

# 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

## 2016 Millage Reduction Fraction Calculations Worksheet

### Including Millage Reduction Fraction Calculations Not Specifically Assigned to the County Equalization Director by Law

|        |                     |
|--------|---------------------|
| County | Taxing Jurisdiction |
|--------|---------------------|

2015 Total Taxable Value..... \_\_\_\_\_

Losses ..... \_\_\_\_\_

Additions..... \_\_\_\_\_

2016 Total Taxable Value Based on SEV ..... \_\_\_\_\_

2016 Total Taxable Value Based on Assessed Value (A.V.) ..... \_\_\_\_\_

2016 Total Taxable Value Based on CEV ..... \_\_\_\_\_

**NOTE:** The last two items above are only needed when it is necessary to calculate a Truth in Assessing or Truth in County Equalization Rollback Fraction.

**1. Section 211.34d, MCL, "Headlee"** (for each unit of local government)

$$\frac{(2015 \text{ Total Taxable Value} - \text{Losses}) \times \text{Inflation Rate of 1.003}}{(2016 \text{ Total Taxable Value Based on SEV} - \text{Additions})} = \underline{\hspace{2cm}}$$

2016 Millage Reduction Fraction (Headlee). Round to 4 decimal places in the conventional manner. If number exceeds 1.0000, line through and enter 1.0000.

See State Tax Commission Bulletins No. 3 of 1995 and 19 of 2002 regarding the calculation of losses and additions.  
See also the Supplements to STC Bulletin No. 3 of 1995 contained in STC Bulletin No. 3 of 1997.

**2a. Section 211.34, MCL, "Truth in Assessing"** (for cities and townships if S.E.V. exceeds A.V. for 2016 only)

$$\frac{2016 \text{ Total Taxable Value Based on Assessed Value for all Classes}}{2016 \text{ Total Taxable Value Based on SEV for all Classes}} = \underline{\hspace{2cm}}$$

2016 Rollback Fraction (Truth in Assessing)  
Round to 4 decimal places in the conventional manner.

See State Tax Commission Bulletin 3 of 2016 for more information regarding this calculation.

**2b. Section 211.34, MCL, "Truth in County Equalization"** (for villages, counties and authorities if S.E.V. exceeds C.E.V. for 2016 only)

$$\frac{2016 \text{ Total Taxable Value Based on CEV for all Classes}}{2016 \text{ Total Taxable Value Based on SEV for all Classes}} = \underline{\hspace{2cm}}$$

2016 Rollback Fraction (Truth in County Equalization)  
Round to 4 decimal places in the conventional manner.

See State Tax Commission Bulletin 3 of 2016 for more information regarding this calculation.

**3. Section 211.24e, MCL, "Truth in Taxation"** (for each taxing jurisdiction that levied more than 1 mill for operating purposes in 2015 only).

$$\frac{(2015 \text{ Total Taxable Value} - \text{Losses})}{(2016 \text{ Total Taxable Value Based on SEV} - \text{Additions})} = \underline{\hspace{2cm}}$$

2016 Base Tax Rate Fraction (Truth in Taxation)  
Round to 4 decimal places in the conventional manner.

Use the same amounts for additions and losses as were used for the 211.34d ("Headlee") rollback.

**NOTE:** The truth in taxation BTRF is independent from the cumulative millage reductions provided by sections 211.34d and 211.34. The Base Tax Rate equals the BTRF X 2015 Operating Rate levied.