



100 E. Church St . Adrian, Michigan 49221-2703

Finance Director

(517) 264-4824 Fax (517) 266-4693

Date: March 22, 2010

Hon. Gary McDowell, Mayor  
Adrian City Commissioners  
Dane C. Nelson, City Administrator

**Re: Proposed City of Adrian 2010 Ad Valorem Property Tax Rate**

The City of Adrian 2010 Ad Valorem Property Tax Rate of 15.6039 mills, consisting of 13.6293 for General Operating, 1.0000 mills for Garbage Collection, and .9746 mills for Road Improvements, is included in the Chief Administrative Officer's (CAO) FY2010-11 Budget Recommendation to support City operations. In addition, Special Acts millage rates are included for the Downtown Development Authority (1.9426 mills), the DDA-Tax Increment Finance Act (49.6292 mills), the Local development Finance Authority (15.6039 mills) and the Brownfield Redevelopment Authority (15.6039 mills).

In accordance with Public Act 621 of 1978 (The Uniform Budget and Accounting Act for Local Units of Government), the City Commission shall adopt, with any revisions deemed appropriate, the Recommended FY2010-11 Budget and General Appropriations Act, establishing the 2010 City Property Tax Rate and Tax Levy. The City Administrator recommends that the City 2010 Tax Rate be set at 15.6039 mills, same as last year, and 1.7591 mills less than the Maximum Allowable Tax Levy as constrained by the Headlee Tax Limitation Amendment to the Michigan State Constitution, equivalent to a tax savings of \$778,607, without jeopardizing the City's ability to deliver quality public services.

The tax levy for General Operations and Refuse Collection (14.6293 mills; \$6,475,173 revenue) complies with the Headlee Constitutional Tax Limitation Amendment, that requires a millage rollback when the increased level of estimated tax collection on existing property exceeds the rate of inflation. Please note that Road Improvement millage (1.0000 mill), renewed by the voters in November, 2005 continues to be subject to Headlee Rollback requirement, even in the first year of its application (per Attorney General Opinion #7193, dated March 30, 2006). This amounts to an additional tax reduction of \$8,347 in the first year and an estimated \$83,470 over the ten-year renewal period.

The tax rate computations required by the Headlee constitutional tax limitation amendment, "Truth in Taxation", and "Truth in Budgeting" Acts accompany this communication. In compliance with the Truth-in-Taxation Act, the City Commission may levy a millage rate up to the Base Tax Rate of 15.6039 mills without holding a Public Hearing. The Commission has the further discretion of levying up to 17.3630 mills, after holding a Public Hearing and adopting a separate resolution specifying the Increased Tax Rate. The Commission shall not levy a tax rate in excess of the Allowable Tax Levy of 17.3630 mills without a referendum.

Based on the foregoing, as well as the addition of previously authorized Industrial Facility Tax (IFT) Certificates and the subtraction of captured tax revenue for various economic development authorities, the following Real and Personal Property Tax will be generated to fund the City of Adrian's FY2010-11 Operating and Capital Budgets.

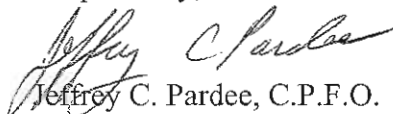
	Real Property <u>Tax</u>	Personal Property <u>Tax</u>	Total Property <u>Tax</u>
General Tax/Operating	\$5,157,835	\$ 874,721	\$6,032,556
Refuse Collection Levy	378,438	64,179	442,617
Add: Industrial Facility Tax	54,477	81,715	136,192
Less: Captured Taxes	<u>(157,420)</u>	<u>-0-</u>	<u>(157,420)</u>
Total General Fund	\$5,433,330	\$1,020,615	\$6,453,945
Road Improvement Levy	\$ 368,825	\$ 62,549	\$ 431,374
Add: Industrial Facility Tax	3,629	5,444	9,073
Less: Captured Taxes	<u>(10,591)</u>	<u>-0-</u>	<u>(10,591)</u>
Total Municipal Street Fund	<u>\$ 361,863</u>	<u>\$ 67,993</u>	<u>\$ 429,856</u>
Total Property Tax Levy	<u>\$5,795,193</u>	<u>\$1,088,608</u>	<u>\$6,883,801</u>

Public Act 42 of 1995 simplifies the public hearing process by allowing local units of government to combine the required public hearings for the Property Tax Levy with that required for the Budget Adoption, provided the tax rates necessary to support the budget are included in the General Appropriations Act in compliance with the Truth-in-Budgeting Act, Public Act 41 of 1995. Therefore the proposed resolution adopting the FY2010-11 Budget and General Appropriations Act includes the recommended tax rate levy and related revenue necessary to support the ensuing year's operations.

