State Revenue Sharing

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Topics to be Discussed

- Revenue Sharing Overview
- Constitutional Revenue Sharing
- Statutory Revenue Sharing
- Economic Vitality and Incentive Program (EVIP)
- CVT Revenue Sharing
- County Revenue Sharing

Revenue Sharing Overview

Revenue Sharing Overview

- There are 280 cities, 253 villages, and 1,240 townships (CVTs) in Michigan, along with 83 counties.
- Seventeen cities and 11 villages span across county lines and therefore have population and/or taxable value in more than one county.
- Article IX, section 30 of the state constitution requires that 48.97% of state spending from state sources be paid to all units of local government, and state revenue sharing payments represent the largest unrestricted portion of that requirement for CVTs and counties.
- State revenue sharing payments have traditionally been comprised of two components:
    - Constitutional revenue sharing payments, which are distributed to cities, villages, and townships on a per capita basis.
    - Statutory revenue sharing payments, which have generally been distributed to all CVTs and counties, although various changes over the past decade have significantly reduced the number of eligible local units.

Constitutional Revenue Sharing

Constitutional Revenue Sharing

- Constitutional revenue sharing began in 1946 when the constitution was amended to provide that one-half cent of the 3% sales tax (16.7%) would be dedicated to CVTs (but not counties) on a per capita basis.
- In 1961 the constitution was amended to increase the sales tax to 4%. Because the revenue sharing earmark remained at one-half cent, the percentage of sales tax revenue dedicated to revenue sharing declined to 12.5%.
- The state constitution of 1963 continued the 12.5% earmark.
- The constitution was amended in 1974 to increase the earmark to 15% of sales tax collections.
- Even though voters approved an increase in the sales tax rate to 6% in 1994, constitutional revenue sharing payments are still calculated based on the first 4% since the 2% increase is constitutionally dedicated to the School Aid Fund.

Constitutional Revenue Sharing

- While the constitution mandates that the distribution be made on a per capita basis, the revenue sharing act (1971 PA 140) specifies that population shall be determined by the most recent decennial census.
- Although the general government budget contains an appropriation for constitutional revenue sharing, the final distribution will depend on actual sales tax collections and will likely vary from the appropriation.
- Constitutional revenue sharing payments are issued by the Department of Treasury at the end of October, December, February, April, June, and August of each state fiscal year based on actual sales tax collections from the prior two months.

