# History of State Revenue Sharing

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# Citizens Research Council of Michigan

- Founded in 1916
- Statewide
- Nonpartisan
- Private not-for-profit
- Promotes sound policy for state and local governments through factual research
- Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals

# Importance of State Payments

- 1995 – 56% of local government revenue in Michigan raised by the state
- 1/3 of local government revenue from the states on average in U.S.
- Only New Mexico did more
- Reflected state school aid

# State Distributor of Revenues

- **>60% of revenues raised directly by the state were paid to local governments and other entities**
  - ~7% paid to universities
- **Local government payments for public education, mental health services, transportation, courts, and unrestricted revenue sharing**
  - >13% unrestricted in Michigan
  - ~8% nationwide

# Objectives of Revenue Sharing

- Improving the overall state and local tax structure
- Promoting economic development
- Maintaining acceptable levels of government services from community to community

# Improving Tax Structure

- **Diversifies local tax structure**
  - Should improve equity and stability of the tax base and revenue structure
- **Increases equity and efficiency of collections**
  - State better collector of tax than local governments
- **State revenues promote local property tax relief**
- **Improves administrative efficiency for governments and taxpayers**

# Promoting Economic Development

- By promoting local property tax relief, differences between units are lessened
- Allows local governments to use revenues to meet their needs

# Service Maintenance

- **Preempt local governments from levying a tax**
  - Share revenues in exchange for local support
- **Exempt property from taxation**
  - Compensate with revenues from another tax
- **Insure a minimal level of basic local services**
  - Equalize the ability of local governments to provide those services

# Intangibles Tax

- **Pre-1939 – intangible property (stocks, bonds, etc.) taxed as part of the General Property Tax Act**
  - Lack of information to properly assess value
  - Not uniformly assessed across CVTs
- **1939 - Intangible property exempted from GPTA and replaced with state tax**

# Intangibles Tax (continued)

- **2/3 of revenues returned to CVTs on a per capita basis**
- **No effort to match state revenues to:**
  - Those that were taxing before
  - Those where intangible property was owned
- **Increased to 100% distribution for short period**
  - Frozen at $11 million from 1951-57
  - Frozen at $9.5 million 1958-98 with some exceptions (8% of total state intangibles tax revenues when ended)
- **1991 state discontinued distribution**

# Sales Tax

- **1933 state property tax reduced to free available millage for local governments**
- **Sales tax enacted to provide revenues for state government**
- **1946**
  - State coffers flush post WWII
  - Some local governments financially challenged

# Sales Tax (continued)

- **Municipal League champions constitutional amendment to share sales tax revenues with local governments on per capita basis**
- **1946 – 1/6 of 3% tax**
- **1963 – 1/8 (12.5%) of 4% tax**
- **1974 – 15% of 4% tax**
  - (exempted food and drugs)

# Income Tax

- **1961 – Detroit and Hamtramck begin levying city income taxes**
- **1964 – state Uniform City Income Tax Act enacted**
- **1967**
  - 8 cities levying city income taxes
  - Other cities considering enactment
  - State working on plan to levy state income tax
- **Concern of preempting cities from levying local taxes**

# Income Tax (continued)

- **Initial distribution – 17% of net collections (11.5% of gross) of 2.6% tax distributed on per capita basis**
  - ½ to counties
  - ½ to CVTs
- **Distributions changed over time**
  - Percent of revenues shared
  - Split between counties (less) and CVTs (more)

# Relative Tax Effort

- **Introduced in 1971**
- **Attempt to have dollars follow need**
- **Local Tax Effort**
  - Property taxes
  - Income taxes
  - Utility Users excise tax
  - Ad valorem special assessment
  - All translated to mills
- **Divided by the statewide tax effort rate**

# RTE (continued)

- **Positives**
  - Reflect needs in the community
  - Ability to raise revenues to support services
  - Willingness to tax themselves to pay for their government
- **Negatives**
  - Perceived to encourage higher taxes
  - Sent money to cities (especially older core cities) while general out-migration occurring from these cities

# Single Business Tax

- **Enacted in 1975 to replace 8 state and local taxes on businesses**
  - Including inventories as part of GPT Act
- **CVTs share in growth of SBT revenue using RTE formula**
- **CVTs, counties, authorities reimbursed for loss of tax bases**
- **Reimbursement continued until replaced**
  - Tax rate levied last year x SEV of inventory property in 1975
  - Over time – no relationship to inflation, economic changes, variations in growth

# USRS Funding

- **Distributions subject to vagaries of state budget cycles**
- **Payments reduced and/or eliminated during recessions**
- **1993 - 53% of CVTs received more state revenue sharing than collected in local taxes**
- **RTE grew very unpopular**
  - Benefited cities more than villages and townships at a time people were moving out of cities and away from SE Michigan

# 1998 Amendment to USRS Act

- Townships and villages gained, cities lost
- Extremely complicated formulae
- Phase in designed to protect against abrupt changes
- Formulas expired on June 30, 2006

# 1998 Amendment

- **Shifted from intangibles, income, SBT to 21.3% of sales tax revenues at 4% tax rate**
  - (~14% of all sales tax revenues)
- **10 year phase-in**
  - With provisions to account for 2000 Census
  - Phasing out 2 pre 1998 formulas while phasing in 3 new ones = complicated system
- **Detroit allocation frozen**
  - Deal for city to lower city income tax rate

