



# **Reforming Statutory State Revenue Sharing**

General Government Subcommittee  
of House Appropriations Committee

Eric Luper, President

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# **Citizens Research Council** *of Michigan*

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- Promotes sound policy for state and local governments through factual research
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## Context for CRC's Report

- Filling request made last session by General Government subcommittee
- Timing delayed by internal transition in CRC offices
- Funding from W.K. Kellogg Foundation made the report possible

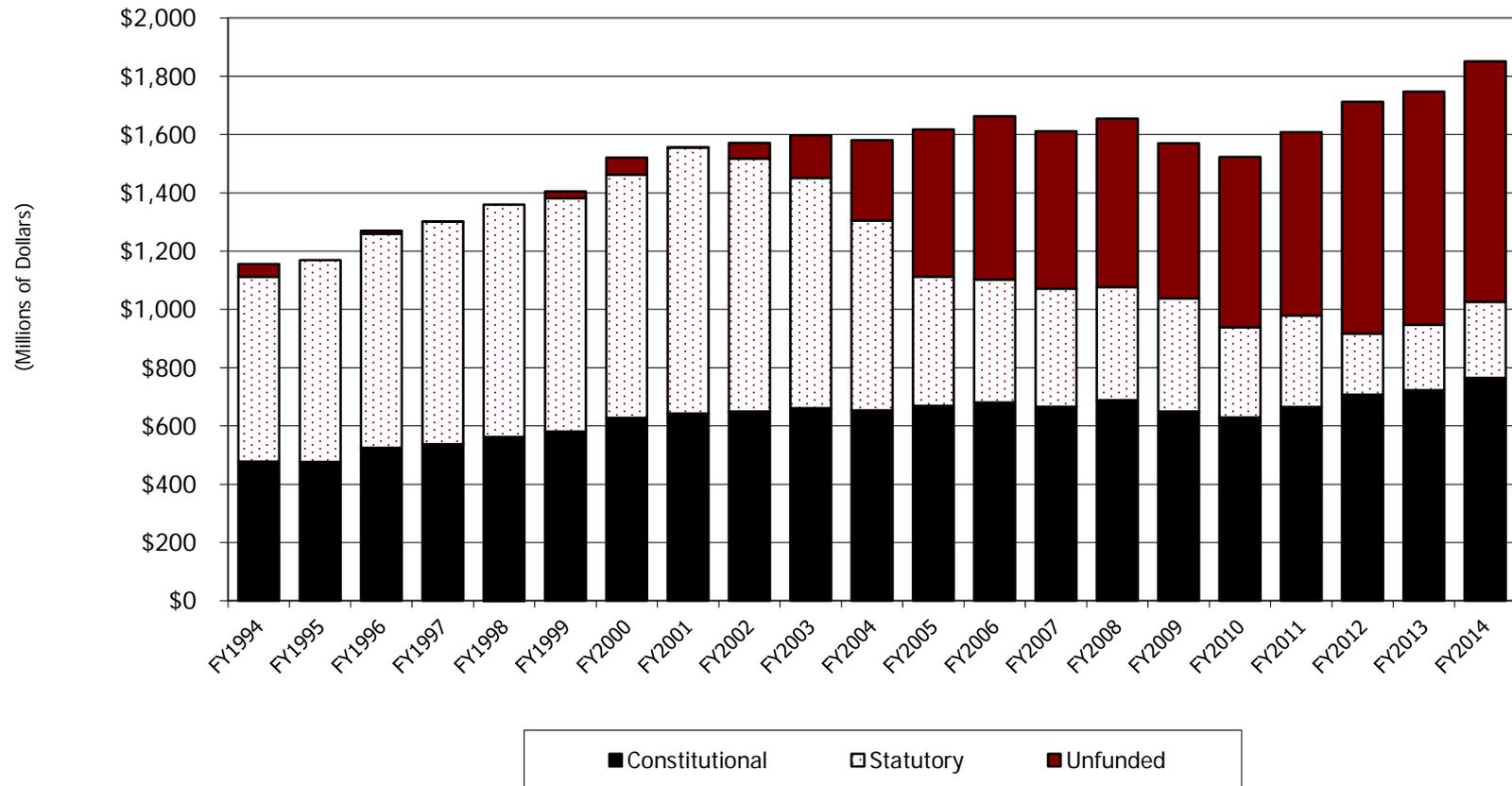


# About State Revenue Sharing

- **Constitutional revenue sharing**
  - Initiated with 1946 constitutional amendment
  - Distributed on per capita basis
  - Change possible only with another amendment
- **Statutory revenue sharing**
  - Grown incrementally over the years
  - At one time larger than constitutional SRS
  - For 40+ years formula attempted to equalize tax capacity