Constitutional Revenue Sharing Payments to Cities, Villages, and Townships

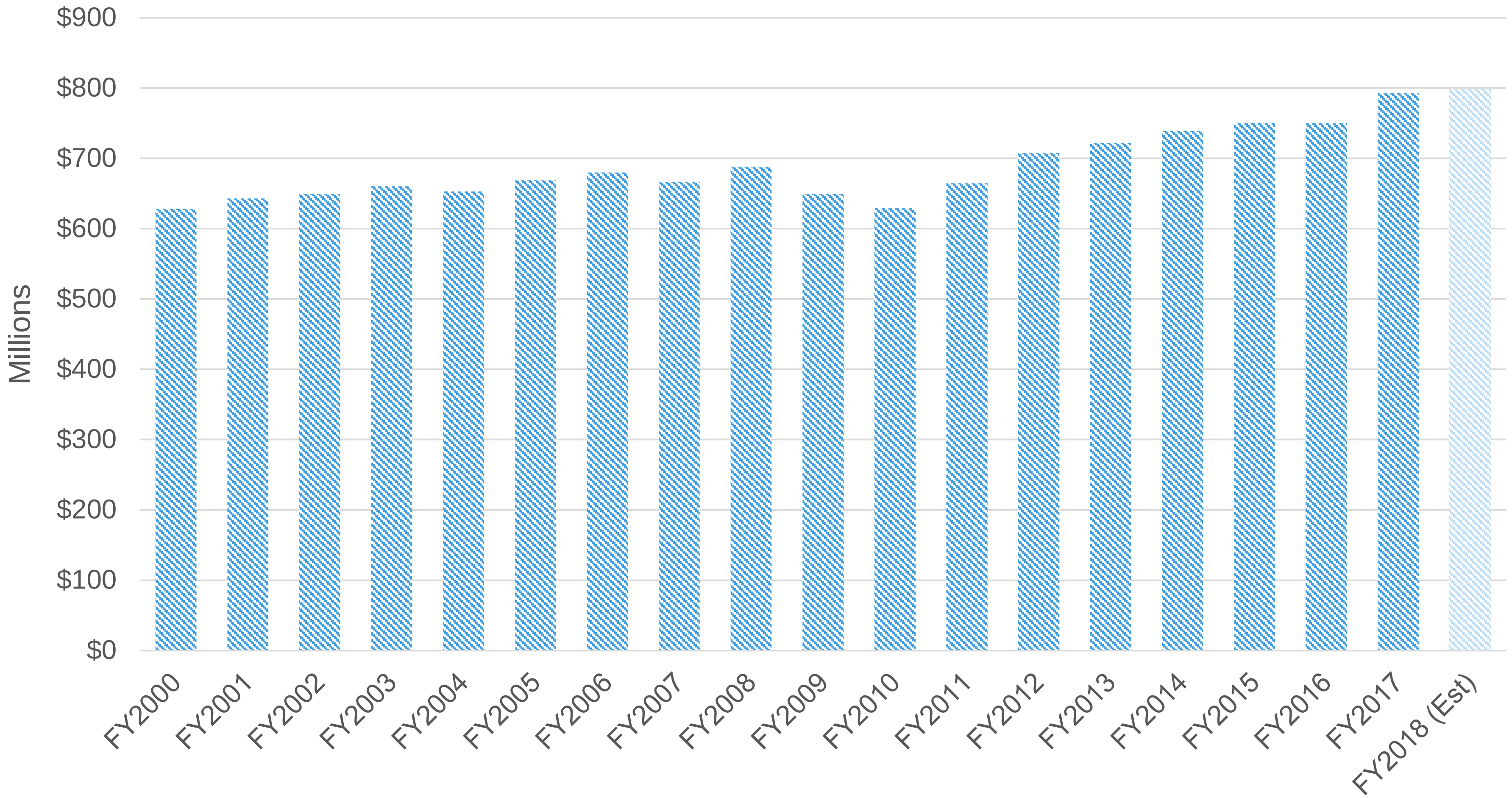
$ in Millions

	Final FY 2015-16	Final FY 2016-17	Estimated FY 2017-18
Constitutional Revenue Sharing Payments	$750.0	$793.2	$798.1
Detroit	54.2	57.4	57.7
Other CVTs	695.7	735.8	740.4
Cities (280)	366.0	387.1	389.5
Villages (253)	20.3	21.5	21.6
Townships (1,240)	363.6	384.6	387.0

Notes

1) Dollar amounts may not sum to the total shown due to rounding.
2) Because constitutional revenue sharing payments are based on actual sales tax collections, FY 2017-18 amounts are estimated using the May 2017 Consensus Revenue Estimating Conference sales tax projections.

Constitutional Revenue Sharing Payments to Cities, Villages, and Townships



Statutory Revenue Sharing to Cities, Villages, and Townships

Statutory Revenue Sharing to Cities, Villages, and Townships

- The underlying philosophy behind statutory revenue sharing has been to reimburse CVTs for the loss of taxing authority.
- Statutory revenue sharing began with the repeal of prohibition in 1933 when 85% of liquor license fees were returned to local units.
- The Michigan intangibles tax was established in 1939 to offset elimination of intangible property from the local property tax base. CVTs initially received 66.7% of the revenue, although beginning in 1951 the amounts were subsequently capped. The intangibles tax was phased-out effective January 1, 1998, although FY 1991-92 was the last year in which revenue from the intangibles tax was appropriated for revenue sharing.
- When the Single Business Tax (SBT) was enacted in 1975, inventories were exempted from the personal property tax. To compensate for the reduction in the tax base, a portion of SBT revenue was earmarked to CVTs to hold them harmless for the loss.

Statutory Revenue Sharing to Cities, Villages, and Townships

- By the late 1990s, portions of the sales tax, income tax, and single business tax were earmarked for statutory revenue sharing.
- The revenue sharing act was amended in 1996 (1996 PA 342) to specify that these funding sources would be replaced with 21.3% of sales tax revenue collected at the 4% rate.
- Because the earmark is only a guideline and statute cannot mandate an appropriation, statutory revenue sharing has typically not been fully funded.

Statutory Revenue Sharing to Cities, Villages, and Townships

- 1996 PA 342 also established a bipartisan revenue sharing task force to investigate potential new revenue sharing distribution formulas.
- From the early 1970s through 1996, statutory revenue sharing was distributed according to a CVT's relative tax effort (RTE), which was the amount of revenue raised by each CVT compared to the statewide average.
- The result of the bipartisan task force was 1998 PA 532, which implemented new distribution formulas. Under 1998 PA532, full funding for statutory revenue sharing to CVTs was defined as 74.94% of 21.3% of sales tax revenue at the 4% rate.

Statutory Revenue Sharing to Cities, Villages, and Townships

- Boilerplate in the General Government appropriations bill specified both the constitutional and statutory amounts, which established the overall total revenue sharing appropriation.
- If constitutional payments exceeded the appropriated amount due to higher than estimated sales tax collections, the statutory distributions were reduced accordingly so as not to exceed the appropriated total amount. As a result, statutory revenue sharing would be underfunded.
- If constitutional payments were less than the appropriated amount due to lower than estimated sales tax collections, there was no provision to increase statutory distributions to maintain the appropriated total. As a result, total revenue sharing could fall well below the appropriated amount.
- Because both the constitutional and statutory amounts were dependent on actual sales tax collections, the final distributions were a moving target throughout the year. This created uncertainty for CVTs.

