MICHIGAN STATE UNIVERSITY | Extension
Center for Local Government Finance and Policy

"HEADLEE" AND "PROPOSAL A" EXPLAINED FOR MICHIGAN COUNTIES

Policy Brief

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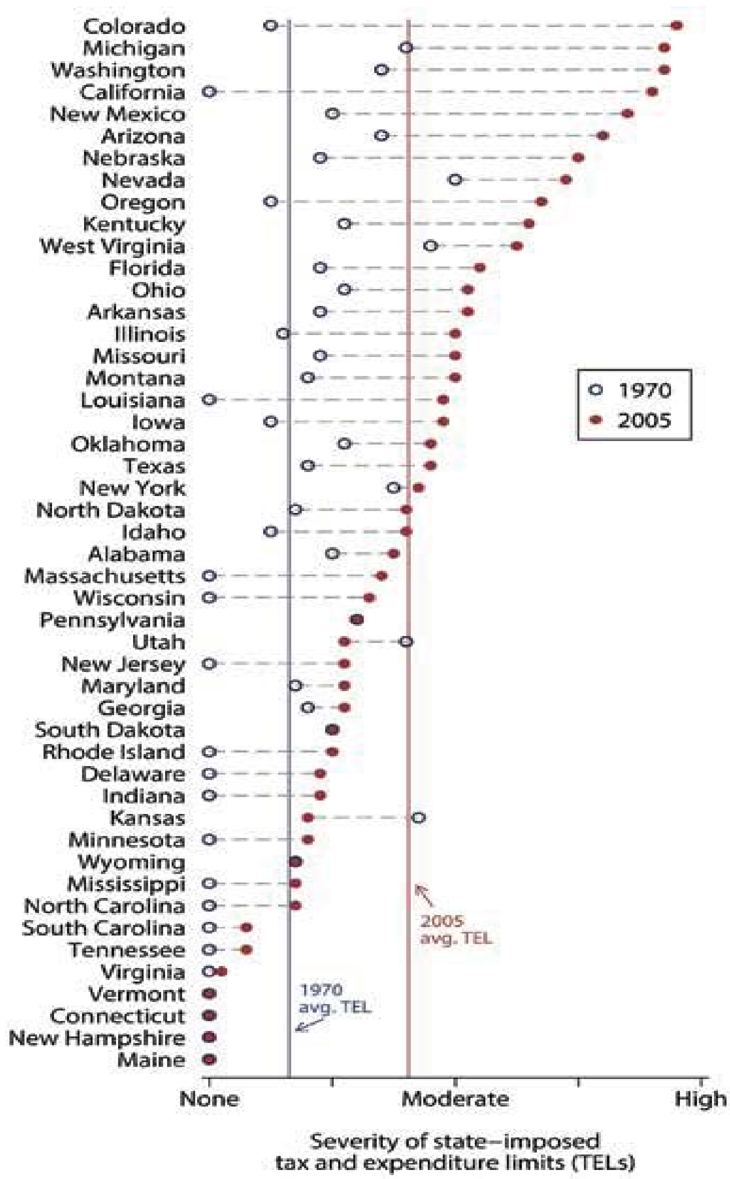
Michigan has more restrictions on the revenue raising ability of local governments than almost any other state (see Exhibit 1). This is mainly because of provisions that were added to the Michigan Constitution in 1978, the so-called Headlee amendments, and in 1994, Proposal A, which made major changes to the funding of K-12 education.

Exhibit 1: Tax and Expenditure Limits by State



Source: Sapotichne et al., Beyond State Takeovers, MSU Extension White Paper. East Lansing, Michigan, 2015.

Headlee Amendments to the Constitution

Article 9, Section 29:

The state is hereby prohibited from reducing the state financed proportion of the necessary costs of any existing activity or service required of units of Local Government by state law. A new activity or service or an increase in the level of any activity or service beyond that required by existing law shall not be required by the legislature or any state agency of units of Local Government, unless a state appropriation is made and disbursed to pay the unit of Local Government for any necessary increased costs. The provision of this section shall not apply to costs incurred pursuant to Article VI, Section 18 (refers to Judge's salaries).

There was an attempt by the state to comply with this unfunded mandate requirement for the first few years, but it has largely been ignored in recent years.