## Recent History





## Statutory State Revenue Sharing is Different

- Other State Revenue Sharing Programs dedicated to specific services
  - School Aid
  - Act 51 Highway Funding
  - Court Funding
- Statutory State Revenue Sharing is distributed for general purpose of funding city/village/township operations

# Why do we have Statutory State Revenue Sharing?

- Not State Aid
  - Would imply state revenues sufficiently plentiful that they could be put to good use helping the finances of local governments.
  - Would assume that local governments were in need of assistance and since each revenue sharing distribution was designed to distribute revenues to all units of local government, that all local governments were in need of assistance.



# Why do we have Statutory State Revenue Sharing?

- State Revenue Sharing
- State policymakers agreed to serve in a revenue raising capacity
  - capitalize on revenue raising efficiencies
  - share state-collected revenue with local governments



## Why do we have Statutory State Revenue Sharing?

- State has adopted policies to distribute revenues to local governments for two purposes:
  1. the replacement of revenue after certain local taxes were either discontinued or preempted by the state
  2. to supplement local government revenues and general funds.



# Why do we have Statutory State Revenue Sharing?

- Revenue Replacement
  - Intangibles Property Exemption
  - Inventory Property Exemption
  - Personal Property Exemption



# Why do we have Statutory State Revenue Sharing?

- Supplementing Local Government Revenues
  - Sales Tax
  - Income Tax
  - Single Business Tax
- Consolidation of SRS into Sales Tax



# Statutory State Revenue Sharing History

- Per capita payments
- State attempted to address higher needs through other means
- 1971 – Relative Tax Effort
- 1998 – Reforms to equalize tax raising abilities
- 2001 – Sour economy and budgeting decisions reduced amounts available and lessened number of entities receiving payments



# Why do we have local government?

CRC's answer:

To manage the interaction between people.

You might have a different response



# What is the state's interest in an effective provision of local government services?

CRC's answers:

- Local government hosts the people and businesses upon which state taxes are levied.
- Local governments provide services for the health and safety of Michigan residents and guests.

You might have a different response



# Objectives of State Revenue Sharing

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

## Are there disadvantages?

- Violates the fundamental and sound principle of good government
  - That responsibility for raising money should accompany the pleasure of spending it.
- Earmarking hamstrings state budget makers
- Per capita distribution bears no relationship to need
- Increased dependence on state funding
- Lack of accountability to taxpayers
- Loss of local control
- Others



## Local Government Objectives

- Revenue adequacy
- Stability and predictability
- Equity
- Accountability
- Intergovernmental coordination



## Recommendations

1. Determine if state revenue sharing is a priority
  - If it is, fund it
2. Determine your vision of the purpose of local government
3. Based on that purpose, determine the role you envision state revenue sharing playing in helping to fulfill that purpose?
  - Amend revenue sharing act instead of year to year continuation in appropriation boilerplate language

## Alternatives

1. Equalize the fiscal capacity of local governments
  - Revenue raising abilities
  - Service demands
2. Fund the local government activities that the state most values
  - Hosting key economic activities
  - Providing public safety services