Statutory Revenue Sharing to Cities, Villages, and Townships

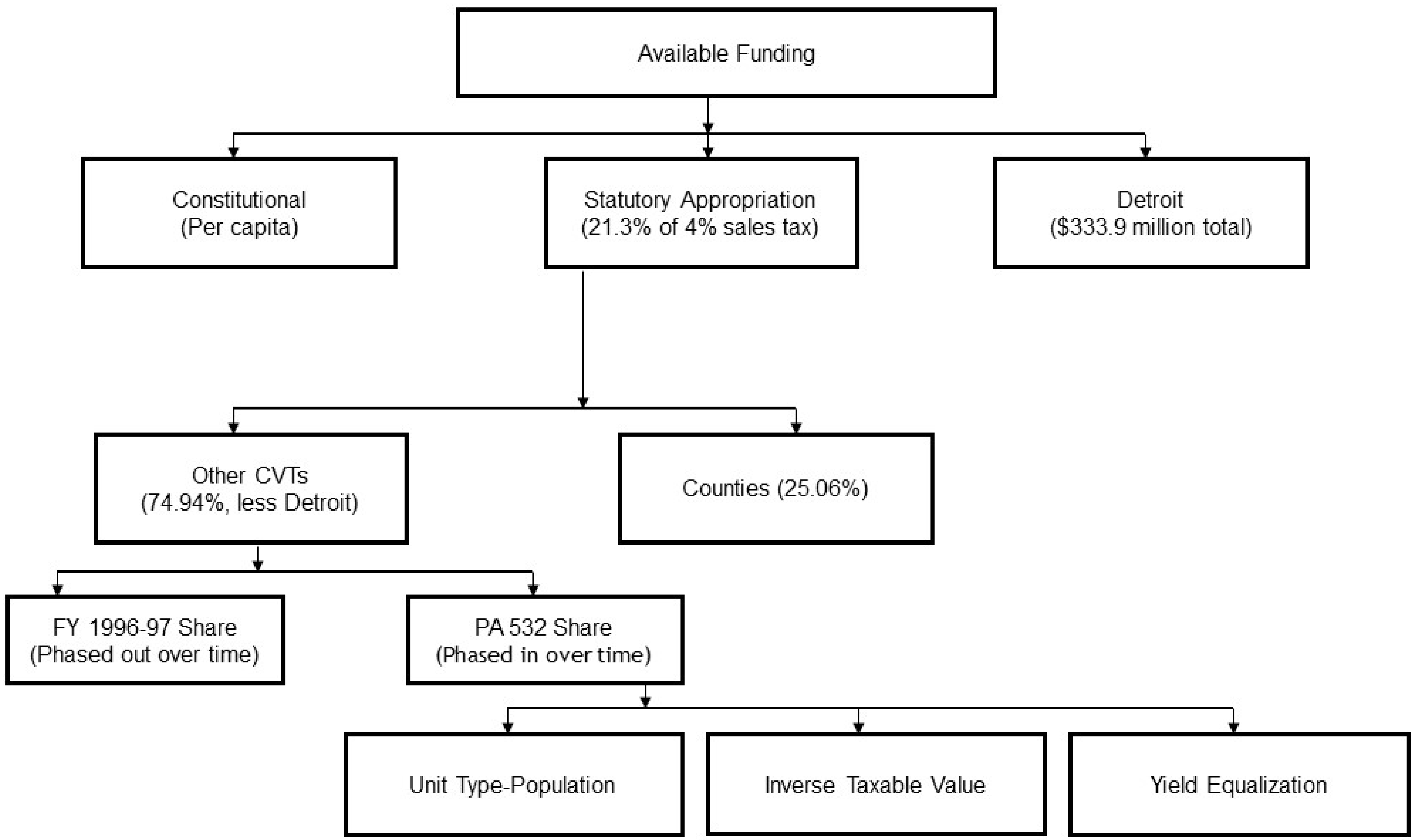
- Detroit was to receive annual revenue sharing payments of $333.9 million (constitutional plus statutory) through FY 2006-07.
- The remaining amount was to be distributed according to three new formulas which were implemented in FY 1998-99, and were to be phased in over a 10-year period.
- In FY 1998-99, 90% of the available amount was distributed to CVTs in the same proportion as their FY 1996-97 payments. The remaining 10% was distributed under the three new formulas.
- In FY 1999-00, 80% of the available amount was distributed to CVTs in the same proportion as their FY 1996-97 payments and the remaining 20% was distributed under the three new formulas.
- In FY 2006-07, 10% of the available amount was distributed to CVTs in the same proportion as their FY 1996-97 payments and the remaining 90% was distributed under the three new formulas.
- The formulas sunsetted after FY 2006-07.

Statutory Revenue Sharing to Cities, Villages, and Townships

- The 1998 PA 532 distribution formulas were as follows:
  - Unit Type-Population
    - Each CVT's population was weighted according to its unit type (city, village, or township) and population. Cities and larger townships received higher weights, and received larger portions of the funding distributed under the formula.
  - Inverse Taxable Value
    - Each CVT's per capita taxable value was compared to the statewide average. Those CVT's with relatively lower per capita taxable values received larger portions of the funding distributed under the formula.
  - Yield Equalization
    - The formula equalized returns for each mill of property taxes levied within a CVT, up to 20 mills. Only about half of the CVTs received a yield equalization payment.

