

Information Regarding the Headlee Amendment, Proposal A, State Revenue Sharing, and Recovery from the Great Recession

Staff was asked to provide Council with information regarding the Headlee Amendment, Proposal A, State revenue sharing, and recovery from the Great Recession at the December 14 Council Work Session. Below is the staff response:

The Headlee Amendment to the Michigan Constitution was passed in 1978. This amendment created a process for the reduction of millage rates (the Headlee Rollback) to ensure that total municipal tax revenue could grow only at the rate of inflation, plus new construction.

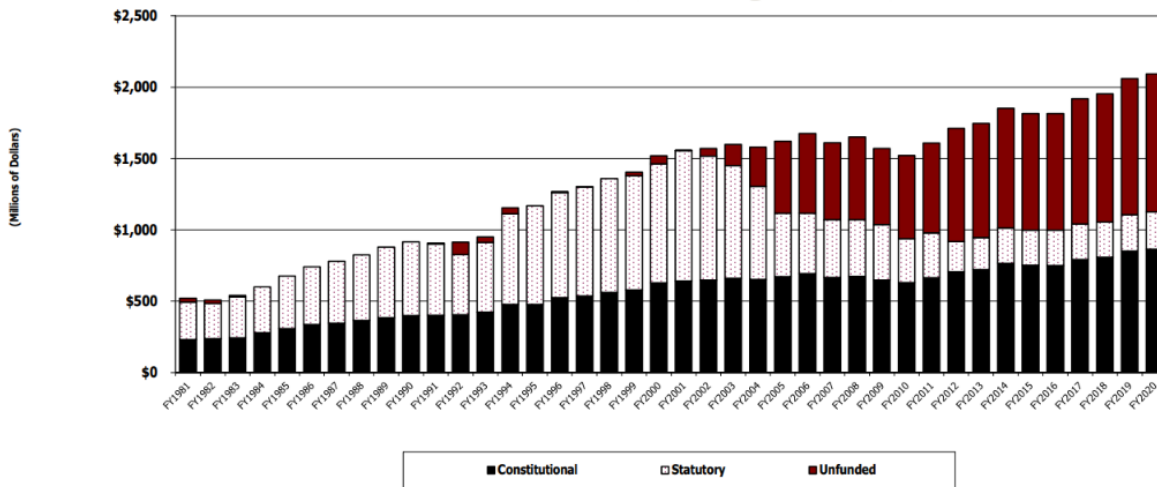
Proposal A was passed in 1994. The primary goal was to reform school finance, but it included two provisions that altered local property taxation. The first was a limitation on the growth of individual properties to the lesser of inflation or 5%. The second was the establishment of “uncapping” property values. Uncapping refers to the process of increasing a property’s taxable value to the State Equalized Value at the time of a change of ownership.

Headlee suppresses total taxing authority within a jurisdiction. Proposal A limits taxable value on individual properties.

Prior to Proposal A, municipalities could roll-up their millage rates to keep up with inflation if inflation outpaced property value increases. Following Proposal A, the Headlee Roll-up is no longer an option. Therefore, when a Headlee Rollback occurs, the only way to increase millage rates is through a vote of the people, typically referred to as a Headlee Override. Additionally, Proposal A exempted new construction from the Headlee Rollback, but did not do so for uncapped taxable value. So, when a property gets uncapped, that property owner must pay higher taxes on the property. However, that new value becomes part of the Headlee Rollback calculation and municipalities do not recognize revenue from uncapping.

State revenue sharing has two components: Constitutional and Statutory. The Constitutional portion is essentially guaranteed. The Statutory portion is subject to annual State budget appropriation. Consequently, the State has used systemic underfunding of the Statutory portion to balance its own budgets for two decades. The underfunded amount for FY 2020 is approximately \$1 billion.