Article 9, Section 30:

The proportion of total state spending paid to all units of Local Government, taken as a group, shall not be reduced below that proportion in effect in fiscal year 1978-79.

The purpose of section 30 was to prevent the state from reducing aid to local governments. The Headlee amendments placed new revenue raising restrictions on the state and local governments and the drafters of the amendments wanted to ensure that the state would not shift the financial burden to local governments. However, with the passage of Proposal A in 1994, this is just what happened. Proposal A largely shifted support for K-12 education from local school districts to the state. As a result, the state counted the payments from the state to the school districts as spending to local governments, increasing the proportion of state spending from the required 48.97[1] to 58.5% in FY 1995 (the first full year proposal A was in effect) rendering the Headlee local spending requirement moot. The percentage proportion peaked at 64.3% in FY 2002. As a consequence, the state was able to cut revenue sharing payments to locals when it ran into budget problems in the early 2000's. If the required proportion of state spending had remained at 48.97% and not increased due to Proposal A, the state would not have been able to make significant cuts to revenue sharing.

In FY 2016, state payments to local governments were 55.7% of state spending from state sources. This percentage is above the 48.97% constitutional requirement (Headlee section 30). However, if the Proposal A payments for K-12 education (and other contested payments, for example, charter school payments) were excluded from the state payment percentage, payments to local units would be only 33.8% of state spending, resulting in a shortfall of about $4.9 billion to local governments.

Article 9, Section 31:

Units of Local Government are hereby prohibited from levying any tax not authorized by law or charter when this section is ratified or from increasing the rate of an existing tax above that rate authorized by law or charter when this section is ratified, without the approval of a majority of the qualified electors of that unit of Local Government voting thereon. If the definition of the base of an existing tax is broadened, the maximum authorized rate of taxation on the new

1 The base year (FY 1978-79) proportion was originally computed to be 41.6%. However, a 1991 settlement agreement in County of Oakland v. State of Michigan resulted in a recalculation of the base year proportion beginning in FY 1992-93 to be set at 48.97%.

base in each unit of Local Government shall be reduced to yield the same estimated gross revenue as on the prior base. If the assessed valuation of property as finally equalized, excluding the value of new construction and improvements, increases 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 limitations of this section shall not apply to taxes imposed for the payment of principal and interest on bonds or other evidence of indebtedness or for the payment of assessments on contract obligations in anticipation of which bonds are issued which were authorized prior to the effective date of this amendment.

There are two provisions in the section 31 amendment that have had a negative financial impact on local governments. First, local governments were prohibited levying any tax not previously authorized by law or charter. This had an effect on the city income tax, which at the time was levied by 17 cities, as well as on any new tax a local government wished to enact. This new provision prevented cities from raising the income tax rate without a vote of the people (but it would have required a change in state city income tax law first), but it did not prevent cities from enacting an income tax without voter approval as the tax had been authorized by an earlier 1964 state law. After passage of the Headlee amendment five more cities enacted an income tax. As discussed in the Proposal A amendment section below, Proposal A had an even greater impact on the city income tax.

Second, the requirement to roll back the maximum authorized millage rate if taxable value, excluding new construction and improvements, increases by more than the rate of inflation. In 2015/2016 this roll back requirement has reduced county property tax revenues by $150 million (2015/2016 data) (see Exhibit 2). This provision did not become a serious issue for local governments until property values suffered a sharp decline, beginning in 2009. The implementing statute for this amendment does not allow the millage rate to be adjusted upward when taxable value increases less than the rate of inflation. The implementing statute, PA 206 of 1893, the General Property Tax Act, requires the annual calculation of a millage reduction fraction, which cannot be greater than 1. The millage reduction fraction calculation is:

TV in previous year minus losses multiplied by the inflation rate
divided by TV in the current year minus additions

Each year, the millage reduction fraction is multiplied by the previous year's fraction and applied to the maximum authorized millage rate. If the maximum rate is 20 mills and the millage reduction fraction is .98, the new current year rate would be 19.6 mills. (See the Appendix for an example of how the calculation works.)

This Headlee roll back (section 31) provision is no longer necessary since the passage of Proposal A in 1994, which limits the increase in TV on each parcel of property to 5% or the rate of inflation, whichever is lower. The combination of the two provisions can keep growth in property tax collections below the rate of inflation in many jurisdictions. To repeal this section 31 provision would require a vote of the people. However, its negative impact could be alleviated by changing the statute, PA 206 of 1893 to allow the millage reduction fraction to exceed 1. In years when TV declined this would allow the maximum authorized millage rate to increase, in some cases, back to the original maximum.