Statutory Revenue Sharing to Cities, Villages, and Townships

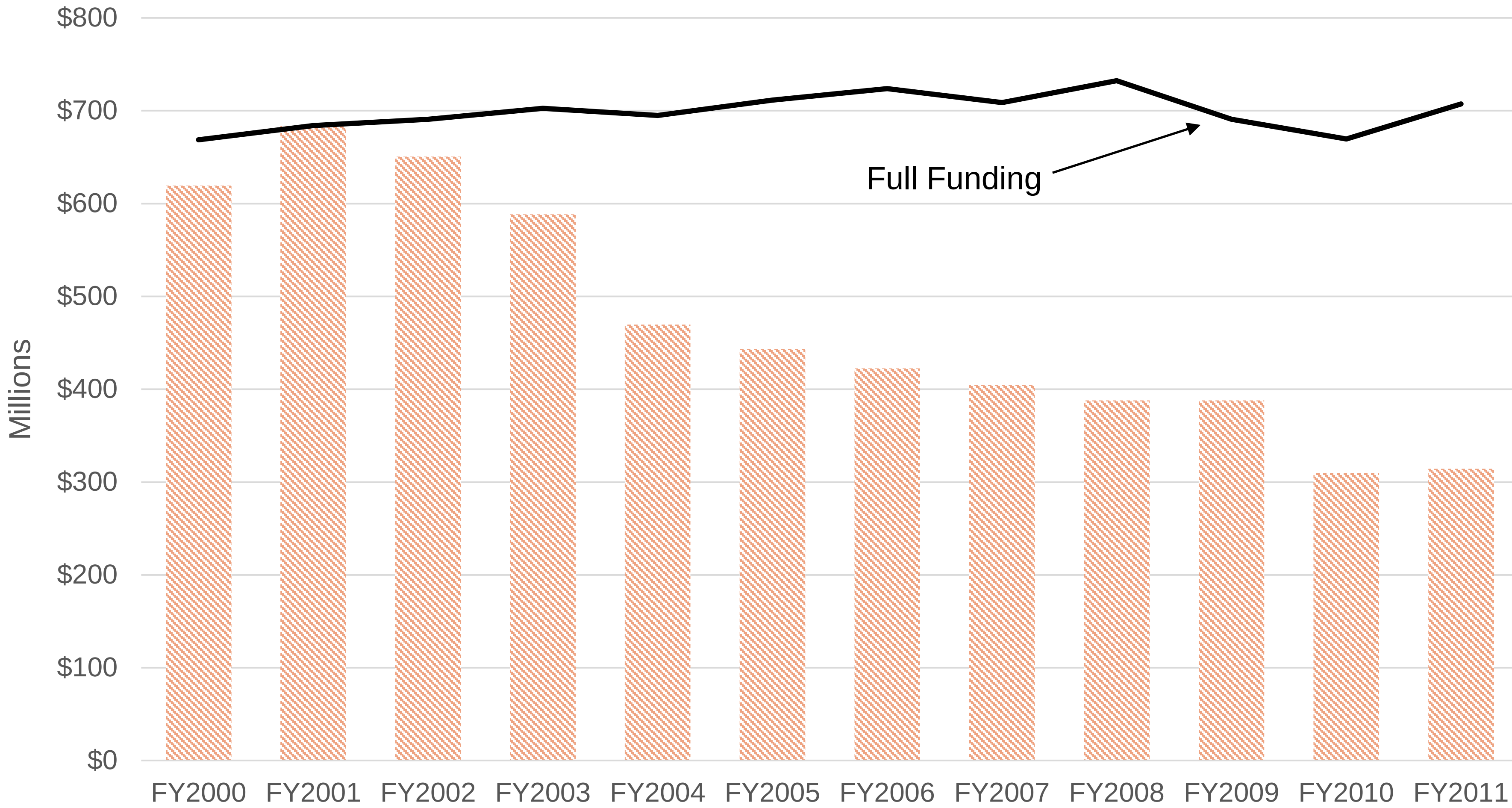
Distribution of Revenue Sharing Payments Under 1998 PA 532



Statutory Revenue Sharing to Cities, Villages, and Townships

- Between FY 1998-99 and FY 2001-02, statutory revenue sharing payments followed the provisions of 1998 PA 532, although the appropriation typically did not ensure full funding.
- Executive Order 2002-22 reduced statutory revenue sharing payments by $53.1 million. Rather than distribute the reduced amount using the formulas, total payments (constitutional plus statutory) for all CVTs (including Detroit) were reduced by 3.5%.
- Although they remained in statute, the distribution formulas were never used again. Between FY 2003-04 and FY 2010-11, statutory revenue sharing to CVTs was distributed according to a specified percent change relative to a CVT's prior year's total payment.
- Because actual appropriations over this period were routinely below the full funding guideline, between FY 2004-05 and FY 2010-11, reductions in funding eliminated statutory revenue sharing payments for 1,033 CVTs.
- Only 740 CVTs received statutory revenue sharing in FY 2010-11, the last year in which such payments were made.

Statutory Revenue Sharing Payments to Cities, Villages, and Townships



Economic Vitality and Incentive Program

Economic Vitality and Incentive Program

- The Economic Vitality and Incentive Program (EVIP) replaced statutory revenue sharing beginning in FY 2011-12, although it only existed in boilerplate. EVIP was never been codified into statute, and statutory revenue sharing has never been repealed.
- A CVT's EVIP payment was contingent on fulfilling requirements in such areas as Accountability and Transparency, Consolidation and Collaboration, Employee Compensation Issues, and Reducing Unfunded Liabilities.
- $314.3 million was distributed in FY 2010-11 as statutory revenue sharing. That amount was reduced to $209.7 million in FY 2011-12.
- Due to limited funding, the number of CVTs eligible for EVIP funding decreased from 740 during the final year of statutory revenue sharing to 486 CVTs when EVIP was initiated. Eligible CVTs received approximately 67.8% of their FY 2009-10 statutory revenue sharing payments.