State Revenue Sharing, FY1981-2020 (budgeted)



Source: Michigan Department of Treasury

Here are some great resources to refer to for more information on the Headlee Amendment, Proposal A, and State revenue sharing:

<https://semcog.org/desktopmodules/SEMCOG.Publications/GetFile.ashx?filename=RunningOnEmptyNovember2014.pdf>

http://www.mml.org/resources/publications/one_pagers/FS%20Headlee%20%20Plus.pdf

<https://www.savemicity.org/facts-and-figures/>

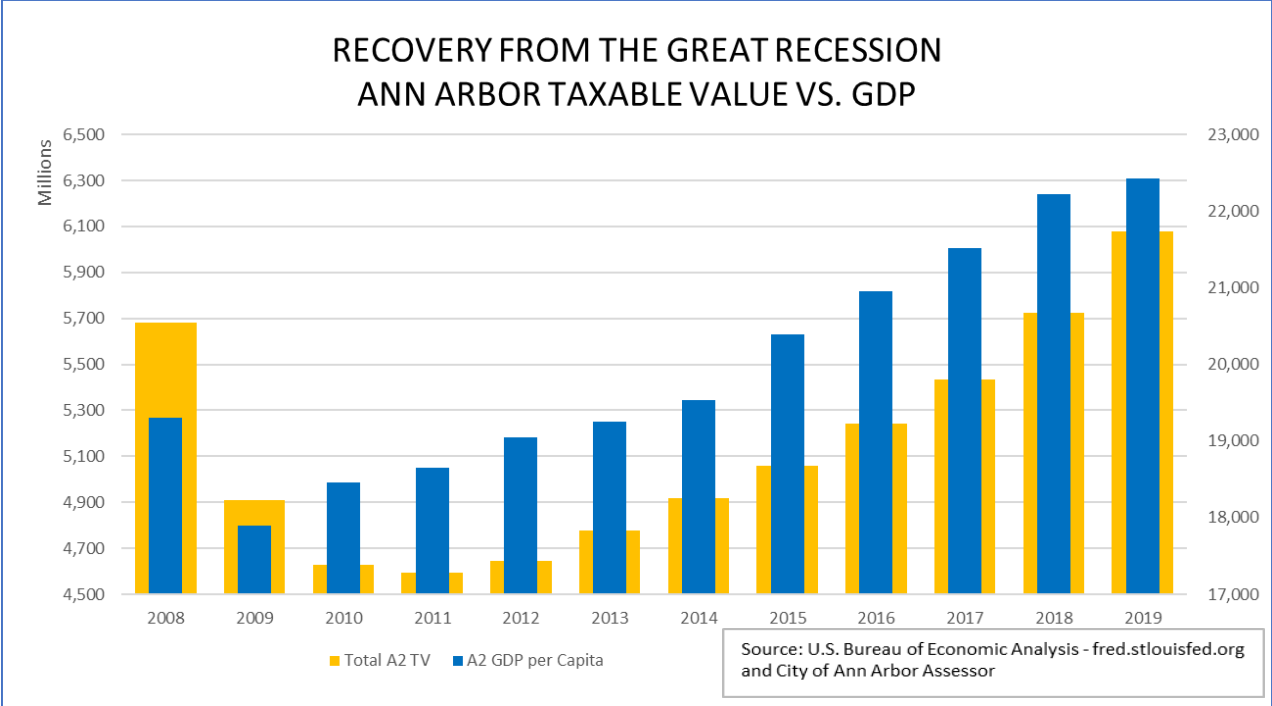
<https://crcmich.org/>

https://www.canr.msu.edu/news/what_is_the_headlee_amendment_and_how_does_it_affect_local_taxes

https://www.canr.msu.edu/news/a_refresher_on_proposal_a_and_local_property_taxes

https://www.canr.msu.edu/news/what_is_a_headlee_override

Finally, Council requested information on the local economic recovery from the Great Recession. In order to illustrate that, staff has plotted Ann Arbor Taxable Value versus Ann Arbor GDP per Capita, for the period of 2008 through 2019. See graph below:



As you can see, the GDP (in blue) decreased from 2008 to 2009, as did taxable value (in yellow). As the economy recovered, GDP increased steadily. Taxable value, however, was depressed for several years before beginning to rebound. And, due to Headlee and Proposal A, that growth is suppressed essentially to the rate of inflation.