



**League of Women Voters
Dearborn—Dearborn Heights**

**Voter Forum
September 28, 2011**

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Dearborn Heights Override Millage Proposal

At the November 8, 2011 election, Dearborn Heights voters will be asked to vote on the following ballot question:

HEADLEE OVERRIDE MILLAGE PROPOSAL - Shall the City of Dearborn Heights be authorized to levy the maximum millage rates previously authorized by the City Charter which have been reduced by virtue of the "Headlee Amendment" to the Michigan Constitution?

What does this mean?

At the November 1978 general election, voters ratified a state constitutional amendment which limited state and local government revenues and required voter approval of new taxes. The "Headlee Amendment," as it is commonly referred, added Sections 25 through 33 to Article IX of the state Constitution and amended Section 6 of Article IX. Section 31 of Article IX provides in part as follows:

If the assessed value of property as finally equalized, excluding the value of new construction and improvements, increases by a larger percentage than the increase in the General Price Level from the previous year, the maximum authorized rate applied thereto in each unit of Local Government shall be reduced to yield the same gross revenue from existing property, adjusted for changes in the General Price Level, as could have been collected at the existing authorized rate on the prior assessed value.

The tax yield, which is to say the revenue generated by it, is a function of two variables: the tax rate and the tax base to which the rate is applied. That portion of Section 31 of Article 9 recited above has been referred to appropriately as a "levy" limitation, which in this case is achieved by a limitation on the rate. Section 31 requires that, if the existing property tax base in a unit of local government increases faster than the rate of inflation, the maximum authorized rate must be reduced or "rolled back" by a commensurate amount so as to produce the same property tax levy as would have been obtained from the old base.

Tax 101

The tax applied to any property is determined by applying a tax rate to a tax base. For property taxes, the tax base is a measure of the value of the property. The tax rate is a millage applied as \$1 of tax for every \$1,000 of value. Throughout a jurisdiction – city, county, school district, etc. – the tax yield is the revenue raised by applying the tax rate to all of the taxable property.

$$\text{Tax Base} \times \text{Tax Rate} = \text{Tax Yield}$$

“Headlee” Tax Limitation

Designed to help property owners to afford to pay their property taxes

This provision says that if the jurisdiction's tax base grows at a rate faster than inflation, adjusted for new construction and improvements, then the tax rate should be adjusted downward so that the tax yield grows only at an inflationary rate.

$$\text{Tax Base} (\uparrow) \times \text{Tax Rate} (\downarrow) = \text{Tax Yield (same)}$$



Chart 1 shows growth of the City of Dearborn Heights' tax base (the blue line) and growth in inflation (the dashed, black line) since 1979, the first year the Headlee Amendment was implemented. From 1979 to 1992, Dearborn Heights' tax base grew at a pace about equal to the growth in inflation. Beginning in 1993 and continuing until 2008, the city's tax base grew at a pace faster than the rate of inflation. This was good if you were a property owner in Dearborn Heights because your investment was appreciating. It didn't positively or negatively affect the city because each year that this occurred, the city's tax rate was reduced in an amount to offset the value of growth greater than the rate of inflation (the shaded area). Absent any new construction or improvements, the city's property tax revenues could only grow at the rate of inflation.

Since 2008, the city's tax base has declined by about 20 percent. The city has a smaller tax base upon which to apply its tax rate. But the tax rate was not increased to offset the reduction in taxable value, as has occurred in the other direction for the previous 15 years. State law dictates that that increase can only occur with a vote of the people. The November 8 election will ask to undo the tax rate reductions that occurred so that the city can levy its tax at the same rate as the voter's authorized in the city charter.

Chart 1

