Police Pension Millage
Property Tax Revenue Overview

City Property Tax Revenue Limitations

- Property values in Pleasant Ridge have experienced strong growth in recent years, rising 10.4% in 2015 and 6% in 2016.

- With this strong growth in property values it would be expected that the City's property tax revenue would be growing at a similar rate, however, this is not the case.

- Growth in the City's property tax collections are limited to the rate of inflation, which is 0.9% for FY17-18.

- Property tax revenue for the City of Pleasant Ridge has been constrained by reducing the millage rate. The millage rate has declined by nearly 1 mill over the past two years. The average resident who has lived in Pleasant Ridge since 2015 will pay $114 less in property taxes to the City in 2017 than they did in 2015.

- These revenue limitations mean that the City cannot ability to absorb pension cost increases without making cuts in services or asking the residents to approve new revenue in the form of a supplemental millage.

Taxable Values and City Revenues

Headlee and Proposal A. The Headlee Amendment to the State Constitution was enacted in 1978, and it established that City property tax revenues could only grow equal to the rate of inflation. If property values grew faster than inflation, the City's millage rate is rolled back (i.e. reduced) to ensure that property taxes grow only equal to inflation. If property values fell, the Headlee Amendment allowed the millage rate to roll up so that property taxes kept pace with inflation.

In 1994, the voters approved Proposal A, which created a new measure of value for each property – taxable value. Now, there are two measures of value for each property, SEV or Assessed Value, and Taxable Value. When you buy a house, the taxable value is set equal to assessed value. The assessed value is equal to about half of the true cash value of a house. In subsequent years, the assessed value of the house changes based on market rate for the house, but taxable value can increase only equal to the rate of inflation. This past year, that was 0.9%, and in Pleasant Ridge, 91.9% of all houses saw their taxable value go up 0.9% because of this cap on taxable value growth. Over time, this leads to a gap between the assessed and taxable value of your property. You can see this gap on the valuation notice that Oakland County sends to your house each January.

Assessed vs. Taxable Value Example

By way of example, consider a longtime resident of a house in Pleasant Ridge that is worth $300,000. The assessed value of that home would be $150,000, but because the taxable value has been capped, the taxable value is only $92,750. That resident pays $2,000 a year in local City taxes. However, if they sell the house and move out, the taxable value would increase to $150,000 to match the assessed value of $150,000, and the new residents would pay $3,225 a year in local taxes due to the uncapping of taxable value, even though the assessed value of the house did not change.

However, when a house is sold, the taxable value becomes "uncapped" and pops up to equal the assessed value of a house. In 2016, 8.9% of Pleasant Ridge houses were sold or transferred and their taxable values became uncapped. Their taxable value increased 47.7% on average.

The result of the taxable value increases due to properties being sold and having their taxable values become uncapped is that the TOTAL taxable value in Pleasant Ridge increased 3.9%. This was greater than the 0.9% growth allowed by the Headlee Amendment, so the City has had our local property tax millage rate reduced by about 0.4 mills to ensure that total property tax collections only grew by 0.9%.

Table 1. Residential Assessed vs. Taxable Value, 2016 & 2017

Assessed Value 2016	Assessed Value 2017	% Change Assessed Value	Taxable Value 2016	Taxable Value 2017	% Change Taxable Value
$180,908,696	$191,851,957	6.0%	$132,425,836	$137,589,057	3.9%

This all leads to a key point. Residents who did not sell their house in 2016 will pay less in property taxes to the City in 2017 than they did in 2016. This is because the millage rate was reduced more than capped taxable values went up. In 2017, the average resident who has lived here since before 2016 will pay $29 less in City property taxes than the year before. This effect compounds over time, as well. Residents who moved in before 2015 will pay $85 less in City taxes in 2017 than they did in 2015.