Proposal A Amendment to the Constitution

Article 9, Section3:

The legislature shall provide for the uniform general ad valorem taxation of real and tangible personal property not exempt by law except for taxes levied for school operating purposes. The legislature shall provide for the determination of true cash value of such property; the proportion of true cash value at which such property shall be uniformly assessed, which shall not, after January 1, 1966, exceed 50 percent; and for a system of equalization of assessments. For taxes levied in 1995 and each year thereafter, the legislature shall provide that the taxable value of each parcel of property adjusted for additions and losses, shall not increase each year by more than the increase in the immediately preceding year in the general price level, as defined in section 33 of this article, or 5 percent, whichever is less until ownership of the parcel of property is transferred. When ownership of the parcel of property is transferred as defined by law, the parcel shall be assessed at the applicable proportion of current true cash value. The legislature may provide for alternative means of taxation of designated real and tangible personal property in lieu of general ad valorem taxation. Every tax other than the general ad valorem property tax shall be uniform upon the class or classes on which it operates. A law that increases the statutory limits in effect as of February 1, 1994 on the maximum amount of ad valorem property taxes that may be levied for school district operating purposes requires the approval of 3/4 of the members elected to and serving in the Senate and in the House of Representatives.

The provision limiting the increase in TV on each parcel of property to 5% or the rate of inflation, whichever is less, has had a major fiscal impact on most local governments. As shown in Exhibit 3, the TV cap has reduced county revenues by $325.6 million (FY 2016). The financial impact of Proposal A was not a serious problem until property values began to decline in 2009, and are continuing to decline for a number of jurisdictions, principally cities. The total TV of cities fell about 18% from 2008 to 2012, and has declined 0.7% from 2012 to 2016. The total TV of counties declined 12.7% from 2008 to 2012, and has increased 3.7% from 2012 to 2016. Because of the TV cap many local governments, principally cities, will be unable to recover the lost TV for a number of years, and adjusted for inflation many local governments will never return to the 2008 level.

The drafters of Proposal A could not have anticipated the sharp drop in property values, as at the time there had only been 1 year since 1950 when property values declined. A change to this Proposal A provision is needed, but any adjustment will require a vote of the people. An option would be to add a special revenue sharing payment to make up for the property tax revenue loss.

Proposal A also added a provision that cities could not impose a new income tax without voter approval after January 1, 1995. Until this November's historic vote by Benton Harbor residents, no city had adopted an income tax since 1993. The voters narrowly approved a 1% city income tax for city residents and 0.5% for non-residents working in the city.

Exhibit 2: Impact of Headlee Millage Rollback, Michigan Counties, 2015/2016				
	Operating Mills Levied	Operating Millage Rollback	Revenue Loss	Millage Below Maximum
Alcona	4.1782	0	$0	
Alger	5.077	1.073	$797,145	
Allegan	4.6377	1.0623	$4,676,951	
Alpena	4.8044	0.6796	$616,302	
Antrim	5.4	0	$0	
Arenac	4.9073	0.2937	$163,945	
Baraga	8.6	0	$0	
Barry	5.2496	0	$0	0.4404
Bay	5.7257	0.2743	$317,789	
Benzie	3.5144	0	$0	1.7756
Berrien	4.7723	0.6527	$4,854,024	
Branch	4.7562	0.7438	$1,037,195	
Calhoun	5.3779	0.1821	$661,245	
Cass	4.6359	1.1141	2,207,881	
Charlevoix	4.7	0	$0	
Cheboygan	5.692	0.048	$65,064	
Chippewa	6.15	0	$0	
Clare	4.7072	0.7928	$800,650	
Clinton	5.8	0	$0	
Crawford	6.0925	0.4075	$219,142	
Delta	5.0317	0.4183	$504,693	
Dickinson	6.1203	0.0597	$59,701	
Eaton	5.2149	0.2851	$956,095	
Emmet	4.85	0.75	$2,020,929	
Genesee	5.5072	0.1728	$1,504,799	
Gladwin	4.4052	0	$0	
Gogebic	6.68	0	$0	
Grand Traverse	4.9838	1.2162	$5,619,487	
Gratiot	5.5373	0.4427	$570,366	
Hillsdale	4.9552	0.7948	$1,027,023	
Houghton	6.3	0	$0	
Huron	4.3807	0.4393	$964,260	
Ingham	6.3512	0	$3,266,241	0.4488
Ionia	4.6434	0	$0	
Iosco	3.9129	0.5871	$664,032	
Iron	6.43	0	$0	
Isabella	6.61	0	$0	
Jackson	5.1187	0.8313	$3,589,515	
Kalamazoo	4.6871	0	$0	
Kalkaska	5.4562	0	$0	
Kent	4.2803	0.5197	$10,917,688	
Keweenaw	6.25	0	$0	
Lake	6.0397	1.2803	$701,520	
Lapeer	3.7866	0	$0	0.7594
Leelanau	3.5393	0	$0	
Lenawee	4.9412	0	$0	0.8088

