

Without growth, tax limitations will put city in a major squeeze



CHUCK MOSS

Everybody knows that Birmingham has two main factions: Neighborhoods versus development. Neither giant wants to compromise with the other, each is convinced he's

right and the next election will see him victorious.

Well, folks, meet two new players: Mr. Prop A and Mr. Headlee. Get to know these bad boys because they may have more to say about Birmingham's future than both our current factions combined. See, Headlee controls tax rates, Prop A is boss of assessments.

These guys are hard to describe without a lot of mind-numbing, eye-glazing, legal and financial jargon, but let's try.

"Mr. Headlee" isn't the individual Richard Headlee, but rather his 1978 amendment to the state constitution, called the Headlee Amendment. Headlee affects the millage (the tax) rate you can charge taxpayers.

Article 9, Section 31 of the Michigan Constitution now prohibits "new" local taxes without a direct voter referendum. In effect, this means that if the assessed value of property (*excluding new construction/improvement*, remember this, we'll come back to it!) increases by a larger percentage than the inflation rate, then the tax rate must roll back to produce the same inflation-adjusted gross revenue. And if values drop due to recession, tax rates can only be raised by the Consumer Price Index figure when things get better.

Let's say you buy a house, building, etc., and it gets assessed. Every year your values go up, but with low inflation your taxes stay low. Maybe your value doubles — but your

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tax rate doesn't keep pace. Sounds good, eh? Well, let's keep going.

Headlee affects the millage rate, or taxes. Now let's meet Proposal A, passed in 1994. Prop A affects taxable value — the figure you base your tax rate (Headlee) on. Prop A says that annual increases in the taxable value of individual pieces of property are limited to 5 percent, or the CPI inflation rate — whichever is lower. Still with me?

So these two guys work together. Prop A limits the value the city can tax. Headlee limits the rate at which the city can tax that value. Together, they put the city of Birmingham in an iron straitjacket when it comes to income. "What's wrong with that?" you ask. Well ...

Headlee, being a child of the 1970s, assumes that all price/value/tax increases are due to inflation. It's a form of anti-indexing. Now inflation is where prices rise for the very same value.

But what if your property assessments go up because of increases in value? What if Birmingham's "price jump" isn't just more cost for a 1978 world, but reflects a different, more valuable city? What if this 2002 city needs a higher level of service than in 1978? What about things like technology that didn't exist when the BeeGees were No. 1 and gas was 45 cents a gallon?

There is a way out, though. The straitjacket doesn't apply to redevelopment and new construction. That new or rebuilt house gets assessed at its real value the year of completion. So in a fully built-out city like Birmingham, to keep revenue in line with the city's value, we must constantly redevelop.

You may say, "Government spends too much, so cut waste and fat." Say you cut 10 percent from the budget. What will you do next year? And the year after that? No-growth will lead to bankruptcy.

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So as the city sits down to the Jan. 19 annual long-range planning session, here's the question: Are your plans based on reality?

Headlee and Prop A aren't arcane "budget matters" to be dismissed, isolated, and pooped away.

They affect the very foundation of Birmingham's long-term direction as a city. Unless there's a very frank discussion of future trends and the effect of Headlee and Prop A, any long-range planning effort will be building castles in the clouds.

I have a story problem for the city commission and staff: Look to the future. The cost of providing services will inevitably increase.

Headlee won't let you raise taxes, Prop A won't let you raise assessments. Preserving character is good, but without some significant growth and development, how are you going to balance your books?

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