CVT Revenue Sharing

CVT Revenue Sharing

- For FY 2014-15, the majority of the EVIP compliance requirements were eliminated, leaving only Accountability and Transparency, and the program name was changed from EVIP to CVT revenue sharing in boilerplate.
- A CVT that was eligible for EVIP payments in prior years was eligible to receive the greater of 78.51% of its FY 2009-10 statutory payment or a payment of $2.65 per person.
- CVTs with populations in excess of 7,500 that had not previously been eligible for EVIP payments were eligible for a payment of $2.65 per person. 101 additional CVTs qualified under this provision.
- CVTs with populations less than 7,500 that had not previously been eligible for EVIP payments continued to be ineligible.
- The same FY 2014-15 provisions were extended for FY 2015-16 and FY 2016-17. Funding was increased by $6.2 million for FY 2017-18, with the additional funding distributed on a per capita basis.

CVT Statutory Revenue Sharing Payments to Cities, Villages, and Townships

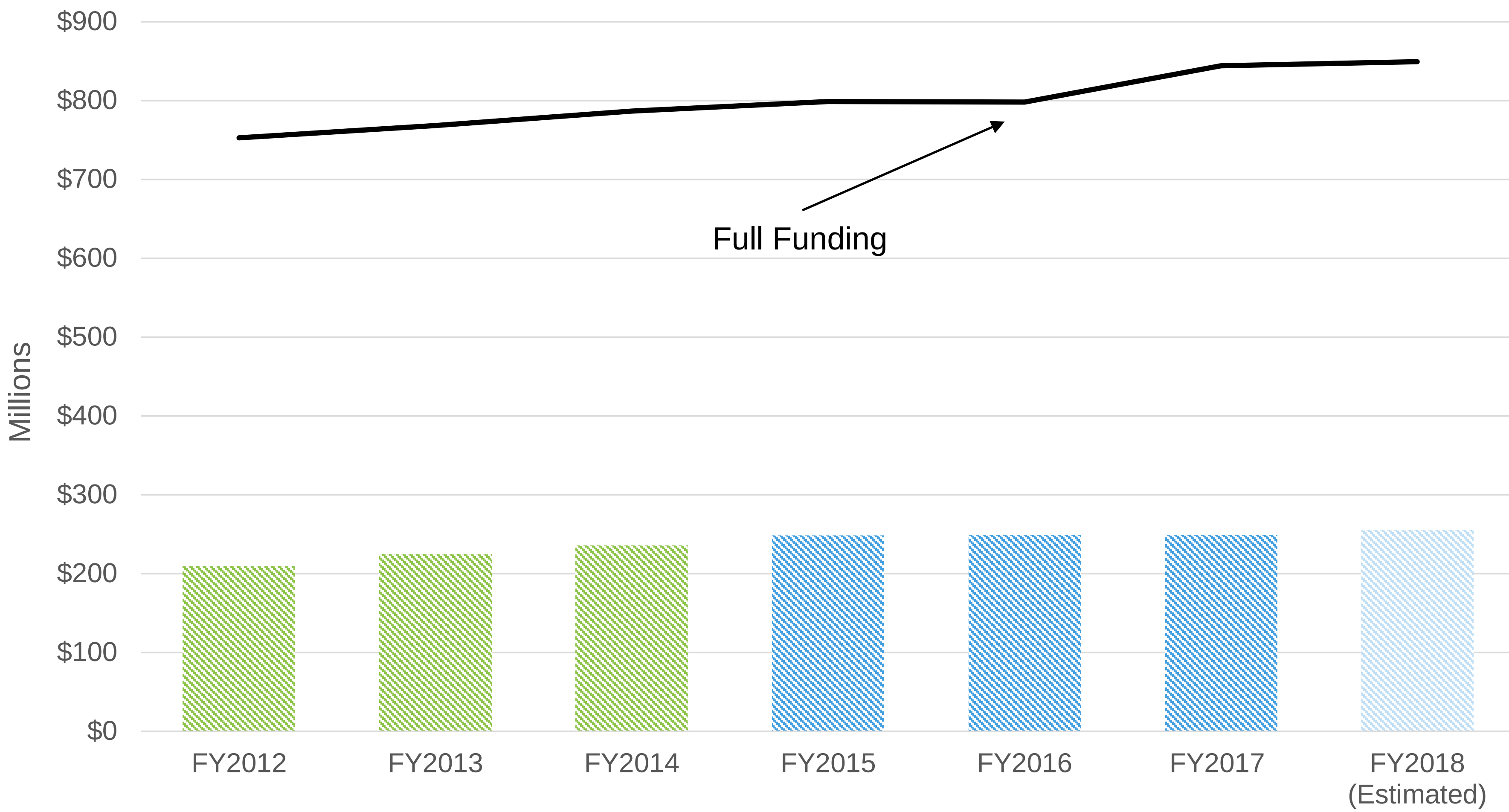
$ in Millions

	Final FY 2015-16	Final FY 2016-17	Estimated FY 2017-18
CVT Statutory Revenue Sharing Payments	$248.8	$248.6	$255.0
Detroit	140.5	140.5	141.0
Other CVTs	108.3	108.1	114.0
Cities (274)	234.6	234.5	238.5
Villages (179)	3.5	3.5	3.8
Townships (134)	10.6	10.6	12.7