Finally, the City Commission has the option to consider a temporary one-mill levy for a period of three years to defray the emergency renovations at the Adrian Public Library. As authorized by Public Act 164 of 1877, City, Village and Township Libraries Act, the City Commission may levy one-mill of property tax, without a referendum, for purposes of maintaining a public library and reading room for the use and benefit of the inhabitants of the City of Adrian. The tax levied under this Act shall be in addition to any tax limitation imposed by the City Charter. One-mill would generate approximately \$442,600 annually or a total of \$1,327,800 over two years, which would cover the majority of the \$1.4 million cost of the Library renovations.

If you have any questions, or need for further information, please contact my office.

Respectfully,

  
 Jeffrey C. Pardee, C.P.F.O.  
 Finance Director

**CITY OF ADRIAN, MICHIGAN  
FY2010-11 BUDGET  
2010 TAX RATE COMPUTATION**

The property tax rate computation and setting of the City's Ad Valorem Property Tax Rate are impacted by several State Statutes, including:

- The Headlee Constitutional Tax Limitation Amendment, adding Section 211.34d of the Michigan Compiled Laws, subsequently amended by Public Act 539 of 1982,
- The "Truth in Taxation" Act, Public Act 213 of 1981, amending Section 211.24e of the Michigan Compiled Laws,
- Public Hearing requirements for Local Units of Government. Public Acts 40, 41 and 42 of 1995 set forth the public hearing requirements for local units of government regarding budget adoption and property taxation to support budget appropriations.

A capsule statement of the purpose of each statute, as well as the computation of their respective rollback fractions, are provided in attached schedules I, II, and III. Prior to 1994, the Headlee rollback was a compound reduction based on the City's maximum authorized operating levy of 15.0000 mills. Starting in 1995, the Compound Millage Reduction Fraction (CMRF) is no longer required to be calculated, because, starting in 1994, the Headlee millage reduction **PERMANENTLY** reduces the millage rates authorized by law or charter. Starting in 1995, the current Millage Reduction Fraction (MRF) is all that is required.

	General <u>Operating</u>	Garbage	Public <u>Imprv.</u>	<u>Total</u>
<b><u>Headlee Rollback</u></b>				
Original Millage	15.0000	3.0000	1.0000	19.0000
Millage Rate Permanently Reduced by Headlee	13.6293	2.7591	0.9746	17.3630
2010 Millage Reduction Fraction	<u>1.0000</u>	<u>1.0000</u>	<u>1.0000</u>	
Headlee Authorized Levy	<u>13.6293</u>	<u>2.7591</u>	<u>0.9746</u>	<u>17.3630</u>
Millage Proposed to be Levied	13.6293	1.0000	0.9746	15.6039
Gross Tax Levy (X 442,616,703 STV)	\$6,032,556	\$ 442,617	\$431,374	\$6,906,547
Add: IFT Revenue	126,882	9,310	9,073	145,265
Less: Captured Taxes	<u>(146,660)</u>	<u>(10,760)</u>	<u>(10,591)</u>	<u>(168,011)</u>
Net Tax Levy	<u>\$6,012,778</u>	<u>\$441,167</u>	<u>\$429,856</u>	<u>\$6,883,801</u>

**NOTE: Public Improvement (Road) millage renewed for 2006-15 required to be rolled back per Attorney General Opinion #7193, dated March 30, 2006**

<b><u>Truth in Taxation Rollback</u></b>				
2009 Actual Tax Rate	13.6293	1.0000	.9746	15.6039
2010 Base Tax Rate Fraction	<u>1.0000</u>	<u>1.0000</u>	<u>1.0000</u>	
2008 Base Tax Rate	13.6293	1.0000	.9746	15.6039
Tax Levy (X 442,616,703 STV)	<u>\$6,032,556</u>	<u>\$442,617</u>	<u>\$431,374</u>	<u>\$6,906,547</u>

Captured millage for the Downtown Development Authority (2 Mills), DDA-Tax Increment Finance Act (TIF), the Local Development Finance Act (LDFA) and the Brownfield Redevelopment Authority (BRA) is detailed as follows. It should be noted that: 1) the 2-mill levy for the DDA has been adjusted to reflect the required Headlee Constitutional Tax Limitation Amendment, and 2) the DDA-TIF tax levy reflects the full tax capture, including the Public Schools, Lenawee Intermediate School District, and the State Education Tax. Tax capture in excess of the amount needed to retire debt incurred prior to 1994 must be distributed to the respective educational institutions.