Exhibit 2: Impact of Headlee Millage Rollback, Michigan Counties, 2015/2016 (continued)				
	Operating Mills Levied	**Operating Millage Rollback**	**Revenue Loss**	**Millage Below Maximum**
Livingston	3.3897	0	$0	1.6103
Luce	5.3167	0	$0	
Mackinac	4.5	0	$0	
Macomb	4.5685	0.6215	$15,885,148	
Manistee	5.5	0	$0	
Marquette	5.2938	0.7062	$1,612,556	
Mason	5.0967	0.2033	$346,750	
Mecosta	5.7859	0	$0	0.144
Menominee	7.0612	0.4388	$319,742	
Midland	4.8955	0	$0	
Missaukee	4.9005	0.0995	$57,431	
Monroe	4.7952	0.208	$1,182,200	
Montcalm	4.4082	0.5918	$1,022,779	
Montmorency	5.1553	0	$0	
Muskegon	5.3685	0	$0	0.5016
Newaygo	5.3685	0.4815	$707,906	
Oakland	4.09	1.0432	$54,137,220	
Oceana	5.676	0.074	$86,100	
Ogemaw	6.1035	1.0965	$896,388	
Ontonagon	6.52	0	$0	
Osceola	6.4035	0.3465	$242,438	
Oscoda	5.8717	0	$438,469	1.1288
Otsego	4.0502	0	$0	
Ottawa	3.6	0.135	$1,390,172	0.665
Presque Isle	5.715	0.025	$16,374	
Roscommon	3.583	0.417	$523,966	
Saginaw	4.8558	0.1442	$710,365	
Saint Clair	5.3265	0.4435	$2,496,124	
Saint Joseph	4.5482		$0	
Sanilac	4.0482	0.9518	$1,465,517	
Schoolcraft	5.1343	1.3657	$486,727	
Shiawassee	5.1146	0.4404	$749,137	
Tuscola	3.9141	0	$0	
Van Buren	4.4719	0.7781	$2,466,614	
Washtenaw	4.5493	0.9507	$14,189,846	
Wayne	5.6483	0	$0	0.4217
Wexford	6.7797	0	$0	0.8203
Total	5.097	0.4151	$150,213,652	