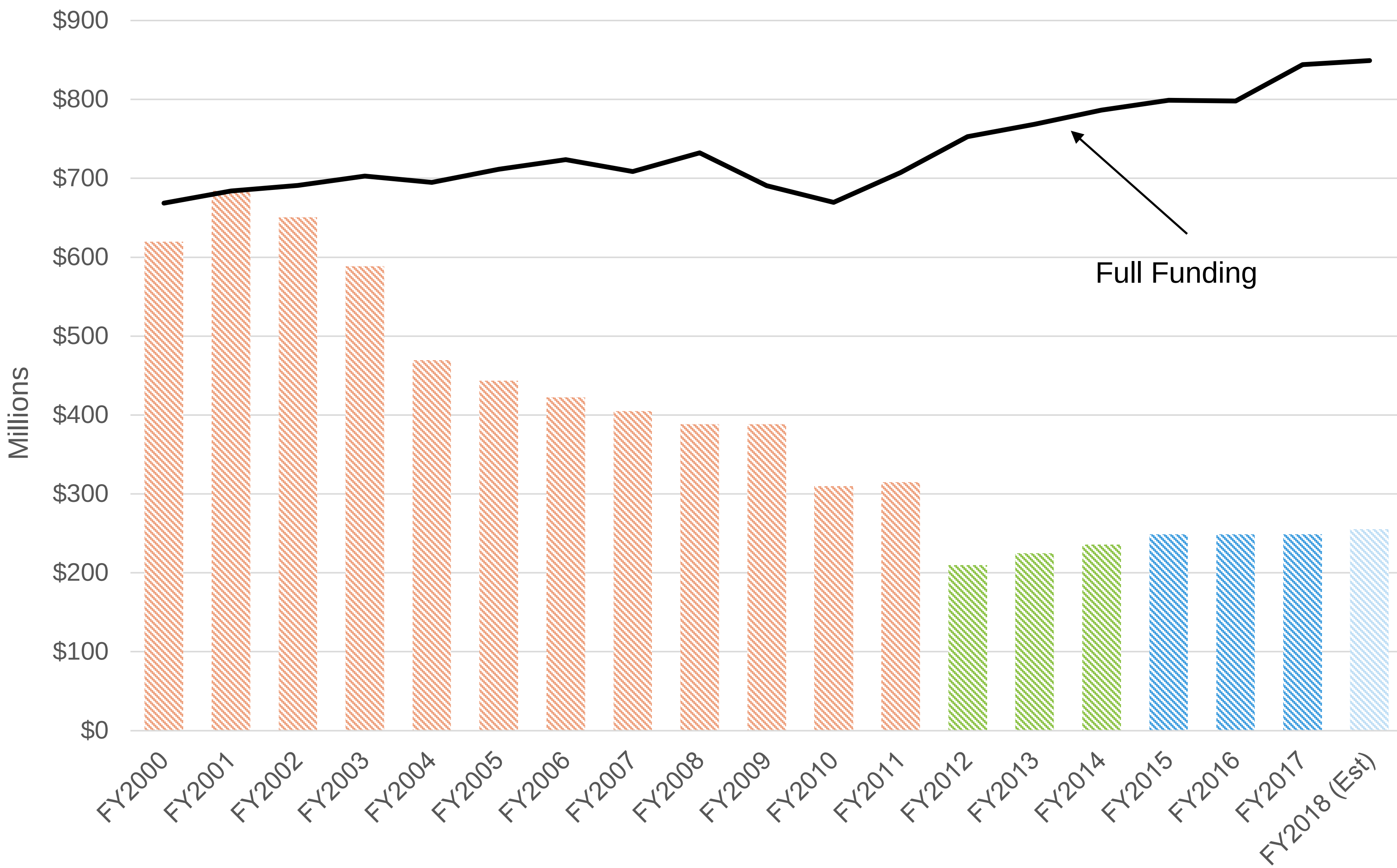
Notes

1) Dollar amounts may not sum to the total shown due to rounding.
2) CVT Revenue Sharing payments for FY 2017-18 are based on the appropriations contained in 2017 PA 107.

