

Proposal E

The nuts and bolts of 'Headlee'

By the League of Women Voters, Troy

Proposition E
Headlee Amendment

The issue: Should the State constitution be amended to limit all state taxes and revenues to their current proportion of total state personal income?

The state constitution presently requires an annual balanced state budget, and limits the property tax rate that may be levied by local units of government without a vote of the people. Local units of government are also required by law to have a balanced budget.

Many taxpayers feel that government bureaucracy is growing too rap-

idly, and the increase in state spending is far out of proportion to the increase of the personal income of the people of Michigan.

Petitions filed by Taxpayers United, Inc. would amend the constitution by limiting the ability of the legislature to increase state taxes beyond their current proportion of the total personal income. This is a tax limitation covering all taxes in the State of Michigan, not a cut.

Many opponents feel the proposal is too restrictive and could cause vital services to be cut.

The proposal would limit state taxes and spending to a percentage—determined by the state budget for fiscal year 1979, and expected to be between 9.15 and 9.48 per cent—of the state's personal income.

The personal income of Michigan (PIM) is defined by the proposal as the total income received by persons in Michigan from all sources as reported by the U.S. Department of Commerce. Federal aid is excluded in calculating this income.

If the economy expands and personal income grows, the legislature would automatically have more money to work with because it is receiving a percentage of this income, but the legislature cannot increase its percentage without a vote of the people.

However, in the event of a state emergency, the spending limits could be exceeded for that fiscal year by joint action of the governor and legislature (two-thirds vote of both houses).

If total state revenues exceed the limit by one per cent or more in any fiscal year, they are to be refunded pro rata to those who paid state income tax or single business tax in that year.

Revenues which exceed the limit by less than one per cent may be placed in a budget stabilization fund.

Local governments would be prohibited by Proposal E from adding new or increasing taxes without voter approval. Currently local government may issue bonds without a vote of the people and levy taxes to pay off the bonds.

Although the proposal excluded taxes authorized for repayment of principal and interest of existing bonded indebtedness, new bonding would require voter approval. The proposal does not prohibit municipalities from establishing "user fees" (i.e., library services and garbage pickup).

In the case of property taxes, if the state equalized valuation of an assessment district is raised, the tax rate must be reduced so that the yield of dollars is the same as before or does not increase more than the consumer price index.

The proposal does not guarantee that individual pieces of property will remain the same; the limit is on the total valuation for the municipality.

Under the Headlee amendment, the state would be prohibited from adopting new or expanding present local programs without full state funding to prevent shifting the burden to the local level.

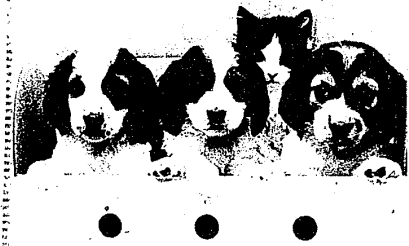
Also, total state spending for local units of government as a group cannot be reduced below the proportion spent in the 78-79 fiscal year.

Any new activity or service or increase in those now required of local government by state law must be accompanied by state funding to pay for the added costs. However, the amendment is unable to prevent the federal government from mandating new programs or expanding current programs without appropriating money for them.

If Proposal E is passed, state spending for services would be limited to a percentage of the state's personal income, and local spending increases would be limited to increases in the consumer price index.

Expansion of existing services would have to be accompanied by an expansion in the economy and a growth in personal income, by a cut in other programs to accommodate the new ones, by a vote of the citizens to increase taxes to fund the new services, or by a declaration of the governor of a state of emergency and the subsequent passage by a two-thirds vote of the legislature of an increased spending and revenue limit for that fiscal year.

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