

Headlee Amendment

BACKGROUND

In November 1978 Michigan voters approved the so-called Headlee Amendment, which added several provisions—sections 25 through 33—to Article IX of the state constitution. The key provisions are presented below.

Section 26

Section 26 limits the revenue collected by the state (except federal aid) to no more than the share it was of total personal income in FY 1978–79. If revenue *exceeds* this limit by more than one percent, the excess is to be refunded to taxpayers, *pro rata* (in proportion to the amount each person and business paid), based on the taxpayer's liability under the single business tax and the income tax. If the excess is *less* than one percent, it may be transferred instead to the Budget Stabilization Fund (the state's "rainy day" fund).

The revenue limit is 9.49 percent of personal income (based on a 1985 recalculation). In the first 15 years the revenue limit was in effect it never was exceeded (in fact, in FY 1993–94, state revenue was more than \$3 billion *below* the limit). In FY 1994–95, however, state revenue exceeded the limit by about \$109 million (roughly 0.5 percent—not enough to trigger a distribution of the excess). This was caused by the 1994 school-finance reform legislation (Proposal A), which replaced local property taxes with state level taxes, principally the sales tax. Current projections, principally by the Senate Fiscal Agency, are that revenue will not exceed the limit in either FY 1997–98 or FY 1998–99; in fact, in the latter, state revenue is predicted to fall \$1.4 billion below the limit because of slower economic growth plus the fact that several enacted tax cuts will be taking effect.

Section 29

Section 29 prohibits the state from mandating that local governments provide new services unless the state reimburses the locals for any necessary increased costs they may incur. The state also is prohibited from reducing the state-financed proportion of the necessary costs of any existing activity or service that state law requires of local governments.

This section has had a restraining effect on state government mandates to local governments, but the state nevertheless has found itself in court several times, charged by local government with violating this section. The most significant

instance is the *Durant* case, brought by 84 school districts that argued that the state had violated section 29 by reducing its share of the costs for special education (and two smaller programs) from the share provided in FY 1978–79; in 1997 the Michigan Supreme Court found for the school districts and, after extensive negotiations, the state agreed to pay these districts—and those who did not file suit, as well, to forestall their bringing suit too—about \$1 billion.

Section 30

Section 30 provides that the proportion of state spending devoted to local governments shall not be less than the proportion in effect in FY 1978–79, the year in which the Headlee amendment passed. That year, local aid as a share of state spending was 41.6 percent; some years later, in the aftermath of a suit brought by Oakland County, the local share was recalculated and set at 48.97 percent. In FY 1994–95 this section effectively was rendered moot by school-finance reform (Proposal A), which sharply increased state support for K–12 education, pushing local aid as a share of state spending to more than 60 percent. This change has made this section ineffective and has allowed the state in recent years to make reductions in state revenue-sharing payments to local governments.

Until school-finance reform significantly increased the local share, section 30 had restrained the state from reducing aid to local governments and also had a major influence on state budgeting. Because the state was close to the limit most years, the budget had to be carefully calculated so as to allocate the proper share of all new monies to local governments. Also, when the state budget had to be reduced (due to a revenue shortfall) during the fiscal year, local governments had to endure a share of cuts equal to that being imposed on other programs, even if priorities argued otherwise.

Section 31

This section pertains to local government. It requires that voters approve local government tax increases not authorized by law or charter prior to November 1978 (that is, any local taxes not already

in place at the time the Headlee amendment was adopted have to be approved by the people who will pay them). This section also provides that if the definition of the base of an existing tax is broadened, the maximum authorized tax rate on the new base must be reduced to yield the same revenue as the tax on the prior base; for example, if the tax base was increased from \$1,000,000 to \$1,100,000, and the tax rate was one mill, the millage would have to be reduced to .909 mill, so that the yield would be the same—\$1,000—as that generated by the one mill on the original tax base.

A key provision of this section limits revenue from property-assessment increases. If the assessed value of a local unit's total taxable property, excluding new construction and improvements, increases by more than the inflation rate, the maximum authorized property tax rate must be reduced so that the local's total taxable property yields the same gross revenue, adjusted for inflation, as collected on it at its prior assessed value. (However, the assessment on individual property still could increase more than the inflation rate, because the limit applies to all property *combined*, not each parcel.)

This section has had a restraining effect on local revenue. Most units have been required on several occasions to roll back millage rates so as to offset assessment increases. Many government units, particularly school districts, have asked voters to override “Headlee rollbacks”; they have only sometimes been successful. This provision's importance has been reduced by Proposal A, because the latter imposes a limit on assessment increases that is more restrictive than that imposed by the Headlee amendment.

DISCUSSION

The Headlee amendment clearly has significantly affected state-local finances, but it has not had the dire consequences predicted by its opponents. For example, it has neither caused large reductions in needed public services nor seriously hindered local government operations. It has modestly re-

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strained increases in state and local taxes and spending and probably encouraged some government efficiencies; it also has encouraged creative management and accounting, to enable state and local governments to comply with some of its provisions.

Because there have been many state-local financing changes since 1978—principally Proposal A, which put in place school finance reform—several Headlee provisions no longer are relevant. Whether the amendment should be updated may become an issue in the next few years.

See also Community Colleges; K–12 Funding; Revenue Sharing; Special Education; State-Local Relations.

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