Headlee Rollback and Headlee Override

Introduction

The term "Headlee Rollback" became part of municipal finance lexicon in 1978 with the passage of the Headlee Amendment to Michigan's Constitution. In a nutshell, Headlee requires a local unit of government to reduce its millage when annual growth on existing property is greater than the rate of inflation. As a consequence, the local unit's millage rate gets "rolled back" so that the resulting growth in property tax revenue, community-wide, is no more than the rate of inflation. A "Headlee override" is a vote by the electors to return the millage to the amount originally authorized via charter, state statute, or a vote of the people, and is necessary to counteract the effects of the "Headlee Rollback."

Impact of Headlee Amendment

Since the passage of the Headlee Amendment, units of government are required to annually calculate a Headlee rollback factor. The annual factor is then added to Headlee rollback factors determined in prior years resulting in a cumulative Headlee rollback factor sometimes referred to as the "millage reduction fraction." This total "millage reduction fraction" is then applied to the millage originally authorized by charter, state statute, or a vote of the people. In summary, the actual mills available to be levied by a unit of local government is the product of the authorized millage rate times the total millage reduction fraction. This is known as the "Headlee maximum allowable millage."

Impact of Proposal A

Prior to Proposal A legislation passed in 1994, local governments were allowed to "roll up" their millage rates when growth on existing property was less than inflation. "Roll ups" were a self-correcting mechanism that allowed local governments to naturally recapture taxing authority lost due to Headlee rollbacks in prior years. A local government could only "roll up" its millage rate to the amount originally authorized by charter, state statute, or a vote of the people.

Additions to taxable value (such as newly constructed property) are typically excluded (or exempt) from the Headlee roll back calculation. The 1994 General Property Tax Act changes did not specifically define "uncapped values" (increases resulting primarily from property transfers) as exempt.

Result

Although it might appear that a community with an annual increase in uncapped property values would benefit monetarily, uncapped values are treated as growth on existing property and trigger Headlee rollbacks. For local governments levying at their Headlee maximum authorized millage, rolling back the maximum authorized millage rate reduces the revenue that would have been generated from these increased property values. The increase in the taxable value of property not transferred is capped at the lesser of inflation or five percent. Even though the taxable value of a particular piece of property increases at the rate of inflation, the millage rate for the entire community is "rolled back" as a result of the increase in the total taxable value of the community. The net result—a less than inflationary increase in the actual dollars received from property taxes. Consequently, the 1994 change to the General Property Tax Act has prevented local governments from being able to share the benefits of any substantial market growth in existing property values.

Based on System Failure: Michigan's Broken Municipal Finance Model. Prepared for the Michigan Municipal League by Plante and Moran, PLLC, March, 2004

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STATE OF MICHIGAN
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Bulletin 16 of 2020
Inflation Rate Multiplier
October 20, 2020

TO: **Assessors and Equalization Directors**

FROM: **State Tax Commission**

RE: **Inflation Rate Multiplier for use in the 2021 capped value formula and the "Headlee" Millage Reduction Fraction (MRF) formula**

Note: The Calculation of the Inflation Rate Multiplier is set in statute. MCL 211.34d states:
(l) "Inflation rate" means the ratio of the general price level for the state fiscal year ending in the calendar year immediately preceding the current year divided by the general price level for the state fiscal year ending in the calendar year before the year immediately preceding the current year.
(f) "General price level" means the annual average of the 12 monthly values for the United States consumer price index for all urban consumers as defined and officially reported by the United States department of labor, bureau of labor statistics.

Based on this statutory requirement, the calculation for 2021 is as follows:
1. The 12 monthly values for October 2018 through September 2019 are averaged.
2. The 12 monthly values for October 2019 through September 2020 are averaged.
3. The ratio is calculated by dividing the average of column 2 by the average of column 1.

The specific numbers from the US Department of Labor, Bureau of Labor Statistics are as follows:

	FY 2018 - 2019		FY 2019 - 2020
Oct 2018	252.885	Oct 2019	257.346
Nov 2018	252.038	Nov 2019	257.208
Dec 2018	251.233	Dec 2019	256.974
Jan 2019	251.712	Jan 2020	257.971
Feb 2019	252.776	Feb 2020	258.678
Mar 2019	254.202	Mar 2020	258.115
Apr 2019	255.548	Apr 2020	256.389
May 2019	256.092	May 2020	256.394
Jun 2019	256.143	Jun 2020	257.797
Jul 2019	256.571	Jul 2020	259.101
Aug 2019	256.558	Aug 2020	259.918
Sep 2019	256.759	Sep 2020	260.280
Average	254.376	Average	258.014
		Ratio	1.014
		%change	1.4%

Local units cannot develop or adopt or use an inflation rate multiplier other than 1.014 in 2021. It is not acceptable for local units to indicate to taxpayers that you do not know how the multiplier is developed.

- **Inflation Rate Multiplier (IRM) Used in the 2021 Capped Value Formula**

The inflation rate, expressed as a multiplier, to be used in the 2021 Capped Value Formula is 1.014.

The 2021 Capped Value Formula is as follows:

2021 CAPPED VALUE = (2020 Taxable Value – LOSSES) X 1.014 + ADDITIONS

The formula above does not include 1.05 because the inflation rate multiplier of 1.014 is lower than 1.05.

- **Inflation Rate Multiplier Used in 2021 "Headlee" Calculations**

The inflation rate multiplier of 1.014 shall ALSO be used in the calculation of the 2021 "Headlee" Millage Reduction Fraction required by Michigan Compiled Law (MCL) 211.34d. The formula for calculating the 2021 "Headlee" Millage Reduction Fraction (MRF) is as follows:

$$\textbf{2021 MRF} = \frac{\textbf{(2020 Taxable Value – LOSSES) X 1.014}}{\textbf{2021 Taxable Value – ADDITIONS}}$$

- The following is a listing of the inflation rate multipliers used in the Capped Value and "Headlee" calculations since the start of Proposal A:

Year	IRM
1995	1.026
1996	1.028
1997	1.028
1998	1.027
1999	1.016
2000	1.019
2001	1.032
2002	1.032
2003	1.015
2004	1.023
2005	1.023
2006	1.033
2007	1.037
2008	1.023
2009	1.044
2010	0.997

Year	IRM
2011	1.017
2012	1.027
2013	1.024
2014	1.016
2015	1.016
2016	1.003
2017	1.009
2018	1.021
2019	1.024
2020	1.019
2021	1.014