

## Proposal A and Headlee Rollback Talking Points

Robert Kleine, Interim Director

Mary Schulz, Associate Director

### Proposal A since the Great Recession: A Lingering Constraint to Taxable Value Growth

**TV Growth Cap-** Michigan's constitution caps the growth in taxable value of each parcel of property at 5% or the rate of inflation, whichever is less.

This provision was included in Proposal A, which was approved by the voters in 1994. The limit on TV was because taxpayers were concerned about rising property tax assessments. From 1989 to 1994, assessments increased at an annual rate of 6.4%, with double digit increases for many residential properties.

**Problem -** Beginning in 2009 as the effects of the worst national recession since the Great Depression caused a crash in the housing market, TV fell for four straight years. From 2008 to 2012, TV declined about 13 percent, and 60 cities and 4 counties suffered declines of 20% or more.

Despite an improving economy in recent years, the cap has limited the growth in TV to only 3.7% since 2012, an annual growth rate of less than 1%. For a local government that suffered a 20% loss, it will be 23 years before TV returns to the 2008 level, assuming a 1% annual increase, not adjusted for inflation. What this means is that, in real terms, many local governments will never return to the 2008 level.

This TV limitation has put local governments in a fiscal straight jacket, with no other options to raise revenue. The drafters of Proposal A clearly could not have intended this.

**Solution -** Possibly the only viable option, would be for the state to increase revenue sharing enough to make up for the loss of TV since 2008. This would cost about \$550 million, which is about equal to the amount revenue sharing has been cut. It may not be feasible to do this in one year but it could be done over a 5-year period.

### Headlee Millage Rollback: An Unneeded Restriction on Property Taxes

**Millage Rollback-** The Headlee millage rollback provision in the Michigan constitution requires a reduction in the millage on the assessed value of property, excluding new construction and improvements, if the assessed value of the property increases faster than the rate of inflation.

This millage rollback provision was designed to generate the same amount of gross revenue from existing property (adjusted for inflation). Therefore, this limitation requires that the millage rate would need to be reduced (rolled back) when the assessed value of all property rises faster than the rate of inflation so as to generate the same revenue that would have been collected at the existing millage rate on the prior assessed value.

**Problem-** The problem with the millage rollback provision is that it does not allow the millage rate to be increased when property values increase at less than the rate of inflation.

**Solution-** This Headlee rollback 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 Headlee rollback 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.