Take note of these numbers for RESIDENTIAL properties in the City:

Total Property Taxes Paid by Residents in 2016: $2,910,096
Total Property Taxes Paid by Residents in 2017: $2,968,935
Change in Taxes Paid 2017 vs. 2016: $58,839

City Millage Rate in 2016 .... 21.9604
City Millage Rate in 2017 .... 21.5684
City Millage Rate Reduction 2016 vs. 2017: .... -1.8%

Uncapped Property Taxable Value Growth 2016 to 2017 .... 47.7%
Total Change in Taxes Paid for Uncapped Property 2017 vs. 2016: $89,804
Average Change in Taxes Paid for Uncapped Property 2017 vs. 2016: $976
Percent of Residents Paying More City Tax 2017 vs. 2016: 8.1%

Capped Property Taxable Value Growth 2016 to 2017: 0.9%
Total Change in Taxes Paid by Capped Properties 2017 vs. 2016: .... -$30,695
Average Change in Taxes Paid for Capped Property 2017 vs. 2016: .... -$29
Percent of Residents Paying Less City Tax 2017 vs. 2016: 91.9%

The above chart shows that residents who have a capped taxable value saw their taxable value increase by 0.9%, while the City's total millage rate was reduced by 1.8%. The net result is that nearly 92% of residents will pay less taxes to the City in 2017 compared to 2016.

City Millage Rate History

The following table shows the components of the City's total millage rate, and how it has been reduced by 0.9911 mills over the past two years:

	Original Rate	Expiration	15-16 Rate	16-17 Rate	17-18 Rate
General Operating – Charter	20.0000	--	11.1363	10.8434	10.6233
General Operating (2015)	2.9000	--	2.8556	2.7805	2.7241
Infrastructure (2015)	3.0000	2035	2.9242	2.8473	2.7894
Community Promotion	--	--	0.2704	0.3481	0.3375
Parks Improvement (2015)	0.7500	2024	0.7385	0.7191	0.7045
Rubbish	3.0000	--	1.6700	1.6261	1.5931
Pool Operations (2003)	1.4000	2028	1.2400	1.2074	1.1829
Library	0.5000	2019	0.3865	0.3763	0.3687
Pool Debt (2003)	Unlimited	2028	1.3380	1.2123	1.2450
TOTAL MILLAGE			**22.5595**	**21.9604**	**21.5684**

The property taxes you pay to the city are based on the following formula:

*Taxable Value * (millage rate/1000) = Property Taxes Paid*

The average house in Pleasant Ridge has a taxable value of $115,000. This means that in 2015 and 2017, the property taxes that the owner of the average Pleasant Ridge house would have paid are as follows:

2015 City property taxes = $115,000 * (22.5595/1,000) = $2,594

2017 City property taxes = $115,000 * (21.5684/1,000) = $2,480

That's a net reduction of $114 in property taxes paid to the City for the average resident that has lived here since 2015 or earlier.

Impact Over Time

The reduction in millage rates by the Headlee Amendment is a built-in tax reduction mechanism for most residents (the exception being those who recently bought houses). This is a good thing for most residents, but it reduces the ability of the City to address growing fiscal challenges. The City's pension expense will increase by over $170,000 from 2014 to 2021, but revenues are not growing at a fast-enough rate to keep up.

Had the City's millage rate remained constant at the 22.5596 mills that it was in 2015 instead of being rolled back to the 21.5684 that it is in 2017, The City would be better positioned to absorb the increased pension expense without having to ask for a new property tax millage. Consider the following:

Total Taxable Value of all Pleasant Ridge Properties in 2017:.......................... $145,722,410
Total Property Taxes Generated at the 2015 22.5596 millage rate: $3,287,440
Total Property Taxes Generated at the 2017 21.5677 millage rate: $3,142,879
Difference:...$144,561

The above shows that had the City's millage rate merely stayed the same, the City would have collected over $144,000 more in property taxes this year. Given that we expect another Headlee rollback of about 0.5 mills next year, the total three-year rollback will be about 1.5 mills. The net effect of the police pension millage would be to restore property tax rates to 2015 levels.