

## Introduction

The term “Headlee roll back” became part of municipal finance lexicon in 1978 with the passage of the Headlee Amendment to the Constitution of the State of Michigan of 1963. 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 is “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 roll back factor. The annual factor is then added to Headlee roll back factors determined in prior years resulting in a cumulative Headlee roll back 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 roll backs 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 roll backs. 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 5 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 Frank W. Audia, Partner and Denise A. Buckley, Associate, Plante and Moran, PLLC, March, 2004

www.michigan.gov  
(To Print: use your browser's print function)

Release Date: October 13, 2003

---

## Bulletin 11 - Inflation Rate Multiplier Used in the 2004 Capped Value Formula

---

**DATE:** October 16, 2003  
**TO:** Assessors, Equalization Directors  
**FROM:** State Tax Commission

**SUBJECT: INFLATION RATE MULTIPLIER FOR USE IN THE 2004 CAPPED VALUE FORMULA AND THE 2004 "HEADLEE" MILLAGE REDUCTION FRACTION (MRF) FORMULA**

### A. Inflation Rate Multiplier Used in the 2004 Capped Value Formula

The inflation rate, expressed as a multiplier, to be used in the 2004 Capped Value Formula is 1.023. (The inflation rate multiplier for 2003 calculations was 1.015.)

The 2004 Capped Value Formula is as follows:

$$2004 \text{ CAPPED VALUE} = (2003 \text{ Taxable Value} - \text{LOSSES}) \times 1.023 + \text{ADDITIONS}$$

The formula above does not include 1.05 because the inflation rate multiplier of 1.023 is lower than 1.05.

### B. Inflation Rate Multiplier Used in 2004 "Headlee" Calculations

The inflation rate multiplier of 1.023 shall ALSO be used in the calculation of the 2004 "Headlee" Millage Reduction Fraction required by Michigan Compiled Law (MCL) 211.34d.

The formula for calculating the 2004 "Headlee" Millage Reduction Fraction (MRF) is as follows:

$$2004 \text{ MRF} = \frac{(2003 \text{ Taxable Value} - \text{LOSSES}) \times 1.023}{2004 \text{ Taxable Value} - \text{ADDITIONS}}$$

### C. 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

Copyright © 2003 State of Michigan

**Sample Headlee Override Ballot Language**  
**The City of Olivet Additional Operating Millage**

**Millage Proposal**

Shall the City of Olivet, for the purpose of general operations, levy up to 1.1218 mills (\$1.1218 per thousand dollars of taxable value on all real and personal property) for a period of five (5) years, 2001-2005, inclusive? The intent of this request is to restore the total City operating Millage at maximum allocated rate of 15 mills authorized by the Charter of the City of Olivet.

The 15 mills has been reduced by required Millage rollbacks in recent years to 13.8782 mills. If approved and levied in its entirety, this additional Millage would raise an estimated \$13,608 for the City of Olivet.

**City of Dearborn Heights**

**Headlee Override Millage Proposal**

Shall a "Headlee Override" be adopted so that the current limitation on the amount of City taxes that may be levied against all taxable property in the City of Dearborn Heights, Wayne County, Michigan be increased

- Up to 8.5 mills from approximately 6.798 mills (\$8.50 from approximately \$6.798 per \$1,000 of taxable value) for general operating expenses,
- Up to 3 mills from approximately 2.3991 mills (\$3.00 from approximately \$2.3991 per \$1,000 of taxable value) for sanitation/rubbish, and
- Up to 2 mills from approximately 1.5993 mills (\$2.00 from approximately \$1.5993 per \$1,000 of taxable value) for police and fire protection?

If approved and levied in its entirety, this millage would raise an estimated maximum amount of \$3.57 million for the City in 2002 by allowing the City to levy the maximum mills previously approved by the voters and authorized by the City Charter and Sate law which have been reduced as required by the Michigan Constitution of 1963.

**Huntington Woods**

**Millage Increase Proposition**

Shall the City of Huntington Woods, Oakland County, Michigan, be authorized to levy, in 2004 and thereafter, an additional 6.1829 mills on each dollar (\$6.1829 per \$1,000) of the taxable value of all property in the city, thereby allowing the levy of Charter-authorized millage for general purposes in excess of the limit to which it was reduced by Section 31 of Article IX of the State Constitution of 1963, all of which tax revenues will be disbursed to the City of Huntington Woods; provided, that the City shall not be authorized to increase the levy of the City's Charter-authorized millage by more than one-half (0.50) mill in 2004, or by more than an additional one-half mill each year.