michigan municipal league

A GUIDE TO REVENUE SHARING

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REVENUE SHARING KEEPS OUR **ECONOMIC ENGINES RUNNING**

Revenue sharing is one of two main components that fund the services residents demand from their local communities.

Michigan's municipalities are the backbone of Michigan's economy. Cities and villages receive revenue earmarked by the state constitution and statute to help pay for core governmental services such as, police protection, fire service, roads, water and sewer service, and garbage collection. Known as "revenue sharing," these funds are a primary source used to maintain the infrastructure and services that support the vast majority of our state's jobs.

Michigan's metropolitan areas account for 89% of the state's jobs and 88% of its gross domestic product.[1] In Michigan, 140 cities and villages support larger daytime population than resident base (think jobs!). And, 42 of those see their daytime population swell by more than 50%! The revenue sharing distribution formula was designed to appropriately compensate the communities that support us all and the higher costs they bear. The underlying philosophy behind statutory revenue sharing has been to reimburse municipalities for the loss of taxing authority. **Therefore, when that formula is underfunded, Michigan's entire economy suffers.**

A LOOK BACK AT THE HISTORY OF **REVENUE SHARING**

In 1939, an early instance of revenue sharing occurred when a state law removed intangible property from the local property tax base. A state intangibles tax was created and a method put in place to return funds to locals to help with lost revenues.

Since that time, additional state taxes such as the sales, income, and single business tax have been enacted, while the levy of local taxes has been pre-empted or eliminated. This has been done with a pledge from state officials that a portion of revenues raised from state taxes would be returned to locals — shared — for the provision of essential services.

UNDERSTANDING **CONSTITUTIONAL** AND **STATUTORY** PAYMENTS

Revenue sharing consists of both constitutional and statutory payments.

Constitutional payments: consist of 15% of gross collections from the 4% sales tax distributed to cities, villages, and townships based on their respective populations. This amount is set by the state constitution. The Legislature must appropriate whatever is calculated. It cannot reduce or increase the constitutional portion of revenue sharing.

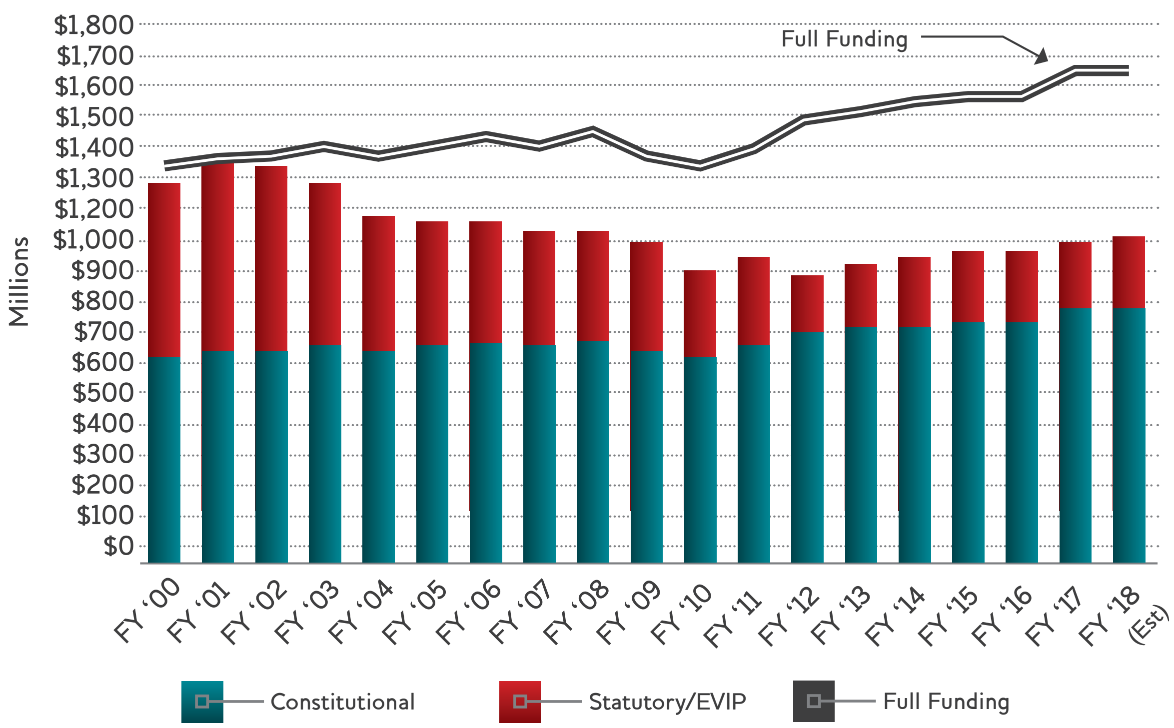
Constitutional payments to cities, villages, and townships grew by an average of only 1.27% per year from FY 2001/02 through FY 2017/18, less than the annual average inflation rate during the same period.