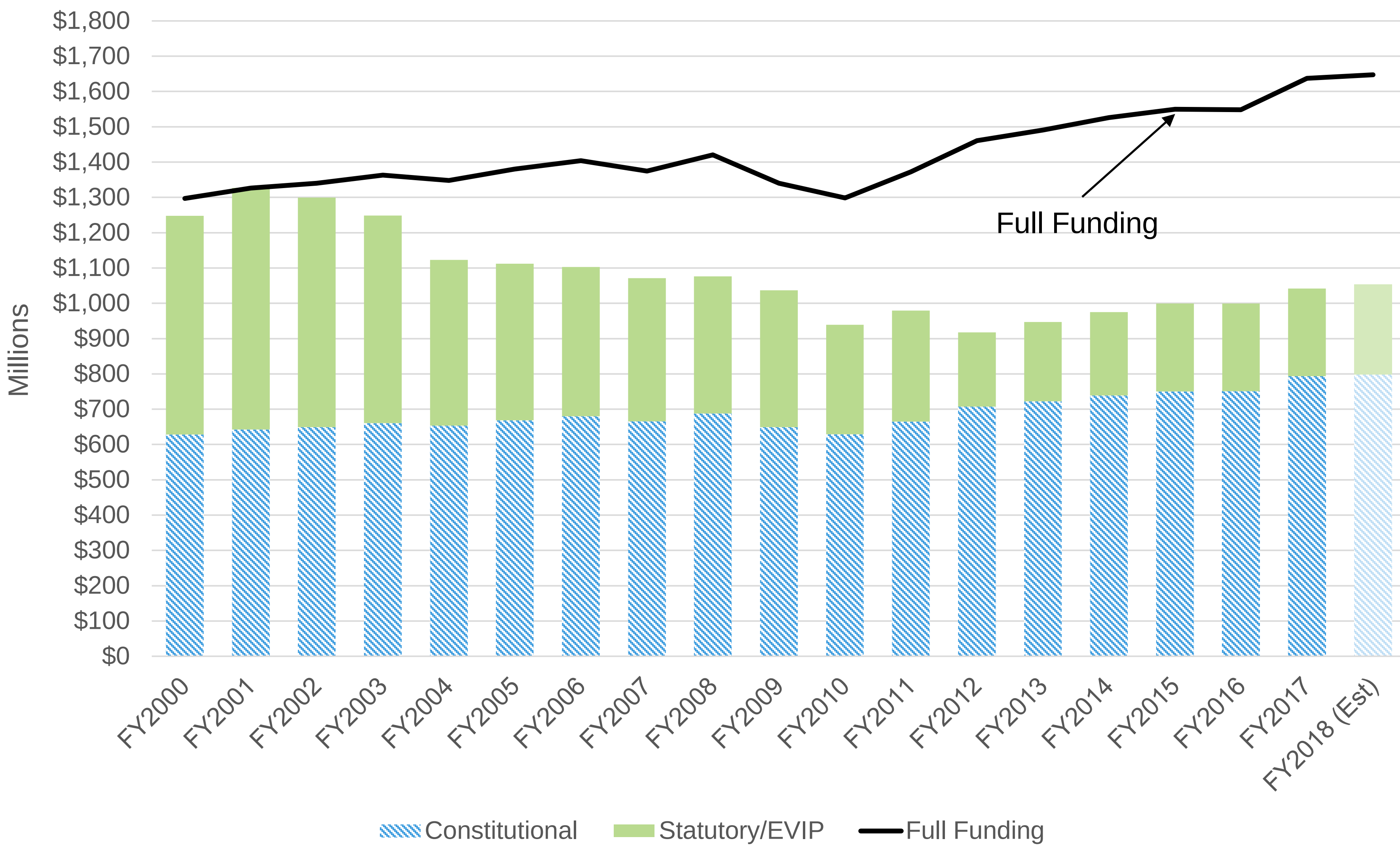
EVIP and CVT Revenue Sharing Payments to Cities, Villages, and Townships



Statutory, EVIP, and CVT Revenue Sharing Payments to Cities, Villages, and Townships



Total Revenue Sharing Payments to Cities, Villages, and Townships



Total Revenue Sharing Payments to Cities, Villages, and Townships

$ in Millions

	Final FY 2015-16	Final FY 2016-17	Estimated FY 2017-18
Total Revenue Sharing Payments	$998.7	$1,041.8	$1,053.1
Detroit	194.7	197.8	198.8
Other CVTs	804.0	843.9	854.4
Cities (280)	600.7	621.6	628.0
Villages (253)	23.9	25.0	25.4
Townships (1,240)	374.2	395.1	399.7

Notes

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3) CVT Revenue Sharing payments for FY 2017-18 are based on the appropriations contained in 2017 PA 107.

County Revenue Sharing

County Revenue Sharing

- Counties do not receive constitutional revenue sharing payments.
- The State Revenue Sharing Act of 1971, as amended by 1998 PA532, defined full funding for statutory revenue sharing to counties as 25.06% of 21.3% of sales tax revenue at the 4% rate.
- Statutory revenue sharing payments to counties were generally distributed on a per capita basis, although a portion was based on single business tax revenue that had been earmarked to counties as repayment for making inventories exempt from the personal property tax.
- As with CVTs, actual appropriations for statutory revenue sharing to counties were routinely below the full funding guideline.
- When the revenue sharing act was amended in 2004 to suspend county revenue sharing, the statutory earmark no longer applied going forward.

