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# Headlee Amendment

# What is the Headlee Amendment

- The Headlee Amendment to the State Constitution was adopted by Michigan Voters in 1978. The amendment contained a number of provisions designed to limit growth in state and local government revenue and spending.
- Key for local governments is a requirement that property tax millage rates be “rolled back” when assessed value growth, adjusted for property value additions and subtractions, exceeds the rate of inflation.

# How it works

- Taxes **LEVIED** are not allowed to increase more than the state assigned rate of inflation.
- If property value appreciation would result in an increase of taxes levied being greater than the rate of inflation, then the community is forced to reduce the operating millage by a value that would cause the levy not to exceed the specified growth rate. This value is called the Millage Reduction Fraction or MRF
- The formula:
  - $$\text{MRF} = \frac{(\text{prior year Taxable Value} - \text{LOSSES}) \times \text{inflation rate multiplier}}{\text{current year Taxable Value} - \text{ADDITIONS}}$$
  - $\text{MRF} * \text{current millage rate} = \text{the new millage rate to be used}$

# How it works (continued)

- What are subtractions
  - Destroyed property (demolitions, etc.)
  - Exempt property (tax abatements, etc.)
  - Lost value (general market losses, etc.)
- What are additions
  - New Construction
  - Omitted property (accidentally not included in previous year)
  - Previously exempt property
  - Replacement Construction (rebuilding of a structure that was lost/damaged in an accident)

# An Example

- Millage rate 12
- Taxable value = \$10,000
- Inflation = 3%
- Property appreciation (increased value is 10%)
- $$\text{MRF} = \frac{(\text{prior year Taxable Value} - \text{LOSSES}) \times \text{inflation rate multiplier}}{\text{current year Taxable Value} - \text{ADDITIONS}}$$
- $$\text{MRF} = \frac{(\$10,000 - 0) \times 1.03}{\$11,000 - 0}$$
- $$\text{MRF} = \$10,000 \times 1.03 \div \$11,000$$
- $$\text{MRF} = \$10,300 \div \$11,000$$
- $$\text{MRF} = 0.9363$$

# An Example (continued)

- $MRF = 0.9363$ 
  - New millage rate = old rate \* MRF
  - New millage rate =  $12 * 0.9363$
  - New millage rate = 11.2363
- Taxes levied = new millage \* taxable value
  - $.0112363 * \$11,000 = \$123.599$
- Taxes lost
  - $.012 * \$11,000 = \$132$
  - $\$132 - \$123.60 = \$8.4$

# Headlee and Pontiac

- Headlee passes/goes into effect in 1978
- In 1982, Pontiac passes new charter with, 12 total mills for city government operations (section 5.205 of the 1982 City charter)
- Each year that passes, Pontiac must adjust its millage rate in accordance with the Headlee amendment.
- The last time Pontiac levied the full 12 mills was 1998

# Headlee and Pontiac (continued)

- History of tax levy in Pontiac:

year	millage rate	taxable value	taxies levied	loss to headlee rollback
1998	12	\$852,391,493	\$10,228,697.92	\$0
1999	11.9724	\$908,633,456	\$10,878,523.19	\$25,078
2000	11.9101	\$1,021,101,847	\$12,161,425.11	\$91,797
2001	11.89493	\$1,094,292,018	\$13,016,526.95	\$114,977
2002	11.7995	\$1,168,970,816	\$13,793,271.14	\$234,379
2003	11.3853	\$1,215,143,568	\$13,834,774.06	\$746,949
2004	11.2737	\$1,291,388,337	\$14,558,724.69	\$937,935
2005	11.2737	\$1,330,636,050	\$15,001,191.64	\$966,441
2006	11.2737	\$1,414,552,660	\$15,947,242.32	\$1,027,390
2007	11.2737	\$1,446,567,360	\$16,308,166.45	\$1,050,642
2008	11.2737	\$1,472,949,920	\$16,605,595.51	\$1,069,804
2009	11.2737	\$1,377,212,650	\$15,526,282.25	\$1,000,270



# Headlee and Pontiac (continued)

- History of tax levy in Pontiac:

year	millage rate	taxable value	taxies levied	loss to headlee rollback
2010	11.2737	\$1,177,478,710	\$13,274,541.73	\$855,203
2011	11.2737	\$907,440,740	\$10,230,214.67	\$659,074
2012	11.2737	\$783,233,190	\$8,829,936.01	\$568,862
2013	11.2737	\$676,861,990	\$7,630,739.02	\$491,605
2014	11.2737	\$663,973,880	\$7,485,442.33	\$482,244
2015	11.2737	\$669,161,280	\$7,543,923.52	\$486,012
2016	11.2737	\$652,076,620	\$7,351,316.19	\$473,603
2017	11.2737	\$675,578,260	\$7,616,266.63	\$490,672
2018	11.2691	\$711,818,640	\$8,021,555.44	\$520,268
2019	11.1699	\$739,562,940	\$8,260,844.08	\$613,911
2020	11.1699	\$789,079,270	\$8,813,936.54	\$655,015
2021	11.0503	\$863,264,740	\$9,539,334.36	\$819,843
2022	10.9132	\$1,105,274,470	\$12,062,081.35	\$1,201,212
Cumulative Headlee rollback				\$15,583,186

# Headlee and Pontiac (continued)

- History of tax levy in Pontiac:
  - From 2004-2008, the value of property in Pontiac appreciated more slowly than the assigned rate of inflation. During this time there was no additional Headlee rollback.
  - From 2008- 2014, Pontiac suffered value loss through the Great Recession, so there was no additional Headlee rollback.
  - From 2014- 2017, Pontiac property values appreciated more slowly than the assigned rate of inflation, so there was no additional Headlee rollback.
  - From 2019 – 2020, The effects of Covid stalled value growth in the City, so there was no additional Headlee rollback.
  - From 2021- Present, property values appear to be appreciating faster than the assigned rate of inflation.