Statutory payments: have traditionally been distributed by a formula, rather than on a per capita basis. The formula is designed to compensate for the significant variation in local governments' service delivery needs, infrastructure maintenance requirements, and capacity to generate local tax revenue. This statutory program calls for 21.3% of the 4% sales tax collections to be distributed in accordance with language set in Public Act 532 of 1998.

The statutory payments that should have been phased in in 1998 were never fully implemented due to funding cuts. To the right, you will see the shortfalls in statutory revenue sharing to cities, villages, townships, and counties from 2001 through 2018 — a total loss of $8.6 billion.

In the graph below from the House Fiscal Agency, the massive shortfalls in statutory revenue sharing payments far outweigh the less than inflationary gains in constitutional revenue sharing payments.

Total Revenue Sharing Payments to Cities, Villages, and Townships



ANNUAL DIVERTED REVENUE SHARING

$54 M	2001/02
$147 M	2002/03
$276 M	2003/04
$506 M	2004/05
$543 M	2005/06
$541 M	2006/07
$589 M	2007/08
$531 M	2008/09
$528 M	2009/10
$517 M	2010/11
$680 M	2011/12
$670 M	2012/13
$668 M	2013/14
$606 M	2014/15
$608 M	2015/16
$606 M	2016/17
$612 M	2017/18

TOTAL DIVERTED $8.6 BILLION

IMPORTANT DATES IN MICHIGAN'S UNRESTRICTED REVENUE SHARING PROGRAM

1933
Unrestricted revenue sharing begins with liquor license tax collections.

1939
State shares intangibles tax collections to offset loss of intangible property tax from local tax base.

1946
Constitutional amendment passes to share one-half cent of state sales tax with cities, villages, and townships (CVTs).

1967
State shares 11.5% of new state income tax. Half is shared with counties; the other half is shared with CVTs.

1972
CVT income tax payments are now based on relative tax effort (RTE).

1975
State enacts single business tax and shares on RTE basis with CVTs. State begins reimbursement of local revenue sharing loss resulting from removal of business inventories from local tax base.

1991
State discontinues distribution of intangibles tax.

1996
State consolidates shared revenues from the income tax and single business tax into an expanded percentage of the sales tax. Past revenue reductions in statutory allocations are made permanent through the reduced sale tax percentage.

1998
State repeals statutory revenue sharing formulas and replaces them with new formulas with a ten-year phase-in period.

2011
State adds three criteria municipalities must meet to receive statutory funding, naming it the Economic Vitality Incentive Program (EVIO).

