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Monday, May 26, 2008

Home value drop hurting cities

First statewide slump since 1960s means local governments won't see usual revenue increases.

Mark Hornbeck / Detroit News Lansing Bureau

Property values dropped statewide this year for the first time in nearly five decades, signaling that Michigan could be on the verge of its next fiscal crisis: the decimation of local government budgets.

As a result of the depressed housing market, assessed values dipped 1.3 percent across the state this spring, dragged down by a 3.9 percent fall in Wayne, Oakland and Macomb counties, according to the State Tax Commission.

That means local governments that have been accustomed to annual increases of 5 percent to 6 percent in the revenue raised by property taxes will see no increase this year.

"This will be the biggest financial challenge in Michigan history," said Mark Vanderpool, city manager of Sterling Heights.

"The state is going to have to work with cities to solve this problem. Some will have to drastically cut services and quality of life will quickly erode."

Vanderpool predicted votes on millage increases across the state and "service cuts in the big three departments: police, fire and public works."

The last time property values declined statewide was in 1962, state Treasury officials said.

Generally, about 60 percent of municipalities' operating budgets are bankrolled by property taxes.

Communities know the hit is coming, and are formulating plans to cushion it.

'It'll be a huge issue'

Gary Olson, director of the Senate Fiscal Agency, an arm of the state Senate, said many municipalities have come under financial stress even when growth in property values was substantial.

"There will be major fiscal problems in local governments over the next couple years. It'll be a huge issue," Olson said.

School districts, which get a share of their funding from property taxes, also will take some hits. Downturns in the usually stable property tax mean that the state will have to pick up the slack from other sources of school aid revenue, such as sales and income tax.

But the state has money troubles of its own and is in no shape to bail out the locals. Officials learned this month that next year's state revenues will come in about $470 million short of estimates. This comes after the governor and lawmakers last year

approved tax hikes totaling $1.4 billion to erase a persistent state budget deficit.

"It's one more thing to add to the school funding problem. This will make it harder for the state to provide school aid increases," said Thomas White, executive director of the Michigan Association of School Business Officials. "And some districts may have to increase millage to pay off bonds."

Preliminary figures show assessed property value, which is supposed to be 50 percent of actual market value, is down 3.6 percent in Wayne County; 3.7 percent in Oakland County; and 5 percent in Macomb and Livingston counties. Taxable value -- which is capped by state law at inflation or 5 percent a year, whichever is less -- is up by a fraction of 1 percent in Oakland, Macomb and Livingston and down by a similar amount in Wayne.

Taxable value is expected to plunge into negative territory next year and possibly even later this year after irate citizens win assessment reductions before local boards of review, county equalization officials say.

"This is the first time in modern history we'll see a loss in property values from year to year," said Dave Hieber, equalization manager for Oakland County.

"And it's likely to get worse next year, when we're anticipating residential values off in the 8 to 10 percent range."

Statewide losses in billions

Municipalities were limping from some $700 million in state cuts in revenue sharing over the past five years.

They'd hoped for a $16 million increase in revenue sharing this year, but the state Senate is poised to wipe out that proposal because of lower-than-anticipated state tax receipts.

Communities use revenue sharing to pay for public safety and other critical services.

But those reductions "will pale by comparison" to the budget-gutting that will result from the property value drop-off, said Steve Mellen, equalization director in Macomb County.

"Next year, we're looking at a decrease of over $100 million in taxes for all local units -- the county, schools, cities and townships," Mellen said.

Statewide, the losses will be in the billions of dollars, said Vanderpool of Sterling Heights.

"Our assessments will decline by almost 8 percent -- that's the largest fall-off in our history," he said. "And it will continue over the next few years."

The property value tumble is fallout from a housing market decline. The average price of a home dropped by 11 percent in Metro Detroit last year and 15 percent in January alone.

In addition, Michigan is in the top 10 states in home foreclosures.

Last month, Detroit had more foreclosure sales than regular home sales.

In Macomb, foreclosure sales totaled 40 percent of all home sales and the share was about one-third in outer Wayne County and Oakland County.

Summer Minnick, director of state affairs for the Michigan Municipal League, said cities will be affected by the decline for "many years."

"We're right at the beginning of a pretty severe decline in taxable value on property. Even when the economy turns around, it won't necessarily be much better for us because of the caps on property taxes," Minnick said.

"It's not a pretty picture."

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