



STATE OF MICHIGAN
DEPARTMENT OF TREASURY

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BULLETIN NO. 14 of 2011
INFLATION RATE
OCTOBER 31, 2011

TO: Assessors
Equalization Directors

FROM: State Tax Commission

RE: Inflation Rate Multiplier for use in the 2012 capped value formula and the 2011 "Headlee" Millage Reduction Fraction (MRF) formula

Note: The Calculation of the Inflation Rate Multiplier is set in statute. MCL 211.34d states:

(l) "Inflation rate" means the ratio of the general price level for the state fiscal year ending in the calendar year immediately preceding the current year divided by the general price level for the state fiscal year ending in the calendar year before the year immediately preceding the current year.

(f) "General price level" means the annual average of the 12 monthly values for the United States consumer price index for all urban consumers as defined and officially reported by the United States department of labor, bureau of labor statistics.

Based on this statutory requirement, the calculation for 2012 is as follows:

1. The 12 monthly values for October 2009 through September 2010 are averaged.
2. The 12 monthly values for October 2010 through September 2011 are averaged.
3. The ratio is calculated by dividing the average of column 2 by the average of column 1.

The specific numbers from the US Department of Labor, Bureau of Labor Statistics are as follows:

| | | | |
|----------------|----------------|----------------|----------------|
| Oct-09 | 216.177 | Oct-10 | 218.711 |
| Nov-09 | 216.330 | Nov-10 | 218.803 |
| Dec-09 | 215.949 | Dec-10 | 219.179 |
| Jan-10 | 216.687 | Jan-11 | 220.223 |
| Feb-10 | 216.741 | Feb-11 | 221.309 |
| Mar-10 | 217.631 | Mar-11 | 223.467 |
| Apr-10 | 218.009 | Apr-11 | 224.906 |
| May-10 | 218.178 | May-11 | 225.964 |
| Jun-10 | 217.965 | Jun-11 | 225.722 |
| Jul-10 | 218.011 | Jul-11 | 225.922 |
| Aug-10 | 218.312 | Aug-11 | 226.545 |
| Sep-10 | 218.439 | Sep-11 | 226.889 |
| Average | 217.369 | Average | 223.137 |

Ratio **1.027**
% Change **2.7%**

Local units cannot develop or adopt or use an inflation rate multiplier other than 1.027 in 2012. It is not acceptable for Local units to indicate to taxpayers that you do not know how the multiplier is developed.

➤ **Inflation Rate Multiplier Used in the 2012 Capped Value Formula**

The inflation rate, expressed as a multiplier, to be used in the 2012 Capped Value Formula is 1.027.

The 2012 Capped Value Formula is as follows:

$$\mathbf{2012\ CAPPED\ VALUE = (2011\ Taxable\ Value - LOSSES) \times 1.027 + ADDITIONS}$$

The formula above does not include 1.05 because the inflation rate multiplier of 1.027 is lower than 1.05.

➤ **Inflation Rate Multiplier Used in 2012 "Headlee" Calculations**

The inflation rate multiplier of 1.027 shall ALSO be used in the calculation of the 2012 "Headlee" Millage Reduction Fraction required by Michigan Compiled Law (MCL) 211.34d. The formula for calculating the 2012 "Headlee" Millage Reduction Fraction (MRF) is as follows:

$$\mathbf{2012\ MRF = \frac{(2011\ Taxable\ Value - LOSSES) \times 1.027}{2012\ Taxable\ Value - ADDITIONS}}$$

- The following is a listing of the inflation rate multipliers used in the Capped Value and "Headlee" calculations since the start of Proposal A:

| | |
|------|-------|
| 1995 | 1.026 |
| 1996 | 1.028 |
| 1997 | 1.028 |
| 1998 | 1.027 |
| 1999 | 1.016 |
| 2000 | 1.019 |
| 2001 | 1.032 |
| 2002 | 1.032 |
| 2003 | 1.015 |
| 2004 | 1.023 |
| 2005 | 1.023 |
| 2006 | 1.033 |
| 2007 | 1.037 |
| 2008 | 1.023 |
| 2009 | 1.044 |
| 2010 | .997 |
| 2011 | 1.017 |
| 2012 | 1.027 |