

# 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



STATE OF MICHIGAN  
DEPARTMENT OF TREASURY  
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**Bulletin 15 of 2019**  
**Inflation Rate Multiplier**  
**October 14, 2019**

**TO: Assessors and Equalization Directors**

**FROM: State Tax Commission**

**RE: Inflation Rate Multiplier for use in the 2020 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 2020 is as follows:

1. The 12 monthly values for October 2017 through September 2018 are averaged.
2. The 12 monthly values for October 2018 through September 2019 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:

Oct-17	246.663	Oct-18	252.885
Nov-17	246.669	Nov-18	252.038
Dec-17	246.524	Dec-18	251.233
Jan-18	247.867	Jan-19	251.712
Feb-18	248.991	Feb-19	252.776
Mar-18	249.554	Mar-19	254.202
Apr-18	250.546	Apr-19	255.548
May-18	251.588	May-19	256.092
Jun-18	251.989	Jun-19	256.143
Jul-18	252.006	Jul-19	256.571
Aug-18	252.146	Aug-19	256.558
Sep-18	252.439	Sep-19	256.759
<b>Average</b>	<b>249.749</b>		<b>254.376</b>
		<b>Ratio</b>	<b>1.019</b>
		<b>% Change</b>	<b>1.9%</b>

**Local units cannot develop or adopt or use an inflation rate multiplier other than 1.019 in 2020. It is not acceptable for local units to indicate to taxpayers that you do not know how the multiplier is developed.**

➤ **Inflation Rate Multiplier Used in the 2020 Capped Value Formula**

The inflation rate, expressed as a multiplier, to be used in the 2020 Capped Value Formula is 1.019.

The 2020 Capped Value Formula is as follows:

$$\mathbf{2020\ CAPPED\ VALUE = (2019\ Taxable\ Value - LOSSES) \times 1.019 + ADDITIONS}$$

The formula above does not include 1.05 because the inflation rate multiplier of 1.019 is lower than 1.05.

➤ **Inflation Rate Multiplier Used in 2020 “Headlee” Calculations**

The inflation rate multiplier of 1.019 shall ALSO be used in the calculation of the 2020 “Headlee” Millage Reduction Fraction required by Michigan Compiled Law (MCL) 211.34d. The formula for calculating the 2020 “Headlee” Millage Reduction Fraction (MRF) is as follows:

$$\mathbf{2020\ MRF = \frac{(2019\ Taxable\ Value - LOSSES) \times 1.019}{2020\ Taxable\ Value - ADDITIONS}}$$

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

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
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

**CITY OF CHARLOTTE  
HEADLEE OVERRIDE BALLOT PROPOSAL**

Shall the authorized charter millage for the City of Charlotte, established at 15 mills (\$15.00 per \$1,000 of taxable value) and reduced to 14.2913 mills (\$14.2913 per \$1,000 of taxable value), by the required millage rollbacks, be increased in an amount not to exceed .7087 mills (\$.7087 per \$1,000 of taxable value) to restore the full amount of the original authorized charter rate for each year for three (3) years, 2012 to 2014, inclusive, for all City and municipal purposes authorized by law; and shall the City levy such new additional millage? The estimate of the revenue the City will collect if the millage is authorized and levied by the City in the 2012 calendar year is approximately \$159,800, a portion of which (\$2,000) will be disbursed to the Charlotte Downtown Development Authority and a portion (\$2,300) which will be disbursed to the Charlotte Local Development Finance Authority.