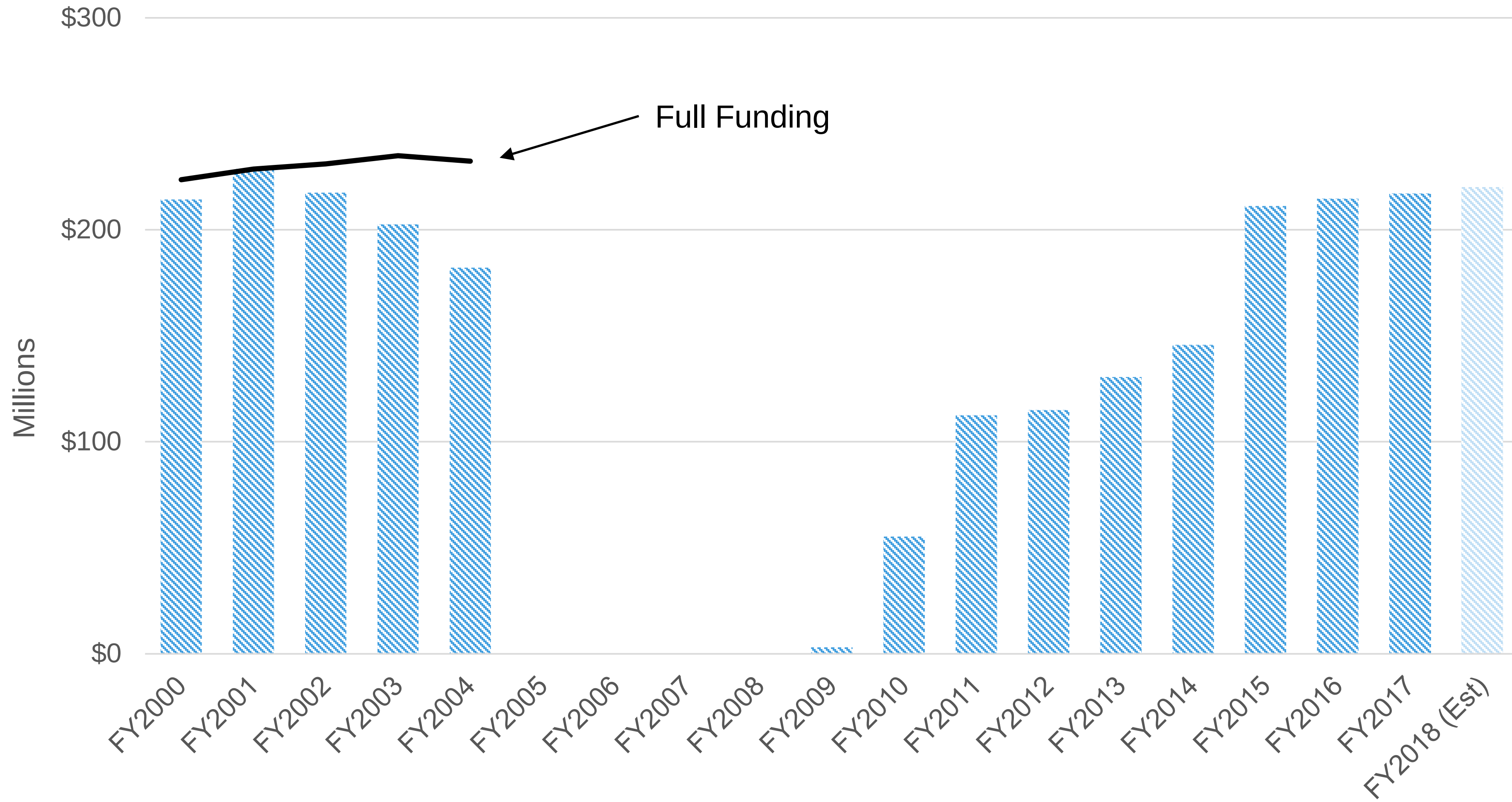
County Revenue Sharing

- Statutory revenue sharing payments to counties were temporarily suspended beginning in FY 2004-05.
- Counties were required to create reserve funds with own-source general operating revenue from which they were allowed to withdraw an annual amount in lieu of statutory revenue sharing.
- The annual authorized withdrawal for each county was its FY 2003-04 payment, adjusted for inflation.
- When a county's reserve fund balance is exhausted, it will again be eligible for statutory revenue sharing payments equal to its final authorized withdrawal amount. Additional inflation adjustments will not be applied.
- Beginning in FY 2013-14, 20% of a county's revenue sharing payment became subject to the County Incentive Program (CIP), which imposed the same transparency and accountability requirements as EVIP.

County Revenue Sharing

- In FY 2016-17 and FY 2017-18, an estimated 78 counties will receive statutory revenue sharing payments, leaving only five counties with positive reserve fund balances.
- Additional funding of $2.1 million was appropriated in FY 2016-17 to provide counties with a 1% increase.
- Total funding for FY 2017-18 includes an increase of $634,400 to provide full payments for Alcona and Charlevoix counties as well as an additional 1% increase for all eligible counties.
- Three additional counties are expected to be eligible in 2019 (Antrim, Keweenaw, and Mackinac), one in 2021 (Leelanau), and one in 2023 (Emmet).
- When all 83 counties are restored to state revenue sharing, the full funding amount is expected to be about $218.0 million, or about $2.0 million less than the appropriation for FY 2017-18.

State Revenue Sharing Payments to Counties



For more information about state revenue sharing:

HFA website

http://www.house.mi.gov/hfa/

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