	<u>DDA – 2 Mill</u>	<u>DDA-TIF</u>	<u>LDFA</u>	<u>BRA</u>
Taxable Value	\$16,261,000	\$7,897,402	\$2,863,242	\$620,000
Millage Rate	<u>1.9426</u>	<u>49.6292</u>	<u>15.6039</u>	<u>15.6039</u>
Tax Levy	\$ 31,589	\$ 391,942	\$ 44,678	\$ 9,674

The Adrian City Commission may levy a millage rate up to the 2010 Base Tax Rate of **15.6039 mills for operating purposes without holding a Public Hearing.** The Commission has the further discretion of levying an additional millage rate, **up to 17.3630 mills for operating purposes, only after holding a public hearing and adopting a separate resolution specifying the Increased Tax Rate.** (See Page 4 for optional Public Hearing Requirements under Public Act 42 of 1995.) **The Commission shall not levy a tax rate in excess of the Allowable tax levy of 17.3630 mills for operating purposes without a referendum.**

Prepared by the Finance Department March 22, 2010

## SCHEDULE I

### HEADLEE COMPUTATION

The Headlee Tax Limitation referendum amended Article IX of the Michigan Constitution by adding Section 31 which, in part, specifies:

*If the assessed valuation of property as finally equalized, excluding the value of new construction and improvements, increased by a larger percentage than the increase in the General Price Level from the previous year, the maximum authorized rate applied thereto in each unit of local government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the General Price Level, as could have been collected at the existing authorized rate on the prior assessed value.*

The tax limitation is computed by determining the Millage Reduction Fraction\*(MRF) for the current year. Public Act 415 of 1994 changed the formula for calculating the MRF by substituting Taxable Value for State Equalized Value (SEV). The MRF is not permitted to exceed 1.0000. The formula is computed as follows:

$$\frac{(2009 \text{ Total Taxable Value} - \text{Losses}) \times \text{Consumer Price Index}}{2010 \text{ Taxable Value} - \text{Additions}} = 2010 \text{ MRF}$$

$$\frac{(\$457,273,036 - \$16,198,336) \times .997}{(\$442,616,703 - \$29,033,020)} = 1.0633$$

Because the MRF is not permitted to exceed 1.0000 (see below), the  
**2010 MILLAGE REDUCTION FRACTION = 1.0000**

- Public Act 539 of 1982, effective March 30, 1983, changed the formula for computing the MRF by subtracting losses from the numerator rather than adding losses to the denominator. This makes the computation consistent with the formula used for "Truth in Taxation".
- The Consumer Price Index decreased 0.3% as reported by the United States Department of Labor.
- Public act 145 of 1993 (Section 34d[7]) – The State School Finance Act specifies that *For each year after 1993, a millage reduction fraction shall not exceed 1.0000.*

### SCHEDULE III

#### TRUTH IN TAXATION

#### BASE TAX RATE FRACTION

Public Act 5 of 1982 added Section 211.24e to the Compiled Laws of Michigan, which requires that any local unit of government in Michigan that levied more than one mill in 2003 shall either reduce its 2004 (and subsequent years) levy rate to compensate for an increased tax base or advertise its intention to increase property taxes and hold a public hearing to allow for taxpayer intervention. No sooner than seven (7) days after the public hearing, the governing body may then increase taxes by a vote of its members, provided that in no case can the levy rate exceed the allowable rate which results from the Headlee amendment, Section 211.34d. It is important to note that the Base Tax Rate that results from the application of the "Truth in Taxation" Act is based on the rate actually levied in the concluding fiscal year, whereas the Headlee rollback is based on the maximum authorized operating rates regardless of the rate which was actually levied in the preceding year. The primary change in the formula beginning in 1995, due to implementation of Proposal (State Education Finance Act), is the incorporation of Taxable Value rather than SEV.

The 2010 Section 211.24e Base Tax Rate Fraction is computed as follows:

$$\frac{\text{2009 Total Taxable Value} - \text{Losses}}{\text{2010 Total Taxable Value} - \text{Additions}} = \text{2010 Base Tax Rate Fraction}$$
$$\frac{(\$457,273,036 - \$16,198,336)}{(\$453,523,868 - \$29,033,020)} = 1.0665$$

**2010 Base Tax Rate Fraction = 1.0000**