2011
Executive Order by Gov. Snyder reduces revenue sharing to CVTs by 33%.

2014
State legislature eliminates two of the three EVIP criteria.

REVENUE SHARING REDUCTIONS CUT DEEP

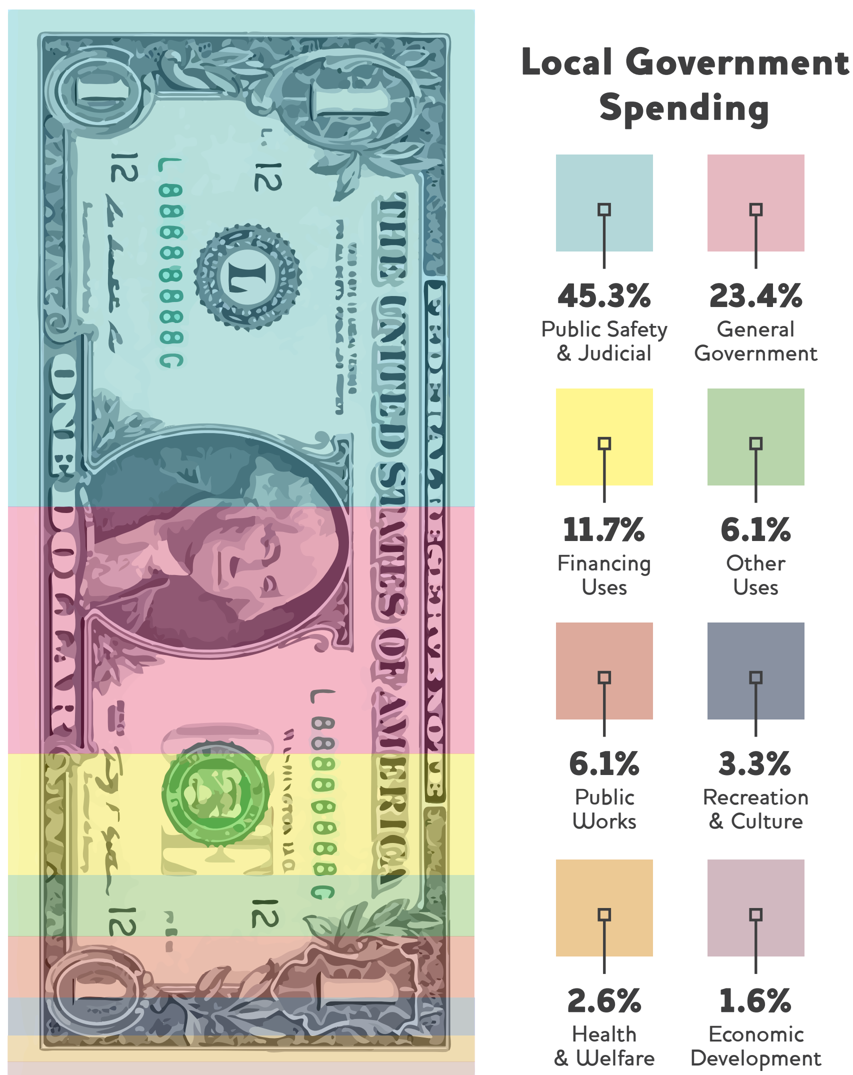
A Michigan Municipal League survey found cuts in revenue sharing have negatively impacted basic community services across Michigan.

Capital projects such as, street and sidewalk repairs, and sewer and water improvements have been postponed; recreation and library programs have been curtailed or eliminated.

Recent house fiscal agency testimony estimates that statutory revenue sharing is only about one-third of what is specified in law. In fact, statutory revenue sharing levels haven't even recovered from the 33% cuts made in 2011.

DID YOU KNOW?

Michigan lost 4,000 municipal law enforcement officers — a 22% decline — and the number of municipal firefighters dropped by 30% due to funding cuts between 2001 and 2016.[3]



Source: Michigan Department of Treasury, 2018 The Fiscal Health of Michigan's Local Government

[1]Source: RW Ventures, "Michigan's Metropolitan Areas Fact Sheet"
[2]The additional 2% sales tax created in 1994 is earmarked specifically for schools.
[3]Source: Michigan Commission on Law Enforcement Standards and Michigan Professional Firefighters Union