

michigan municipal league



Headlee & Proposal A

Save MI City

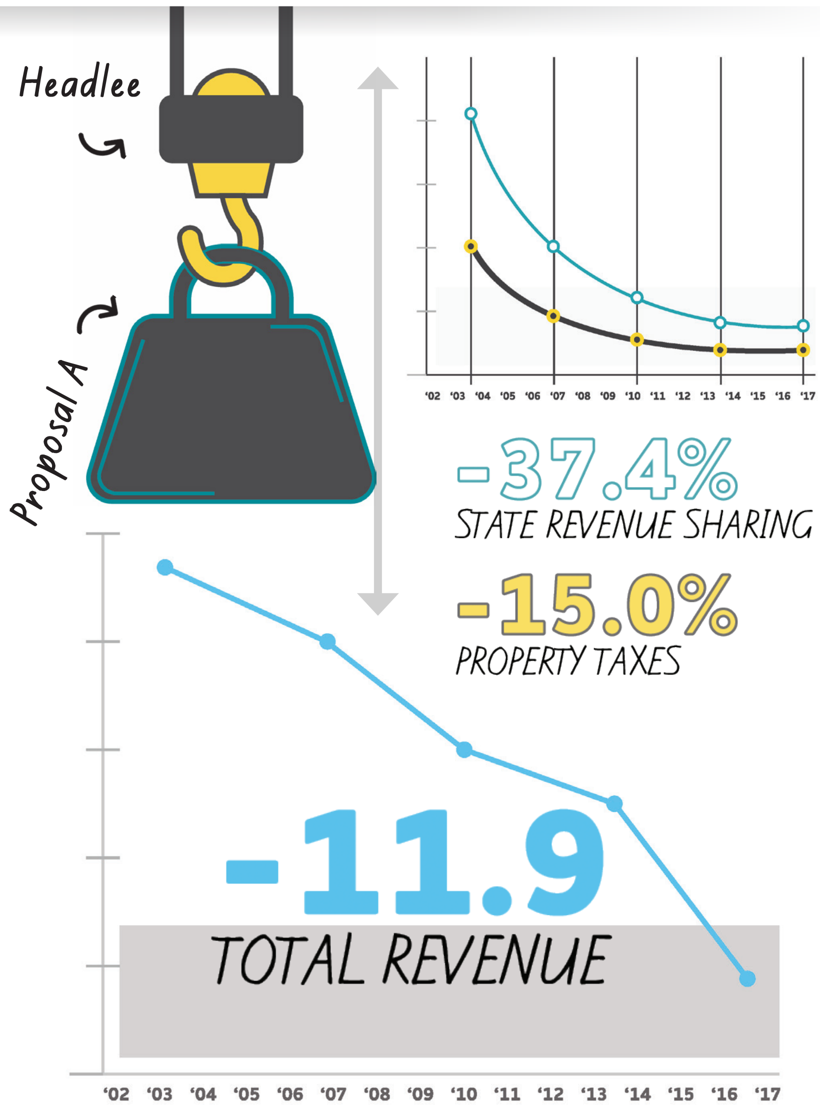
The Problem:

What exactly is wrong with Headlee and Proposal A? Proposal A and Headlee work well independently, but they conflict with each other during an economic recovery following a recession. This conflict prevents communities from recovering along with the rest of the economy.

So let's break down the issues:

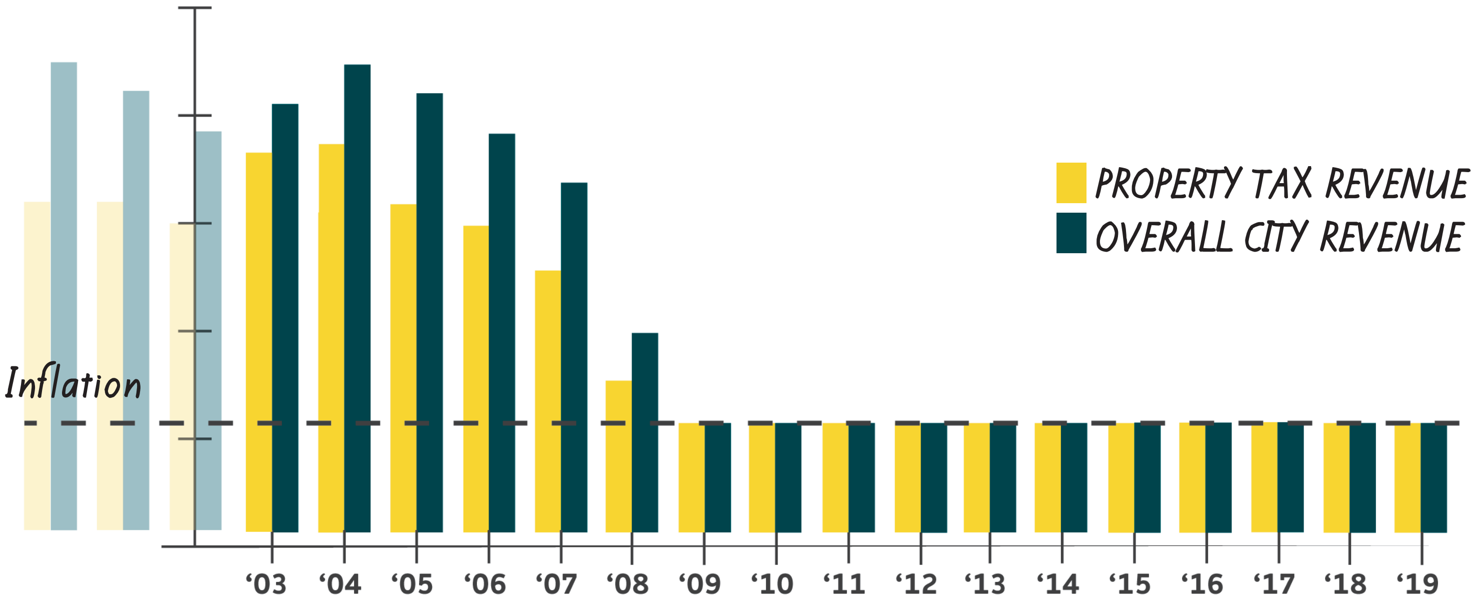
ISSUE #1: Prior to Proposal A, Headlee allowed tax rates to move up and down to try and provide revenue growth equal to inflation. When Proposal A was later implemented by the Legislature, they eliminated the ability for rates to move in both directions. As a result rates can go down, but not back up, eliminating any logical correction that was intended by the original Headlee amendment. This makes communities and schools more vulnerable in a recession.

ISSUE #2: Home values pop-up after a property is sold. However, conflicts between Proposal A and Headlee do not allow a community to benefit from these values popping up as they should. In fact, too much real estate activity can trigger a rollback (reduction) in a community's tax rates. This is especially damaging following a recession. As a result, a community is never allowed to catch up and track with the economy during a recovery.



THE REVENUE CAP

DUE TO PROPOSAL A WORKING AGAINST HEADLEE



The Solutions:

Two simple fixes to these issues are straight forward and could be done through a legislative change that would allow communities' revenue to track with the state's economy.

Fix 1: Allow millage rates to move both up and down. In times of prosperity, when property values exceed inflationary growth, millage rates roll back. In an economic downturn when values are decreasing millage rates should be allowed to go up at the same rate as inflation and no more. This move helps stabilize a community's revenue stream during a downturn. Also, the maximum rate is always limited by state law or charter so it is not a blank check. This mechanism is allowed under Headlee and was utilized before Proposal A.

Fix 2: The state uses a formula (called the millage reduction fraction) to calculate each community's upcoming tax rates based on inflation. We should remove the "popped-up values" from home sales from this calculation to allow a community to recapture some of the lost value from a recession.

These two changes would not result in people paying more in taxes than allowed by the Headlee Amendment. What they would do is ensure that Proposal A and Headlee would work as originally intended. These fixes would better protect all of us in the event of a future recession.

SaveMICity

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