Exhibit 3: Revenue Impact of Proposal A TV Cap, Michigan Counties, 2016					
	Taxable Value	**SEV**	**SEV-TV**	**Millage**	**Revenue**
	(000)	**(000)**	**(000)**	**Rate**	**Loss**
Alcona	$735,967	$793,315	$57,348	4.1782	$239,611
Alger	$373,541	$482,547	$109,006	5.077	$553,423
Allegan	$4,370,806	$5,749,874	$1,379,068	4.6377	$6,395,704
Alpena	$893,210	$1,015,199	$121,989	4.8044	$586,084
Antrim	$1,752,477	$1,907,996	$155,519	5.4	$839,803
Arenac	$555,510	$672,474	$116,964	4.9073	$573,977
Baraga	$244,302	$356,339	$112,037	8.6	$963,518
Barry	$2,011,600	$2,654,856	$643,256	5.2496	$3,376,837
Bay	$2,781,672	$3,240,875	$459,203	5.7257	$2,629,259
Benzie	$1,180,230	$1,638,654	$458,424	3.5144	$1,611,085
Berrien	$7,481,709	$9,372,918	$1,891,209	4.7723	$9,025,417
Branch	$1,358,700	$1,912,440	$553,740	4.7562	$2,633,698
Calhoun	$3,446,478	$4,122,154	$675,676	5.3779	$3,633,718
Cass	$2,019,558	$2,778,047	$758,489	4.6359	$3,516,279
Charlevoix	$2,037,629	$2,498,411	$460,782	4.7	$2,165,675
Cheboygan	$1,368,230	$1,693,420	$325,190	5.692	$1,850,981
Chippewa	$1,102,156	$1,333,528	$231,372	6.15	$1,422,938
Clare	$1,009,845	$1,193,144	$183,299	4.7072	$862,825
Clinton	$2,591,209	$3,377,212	$786,003	5.8	$4,558,817
Crawford	$526,531	$613,495	$86,964	6.0925	$529,828
Delta	$1,119,478	$1,349,261	$229,783	5.0317	$1,156,199
Dickinson	$892,977	$1,029,235	$136,258	6.1203	$833,940
Eaton	$3,357,400	$3,968,182	$610,782	5.2149	$3,185,167
Emmet	$2,735,667	$3,450,196	$714,529	4.85	$3,465,466
Genesee	$8,772,245	$10,274,301	$1,502,056	5.5072	$8,272,123
Gladwin	$940,354	$1,077,126	$136,772	4.4052	$602,508
Gogebic	$511,740	$657,927	$146,187	6.68	$976,529
Grand Traverse	$4,698,287	$5,761,373	$1,063,086	4.9838	$5,298,208
Gratiot	$1,285,420	$1,929,779	$644,359	5.5373	$3,568,009
Hillsdale	$1,268,018	$1,761,299	$493,281	4.9552	$2,444,306
Houghton	$870,542	$1,143,271	$272,729	6.3	$1,718,193
Huron	$2,161,173	$3,505,285	$1,344,112	4.3807	$5,888,151
Ingham	$7,386,393	$8,348,399	$962,006	6.3512	$6,109,893
Ionia	$1,544,096	$2,107,538	$563,442	4.6434	$2,616,287
Iosco	$1,116,476	$1,239,203	$122,727	3.9129	$480,218
Iron	$490,103	$669,622	$179,519	6.43	$1,154,307
Isabella	$1,720,335	$2,180,662	$460,327	6.61	$3,042,761
Jackson	$4,276,713	$5,144,216	$867,503	5.1187	$4,440,488
Kalamazoo	$8,026,808	$9,133,273	$1,106,465	4.6871	$5,186,112
Kalkaska	$739,361	$906,156	$166,795	5.4562	$910,067
Kent	$21,119,125	$24,129,416	$3,010,291	4.2803	$12,884,949
Keweenaw	$137,865	$215,042	$77,177	6.25	$482,356
Lake	$555,490	$686,094	$130,604	6.0397	$788,809
Lapeer	$2,704,609	$3,454,667	$750,058	3.7866	$2,840,170
Leelanau	$2,569,617	$3,443,157	$873,540	3.5393	$3,091,720