## Equalize Fiscal Capacity

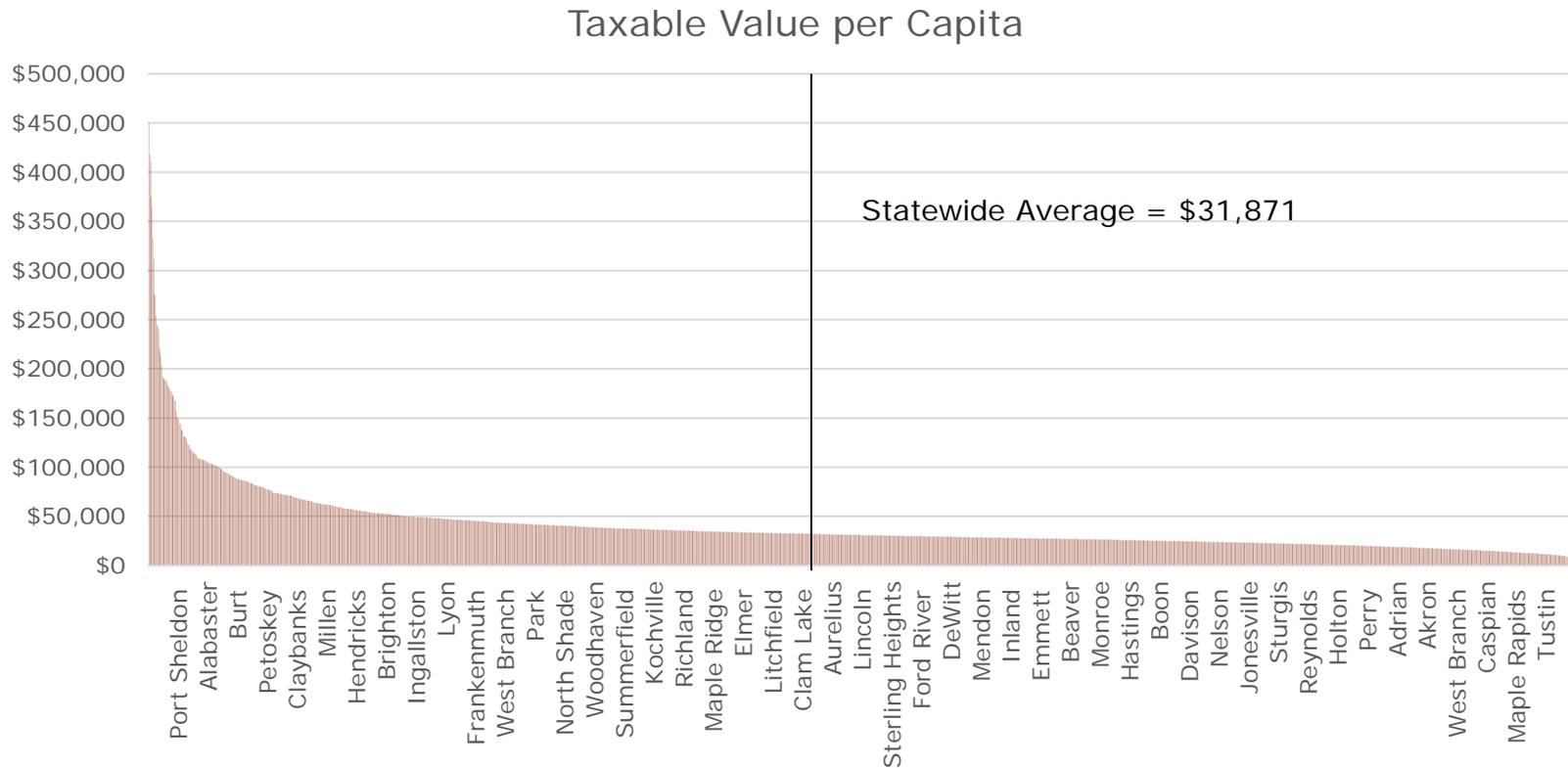
- Revenue Raising Ability

- Taxable Value per Capita

- Average = \$31,871
    - Median = \$30,958
    - Highest = \$1,423,511  
Pointe Aux Barques Township in Huron County
    - Smallest = \$5,693  
Kinross Township in Chippewa County



