

## MEMORANDUM



**DATE:** 9/27/11  
**TO:** Community Colleges Subcommittee  
**FROM:** Erik Jonasson, Fiscal Analyst, and Mark Wolf, Senior Fiscal Analyst  
**RE:** The Effect of Personal Property Tax Elimination on Community Colleges

Senate Bill 34, currently pending before the Senate Finance Committee, would eliminate the personal property tax (PPT). This memorandum focuses specifically on how this change would affect community college budgets in Michigan.

The Personal Property Tax is a tax on physical goods, as opposed to real property - including commercial equipment, industrial machinery, gas and electric transmission and distribution equipment, or similar property. This tax is assessed on commercial, industrial, and utility property; personal and agricultural personal property is exempt. Through the local millages they assess, all 28 community colleges in Michigan receive a portion of their funding from the personal property tax.

In total, community colleges would lose an estimated \$48.6 million in local revenue if the PPT is eliminated. The amount lost by each individual community college depends on the taxable value of personal property within their districts, as well as local millage rates. **Table 1** below gives a breakdown of the current revenues received by all community colleges, according to the specific millages and the function of their funds. The three categories of personal property - Commercial, Industrial, and Utility Personal Property, are also indicated. These estimates are based off of taxable value data reported to the Department of Education and Department of Treasury for FY 2010-11, and millage rates reported by the Michigan Workforce Development Agency for CY 2009 (millage rates for each specific millage are not yet available for CY 2010).

**Table 1:**

Current Community College Revenue from PPT	
<b>Building and Site Millages</b>	
Commercial	\$151,220
Industrial	\$415,958
Utility	\$258,627
<b>Total:</b>	<b><u>\$825,805</u></b>
<b>Debt Retirement Millages</b>	
Commercial	\$538,611
Industrial	\$422,216
Utility	\$435,072
<b>Total:</b>	<b><u>\$1,395,899</u></b>
<b>Operations Millages</b>	
Commercial	\$16,872,261
Industrial	\$17,343,655
Utility	\$12,238,940
<b>Total:</b>	<b><u>\$46,454,856</u></b>
<b>Total PPT Revenue:</b>	<b><u>\$48,676,560</u></b>

## Community College Funding

Community colleges receive most of their revenue through three primary sources: state aid, tuition and fees, and property tax revenue (from both real and personal property). On average, tuition accounts for 41% of funding, property tax revenue accounts for 37%, and state aid accounts for 19% of funds. While exact numbers for each community college vary, state aid has typically decreased as a percentage of a community college's revenue over recent years, with increased tuition making up the difference and compensating for large increases in community college enrollment.

The actual amount of funding each community college receives is dependent on the value of taxable property within their district, as well as their millage rates. A full breakdown of each community college's estimated PPT revenue is attached in **Table 2**. The amount received by each individual college varies from approximately \$144,000 to \$8.8 million. When adjusting for the number of full year equivalent students (FYES), this translates to between \$31 and \$665 per student. These numbers are based on FY 2010-11 property valuations, and may change for FY 2011-12 if taxable values increase or decrease significantly.

Some community colleges may be able to compensate for some or all of these losses through cutting costs, faculty, or services, but others may seek additional sources of funding to compensate for lost PPT revenue. Potential revenue sources include state aid, higher millages on real property, or an increase in tuition rates. In the event of increased state aid, the funds would be provided either from the General Fund or from the School Aid Fund.

Raising community college millages on real property could replace some or all of the revenue lost through elimination of the PPT. Millage rates on real property are unaffected by the elimination of the PPT, but could be increased (with local voter approval) to compensate for PPT revenue that will be lost. As no PPT is currently assessed on Residential or Agricultural property, these types of property would face an increase in taxes if real property millages replace millages on PPT.

Replacing this revenue through tuition increases would require community colleges to increase their tuition rates by an average of \$275 per FYES. While the actual increase in tuition would vary by community college, on average tuition rates would be increased by 7.7%.

**Table 2: Total PPT Paid to Community Colleges by Category\***

	Number of Students (FYES)	Commercial PPT	Industrial PPT	Utility PPT	Total PPT	PPT Per FYES
Alpena	1,492	\$55,683	\$98,342	\$78,234	\$232,259	\$156
Bay de Noc	1,987	\$103,461	\$426,611	\$208,371	\$738,443	\$372
Delta	8,091	\$678,512	\$1,164,964	\$605,867	\$2,449,343	\$303
Glen Oaks	1,216	\$99,563	\$318,301	\$238,362	\$656,226	\$540
Gogebic	911	\$27,757	\$30,386	\$99,879	\$158,022	\$173
Grand Rapids	12,146	\$1,319,002	\$1,163,320	\$608,767	\$3,091,089	\$254
Henry Ford	12,859	\$673,611	\$1,196,967	\$244,505	\$2,115,084	\$164
Jackson	5,777	\$143,593	\$119,875	\$152,491	\$415,959	\$72
Kalamazoo	7,823	\$628,391	\$1,139,939	\$336,530	\$2,104,859	\$269
Kellogg	4,160	\$330,564	\$1,021,463	\$359,800	\$1,711,826	\$411
Kirtland	1,446	\$100,049	\$80,784	\$224,722	\$405,555	\$280
Lake Michigan	3,009	\$229,247	\$496,029	\$251,896	\$977,172	\$325
Lansing	14,328	\$1,440,328	\$565,487	\$572,956	\$2,578,771	\$180
Macomb	16,730	\$1,040,030	\$1,734,656	\$736,092	\$3,510,777	\$210
Mid Michigan	3,484	\$26,184	\$32,620	\$85,648	\$144,452	\$41
Monroe	2,980	\$258,909	\$444,433	\$434,010	\$1,137,352	\$382
Montcalm	1,465	\$92,078	\$102,990	\$161,948	\$357,016	\$244
Mott	8,696	\$841,631	\$341,735	\$563,063	\$1,746,429	\$201
Muskegon	3,582	\$258,221	\$402,448	\$281,322	\$941,991	\$263
North Central	1,830	\$114,578	\$51,264	\$563,063	\$728,905	\$398
Northwestern	3,499	\$354,948	\$170,558	\$281,322	\$806,828	\$231
Oakland	19,895	\$3,165,031	\$1,551,118	\$1,263,163	\$5,979,313	\$301
Schoolcraft	3,868	\$699,049	\$310,282	\$310,282	\$1,319,612	\$341
Southwestern	9,595	\$55,768	\$99,885	\$144,961	\$300,614	\$31
St. Clair	2,041	\$219,027	\$320,490	\$480,864	\$1,020,381	\$500
Washtenaw	9,984	\$1,443,649	\$1,033,897	\$1,076,285	\$3,553,831	\$356
Wayne	13,358	\$3,040,506	\$3,523,440	\$2,321,912	\$8,885,858	\$665
West Shore	1,028	\$122,721	\$239,547	\$246,326	\$608,594	\$592
<b>TOTAL</b>	<b>177,280</b>	<b>\$17,562,092</b>	<b>\$18,181,829</b>	<b>\$12,932,639</b>	<b>\$48,676,560</b>	<b>\$275</b>

\*Industrial and Commercial Personal Property Taxes based on taxable value data from the Michigan Department of Education. Utility Property taxes based on taxable value data from the Michigan Department of Treasury. Millage rates are based on CY 2009-10 rates reported by the Michigan Workforce Development Agency.