# 3 New Formulae

## 1. Unit Type Population Weighting

- Service delivery costs a function of the type of unit and population size
- Weights increase as population increases
- Weights progressively higher for given population as type moves from township to village to city

# 2. Taxable Value per Capita Weighting

- **Provide greater state support to units with smaller per capita tax bases**
  - State average taxable value per capita
  - x the unit's population
  - = weighted population

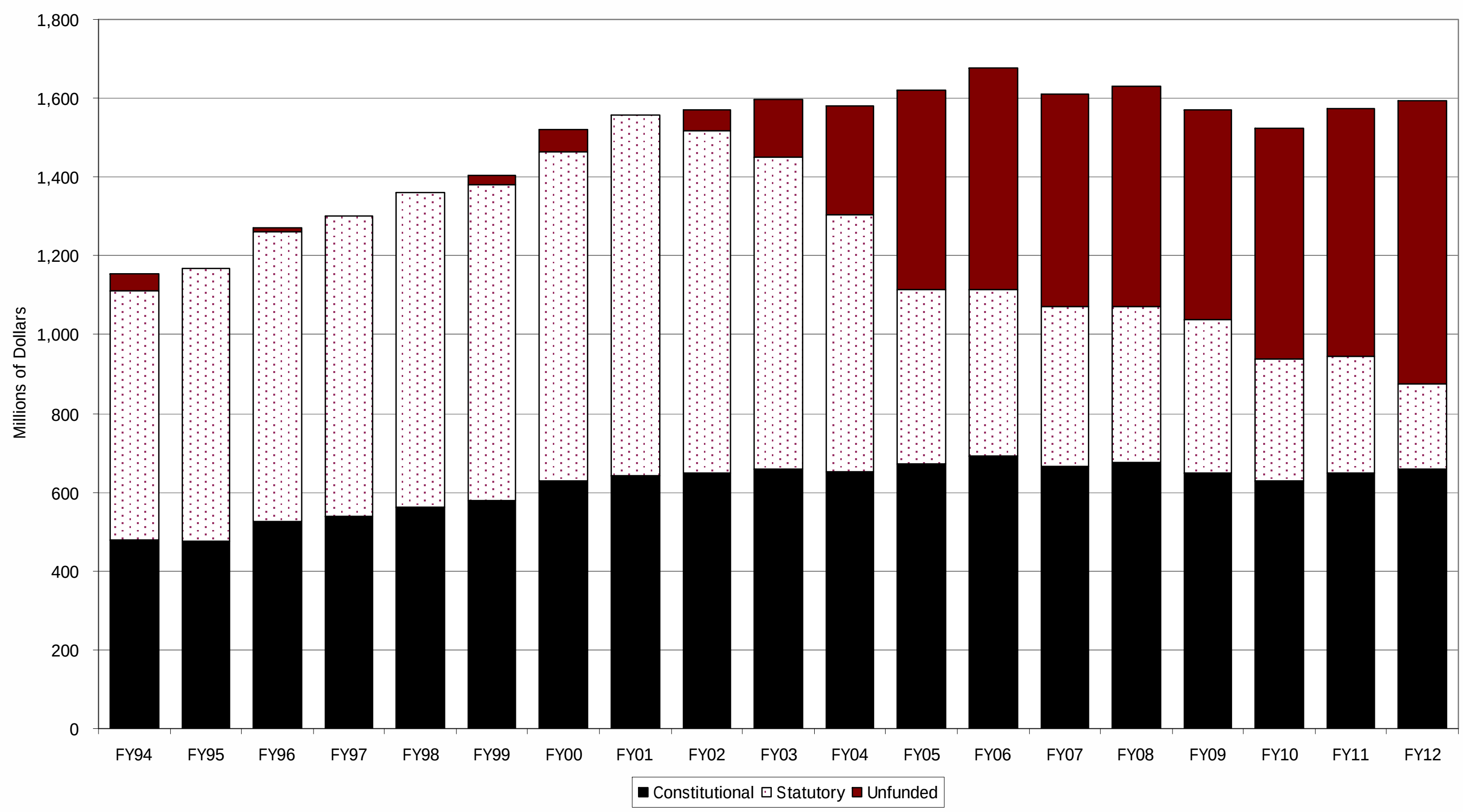
# 3. Yield Equalization

- **Create a minimum guarantee on combined state and local revenue per mill of tax levy**
- **Amount necessary to guarantee the total revenue proceeds from each mill of local tax effort is computed**
  - Expressed in terms of taxable value per capita
  - Local tax effort in mills x difference between the guarantee and the actual TV per capita x unit's population

# History of Phase in

- 1999–2001 – 3 years into a 10 year phase in
- 2001–present – what you get this year depends on what you got last year
- 8 years of reduced funding available for distribution

# Revenue Sharing Payments, 1994-2012



## Economic Vitality Incentive Program (EVIP)

- **$215 million divided among 486 CVTs**
- **Introduced idea that have to perform certain actions to qualify for funds**
  - Citizens' Guides to Financial Performance and Performance Dashboards
  - Employee Health Care reforms
  - New Intergovernmental Collaboration arrangements

# EVIP Thoughts

- **Before now -- incentives or funding specific activities = taking money from other governments**
- **EVIP went through that door**
- **Adding funding back into program does not subtract funds from other governments**
- **Distribute new funding**
    - Based on formula(s) to measure needs
    - Using same EVIP incentives
    - Using new EVIP incentives
    - To fund specific activities that state has interest in promoting (Police, Fire, Health, etc.)

# Thank You

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