costs	89.8	86.7 (7)
5	State and local incentives	89.3	84.9 (8)
* 6	Corporate tax rate	86.3	87.0 (5)
7	Availability of skilled labor	85.9	86.9 (6)
8	Inbound/outbound shipping costs	84.0	81.7 (10)
9	Energy availability and costs	82.1	88.0 (4)
10	Availability of buildings	81.0	75.7 (12T)
11	Low union profile	75.4	75.8 (11)
12	Environmental regulations	74.8	71.2 (17)
13	Availability of land	73.4	75.7 (12)
14	Availability of advanced ICT services	72.9	83.2 (9)
15	Expedited or "fast-track" permitting	68.2	72.2 (16)
16	Right-to-work state	67.9	74.0 (14)
17	Proximity to major markets	66.4	73.3 (15)
18	Proximity to suppliers	63.6	63.9 (19)
19	Raw materials availability	61.5	57.0 (21)
20	Availability of long-term financing	58.5	65.4 (18)
21	Training programs	56.7	61.7 (20)
22	Accessibility to major airports	50.0	49.0 (23)
23	Availability of unskilled labor	45.4	55.5 (22)
24	Proximity to technical university	36.1	36.7 (24)
25	Railroad service	36.0	27.4 (25)
26	Waterway or oceanport accessibility	21.9	17.7 (26)

Quality-of-Life Factors

Ranking		2010	2009
1	Low crime rate	84.6	79.0 (1)
2	Healthcare facilities	72.2	68.4 (2)
3	Housing costs	68.4	61.5 (4)
4	Housing availability	66.4	62.4 (3)
5	Ratings of public schools	61.2	61.4 (5)
6	Climate	56.3	55.0 (6)
7	Colleges and universities in area	53.2	50.7 (8)
8	Cultural opportunities	48.7	46.0 (9)
9	Recreational opportunities	48.2	52.7 (7)

* All figures are percentages and are the total of "very important" and "important" ratings of the Area Development Corporate Survey and are rounded to the nearest tenth of a percent.

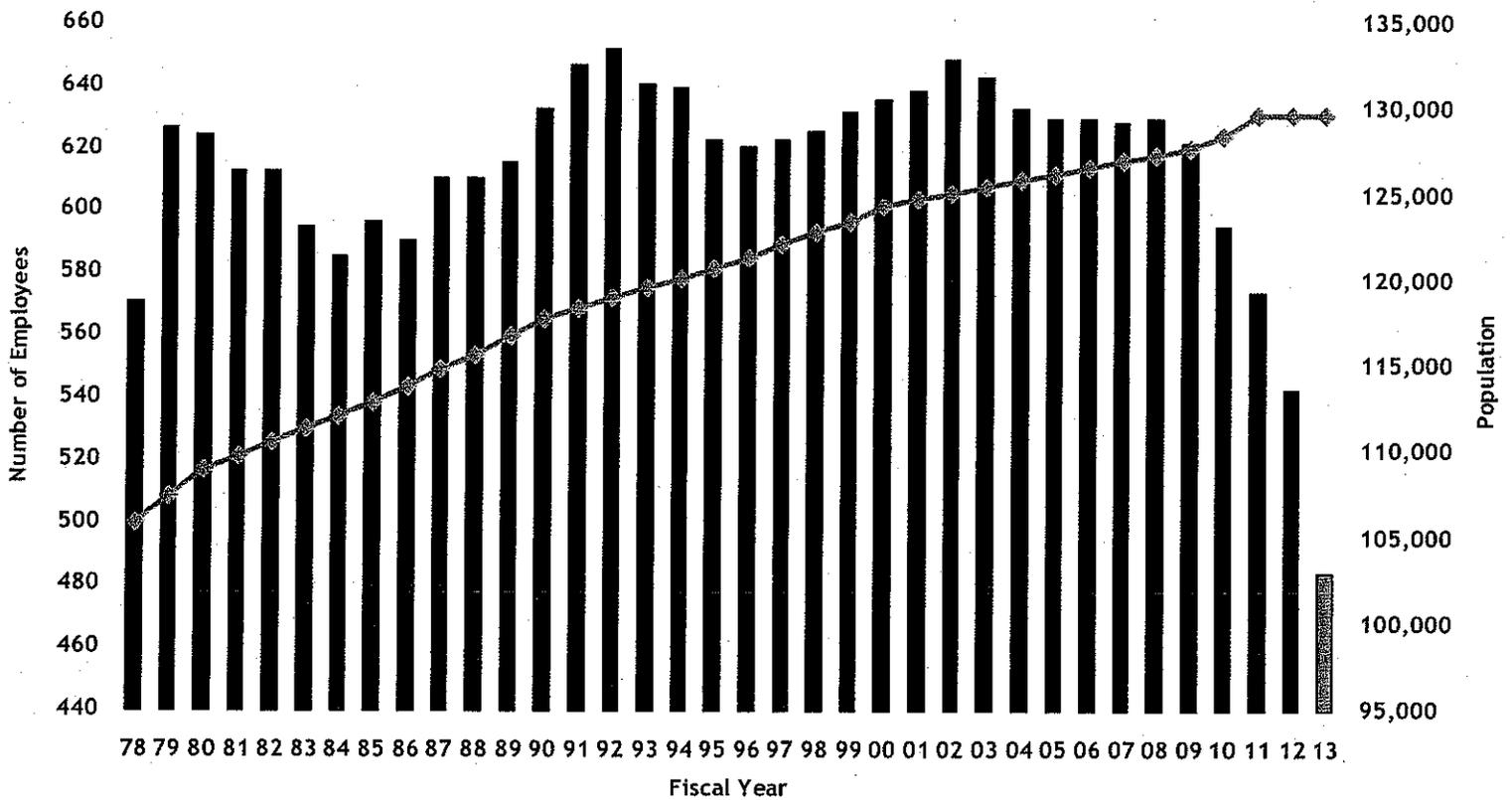
** (2009 ranking)

Some State legislators say cities can do more to cut costs or raise local millage to deal with the loss of personal property tax revenues.

Here is what cities like Sterling Heights are doing already.

City of STERLING HEIGHTS

Lowest City Staffing Since 1970's



City of STERLING HEIGHTS

Cost Reductions

<u>EXPENDITURE SAVINGS:</u>	<u>ANNUAL SAVINGS</u>
Eliminated 165 full-time positions	\$12.6 million
Wage concessions totaling 15%	\$6.0 million
Reduced overtime costs	\$1.9 million
Changed employee health care plans with greater co-pays and deductibles	\$1.5 million
Reduced future retiree health care costs	\$1.2 million
Custodial and Detention savings	\$800,000
Other program cuts & vendor savings	\$2.1 million
Eliminated fixed pensions for general employees	\$500,000
TOTAL ANNUAL SAVINGS:	\$26.6 million

The bottom line:

Sterling Heights will lose almost \$8 million if the personal property tax is eliminated. Under the proposed legislation, the City will lose cumulatively \$44 million over the next 9 years. The state has indicated that some of the revenue may be replaced but there are no guarantees.

With over 75% of our budget dedicated to Police, Fire, Refuse collection and road maintenance will we have to make major cuts in these areas, even if we lose only half of the personal property tax.

Again core services such as public safety and quality of life services will have to be reduced.

If the State legislature feels the PPT should be eliminated, then cities should be provided a constitutional replacement.

- The current legislation provides a partial replacement subject to approval by a legislature two terms in the future.
- The appropriation can easily be changed without a constitutional guaranteed replacement. Therefore, we must assume a substantial portion of the revenue will be lost.