Revenue Sharing

History

Michigan cities, villages and townships 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," the distribution of these funds has been tied to several state taxes over the years. In 1939, the first 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 – revenue sharing – for the provision of essential services.

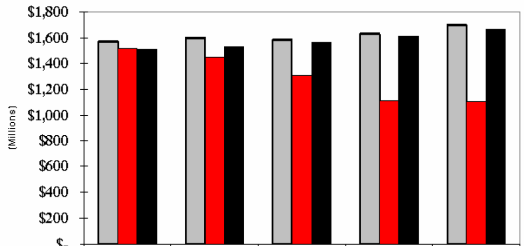
Distribution

Revenue sharing to local governments consists of both constitutional and statutory payments. The constitutional portion allocates for cities, villages and townships, 15% of gross collections from the first 4% of the sales tax. This amount is then distributed on a population basis[1]. This amount is fixed; in other words the legislature must appropriate whatever is calculated. It cannot reduce or increase the constitutional portion.

The statutory portion of revenue sharing has undergone dramatic changes. Today, the distribution formula calls for 21.3% of the first 4% of sales tax collections to be distributed in accordance with the formula set forth in Public Act 532 of 1998. Since state law sets the statutory portion, the governor and legislature have the ability to adjust the distributed amount; an ability they have used to the detriment of local units, especially during state revenue shortfalls. The actual formula has not been used in a few years.

According to available data filed by local units of government with the Department of Treasury in 2004, revenue sharing generally accounts for 19% of a city budget, 21% of a village budget and 35% of a township budget[2].

Total State Shared Revenue - Cities, Villages, Townships and Counties



	FY 01/02	FY 02/03	FY 03/04	FY 04/05	FY 05/06 *
Law	$1,571.3	$1,598.0	$1,580.6	$1,626.9	$1,699.5
Actual	$1,517.3	$1,451.4	$1,304.7	$1,112.6	$1,108.7
Inflation **	$1,507.0	$1,529.6	$1,564.8	$1,611.7	$1,660.1
Lost Rev. Sharing	$54 M	$146.6 M	$275.9 M	$514.3 M	$590.8 M

Note: For "Law" FY 01/02 through FY 04/05, amount calculated based on constitutional revenue sharing.

* Projected

** Inflation applied to FY 97/98 total state shared revenue based on Proposal A inflation factor 1.6% (98/99), 1.9% (99/00), 3.2% (00/01), 3.2% (01/02), 1.5% (02/03), 2.3% (03/04), 3.0% est. (04/05), 3.0% est. (05/06)

Funding

If fully funded, statutory revenue sharing payments to local units in 2007 would be approximately $963 million. Instead, only about $406 million is being allocated to local communities. To make matters worse, the total amount allocated for revenue sharing payments (constitutional and statutory) for 2007 was frozen. Unfortunately, this freeze actually has the net effect of reducing statutory payments. This is because as sales tax revenues continue to increase, the constitutional portion is required to be increased. Therefore, in order to effectuate a "freeze" on the total amount of revenue sharing, statutory payments must be decreased. As can be seen in Figure 1, between Fiscal Years 2002 and 2006, statutory revenue sharing was cut by more than **$1.5 billion**. This amounts to 38% of all general fund

[1] Article IX, Section 10; 1963 Michigan Constitution

[2] Department of Treasury, F-65 forms

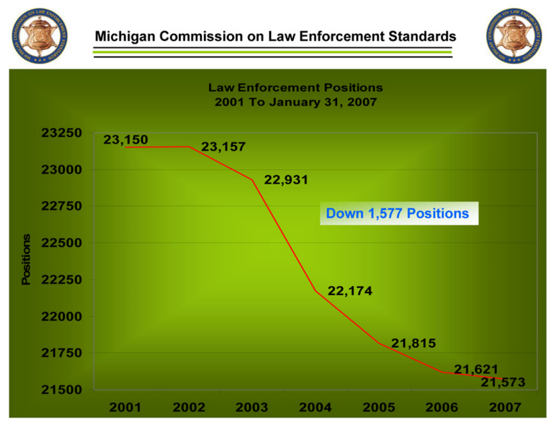
cuts made by the state during that time[3]. The enacted allocation for 2007 reduces statutory revenue sharing another $558 million, putting the total amount of revenue sharing losses during the past five years at over $2 billion.

Impact

A 2005 Michigan Municipal League survey found cuts in revenue sharing have negatively impacted communities 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. Recently, the City of Grand Rapids reported that revenue sharing cuts account for 2/3 of its overall budget deficit and projections show that in the next few years, any additional cuts in revenue sharing could account for 98% of the city's deficit.

Perhaps even more startling is that, according to the Michigan Commission on Law Enforcement Standards, there are nearly 1,600 fewer police officers on the streets of Michigan since the tragedy of September 11, 2001. Similarly, the state's Fire Marshal Office reports 2,400 fewer firefighters over the same time period.

As Michigan seeks to move forward toward better economic days, policy makers must take into consideration the financial health of our communities. Just like economic incentives, revenue sharing must be thought of as an investment, an investment in local communities that helps to attract and retain jobs by providing services that create a high quality of life.



[3] State Budget Office, Department of Treasury and Citizens Research Council