## Taxable Value per Capita

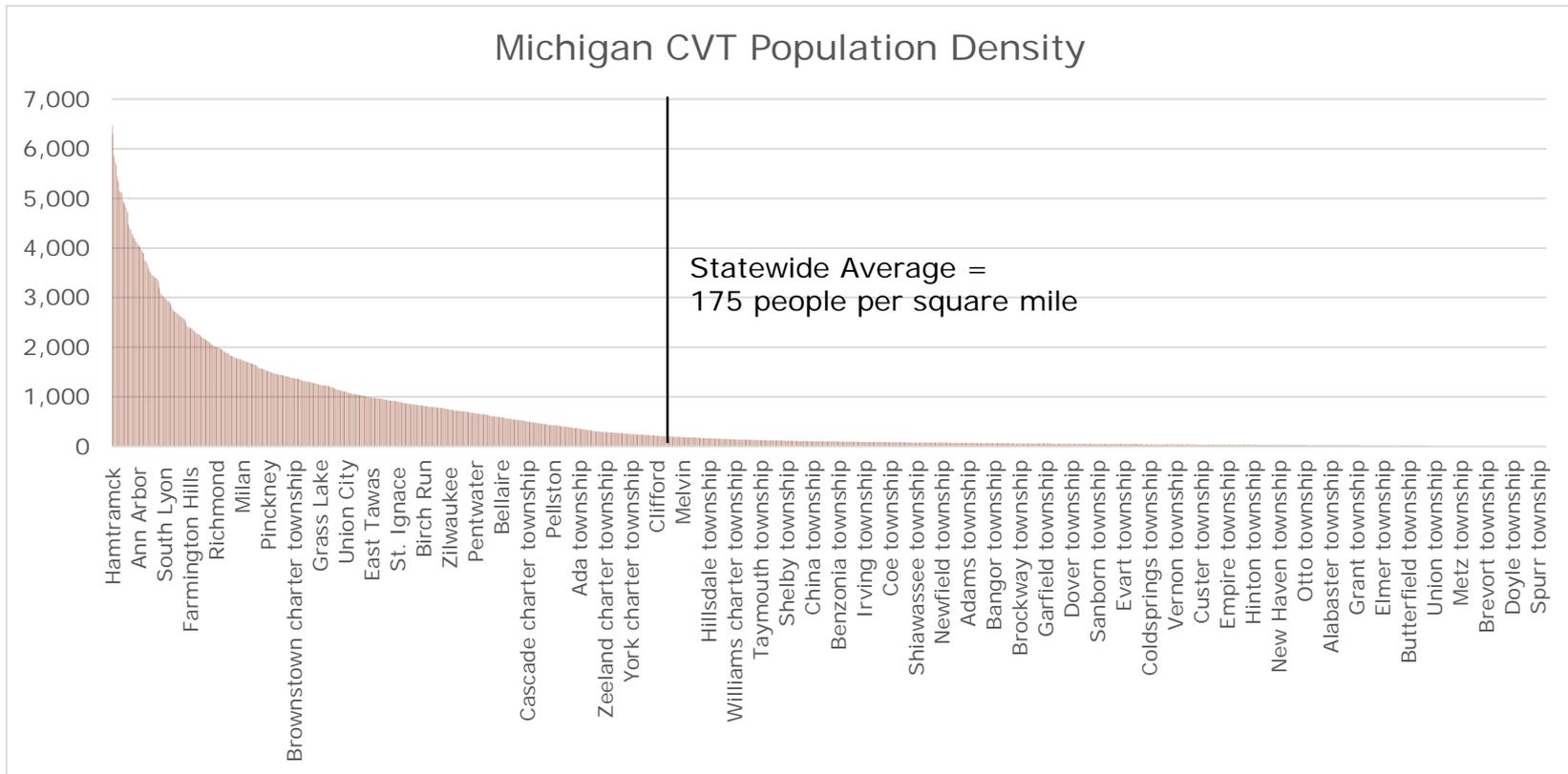




## Service Demands

- Greater density = greater demand for services
  - Population density
  - Housing/building density
  
  - Local ordinances
  - Planning and zoning
  - Police and fire protection
  - Refuse collection
  - Transit services
  - Etc.