Exhibit 3: Revenue Impact of Proposal A TV Cap, Michigan Counties, 2016 (continued)					
	Taxable Value	**SEV**	**SEV-TV**	**Millage**	**Revenue**
	(000)	**(000)**	**(000)**	**Rate**	**Loss**
Lenawee	$3,193,939	$3,984,737	$790,798	4.9412	$3,907,491
Livingston	$8,193,533	$9,906,056	$1,712,523	3.3897	$5,804,939
Luce	$186,770	$239,348	$52,578	5.3167	$279,541
Mackinac	$999,064	$1,230,304	$231,240	4.5	$1,040,580
Macomb	$25,326,632	$30,605,374	$5,278,742	4.5685	$24,115,933
Manistee	$1,089,820	$1,360,360	$270,540	5.5	$1,487,970
Marquette	$2,328,914	$2,976,456	$647,542	5.2938	$3,427,958
Mason	$1,750,721	$2,041,857	$291,136	5.0967	$1,483,833
Mecosta	$1,250,150	$1,486,254	$236,104	5.7859	$1,366,074
Menominee	$736,231	$988,157	$251,926	7.0612	$1,778,900
Midland	$3,441,709	$3,669,801	$228,092	4.8955	$1,116,624
Missaukee	$586,593	$785,516	$198,923	4.9005	$974,822
Monroe	$5,710,718	$6,553,434	$842,716	4.7952	$4,040,992
Montcalm	$1,750,057	$2,194,408	$444,351	4.4082	$1,958,788
Montmorency	$487,181	$609,935	$122,754	5.1553	$632,834
Muskegon	$4,279,988	$4,928,651	$648,663	5.3685	$3,482,347
Newaygo	$1,422,733	$1,767,812	$345,079	5.3685	$1,852,557
Oakland	$52,786,202	$65,084,831	$12,298,629	4.09	$50,301,393
Oceana	$1,167,332	$1,569,192	$401,860	5.676	$2,280,957
Ogemaw	$825,098	$995,570	$170,472	6.1035	$1,040,476
Ontonagon	$256,004	$323,377	$67,373	6.52	$439,272
Osceola	$686,555	$834,602	$148,047	6.4035	$948,019
Oscoda	$382,811	$445,801	$62,990	5.8717	$369,858
Otsego	$1,152,385	$1,323,309	$170,924	4.0502	$692,276
Ottawa	$10,438,660	$12,438,366	$1,999,706	3.6	$7,198,942
Presque Isle	$646,636	$792,246	$145,610	5.715	$832,161
Roscommon	$1,260,597	$1,479,513	$218,916	3.583	$784,376
Saginaw	$4,826,504	$5,394,241	$567,737	4.8558	$2,756,817
Saint Clair	$5,661,530	$6,542,837	$881,307	5.3265	$4,694,282
Saint Joseph	$1,885,901	$2,617,377	$731,476	4.5482	$3,326,899
Sanilac	$1,559,953	$2,551,902	$991,949	4.0482	$4,015,608
Schoolcraft	$355,638	$455,909	$100,271	5.1343	$514,821
Shiawassee	$1,698,920	$2,113,190	$414,270	5.1146	$2,118,825
Tuscola	$1,733,524	$2,555,372	$821,848	3.9141	$3,216,795
Van Buren	$3,166,078	$3,985,667	$819,589	4.4719	$3,665,120
Washtenaw	$15,257,429	$18,623,414	$3,365,985	4.5493	$15,312,876
Wayne	$39,162,062	$44,884,066	$5,722,004	5.6483	$32,319,595
Wexford	$918,398	$1,014,487	$96,089	6.7797	$651,455
Total				5.159	$325,639,421

Appendix

How the millage reduction fraction works when taxable values decline:

The formula is TV in previous year minus losses times the inflation rate divided by TV in the current year less additions. For simplicity, we are going to assume that losses and additions (mainly new construction) are zero.

The formula for the current year millage reduction fraction is:

$$\frac{(TV_{year1} - \text{losses}) \times CPI}{TV_{year2} - \text{additions}}$$

If taxable values decline, TVyear1 = 1000 and TVyear2 = 900 and CPI = 2%

$$\frac{1000 \times 2\%}{900} = 1.13 \text{ millage reduction fraction for current year}$$

Note, that the statute does not allow the fraction to be greater than 1. This limitation has a significant impact on the millage rate in years when taxable value declines as will be demonstrated below.

Each year, the millage reduction fraction is multiplied by the previous year's fraction and applied to the maximum authorized millage rate.

Current Calculation When Taxable Value Declines:

If the fraction in the previous year before taxable values declined was .95, then the current year fraction of 1 (1.13, but statute limits to 1) is multiplied by maximum authorized millage rate of 20 mills.

(.95 x 1) 20 mills = 19 mills is the current year mills that can be levied

Proposed New Calculation When Taxable Value Declines:

If taxable values decline, TVyear1 = 1000 and TVyear2 = 900 and CPI = 2%

$$\frac{1000 \times 2\%}{900} = 1.13 \text{ millage reduction fraction for current year}$$

Each year, the millage reduction fraction is multiplied by the previous year's fraction and applied to the maximum authorized millage rate.

(.95 x 1.13) = 1.07

1.07 x 20 mills = 20 mills is the current year mills that can be levied

The new proposed calculation increases the current year mills back up to 20 mills, thus minimizing the loss in revenue that the local unit can collect in years when taxable value declines. In this example, the taxable value decline is large enough that the millage rate is returned to the original authorized maximum. This may not be the case with smaller declines in taxable value.

References

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