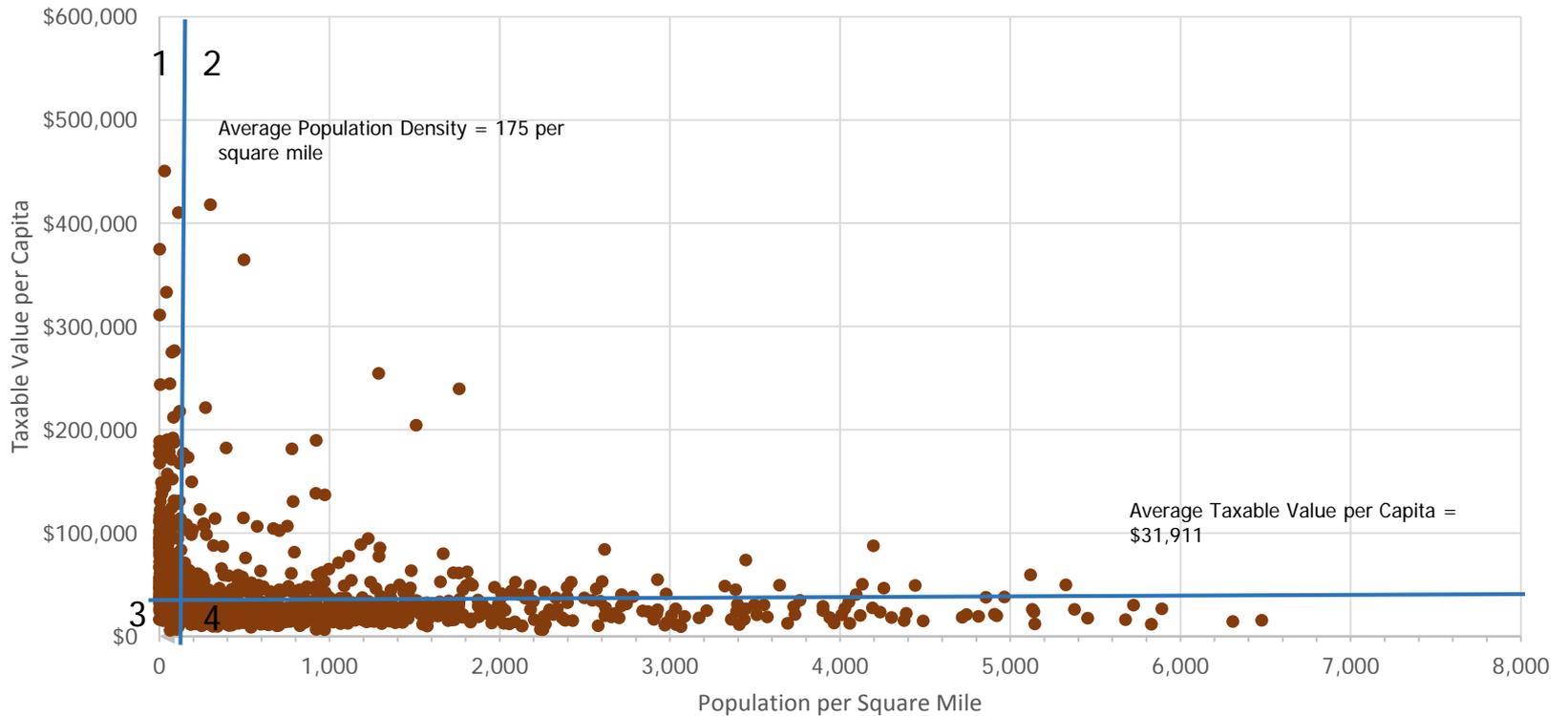
## Population Density



# Density

- Population Density
  - Average = 175 people per square mile
  - Median = 100 people per square mile
  - Largest = 10,751 in Hamtramck
  - Smallest = less than 1 person per square mile in 5 townships in the Upper Peninsula
- Housing Density
  - Average = 80.2 housing units per square mile
  - Median = 37.1 housing units per square mile
  - Largest = 4,139.5 in Hamtramck
  - Smallest = 1 house per square mile in Seney township in Schoolcraft County

## Plotting Revenue Raising Abilities against Service Demands





## The Numbers by Quadrant

1. Below Average Density & Above Average TVC (upper left): 604  
Number of Units as Percent of all Local Governments: 34%  
Population: 1,056,921  
Population as Percent of State: 11%
2. Above Average Density & Above Average TVC (upper right): 235  
Number of Units as Percent of all Local Governments: 13%  
Population: 3,030,165  
Population as Percent of State: 31%
3. Below Average Density & Below Average TVC (lower left): 446  
Number of Units as Percent of all Local Governments: 25%  
Population: 1,140,657  
Population as Percent of State: 12%
4. Above Average Density & Below Average TVC (lower right): 488  
Number of Units as Percent of all Local Governments: 28%  
Population: 4,918,292  
Population as Percent of State: 50%

## The Challenge

- A formula that shares revenues with governments in quadrants #2, #3, and #4
  - With emphasis on funding governments in #4
  - Governments with small tax bases and high demands for local government services

## **Fund local governments that host key economic activities**

- Forestry and agriculture very important to state economy, but they do not require local government
- What economic sectors do require local government?
  - Manufacturing
  - Commerce
  - Health Care
  - Tourism
- Supporting many of these activities does more to add to state tax revenues than local government revenues



## **Fund local governments that host key economic activities**

- Such an approach would create population multipliers
- It would align local governments with the state's economic development efforts



## Fund key local government services

- Many local government services add to quality of place
  - But does the state have an interest in any particular local government services?
  - Public Safety – Police, Fire, EMS
- Transition funding from unrestricted revenue sharing to restricted program
  - In spirit of school aid, highway funding, court funding

## Fund key local government services

- Use police statistics, fire department calls, EMS runs rather than “pseudo” measures called for with fiscal capacity approach
  - Incidents already reported to the state
- Accounts for differences between census populations and daytime/seasonal populations
- Intergovernmental collaboration commonly used in provision of these services
- Should the funding go to
  - Local governments getting the services or
  - Governmental entity providing the services?



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# Thank You

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