

Revenue Sharing in the Context of State Budgetary Pressures



Presented by
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Overview

- Revenue sharing in the FY 2015-16 budget
- Recent revenue sharing history
- State budget context

FY 2015-16

Revenue Sharing Budget

- Included in Public Act 84 of 2015 (SB 133).
- Within Article VIII, General Government, Department of Treasury.
 - ▶ Revenue sharing unit (page 57)
 - ▶ Department of Treasury one-time items (pages 57-58)
 - ▶ Boilerplate Sections 950 to 957 (pages 99 - 100)
- FY 2015-16 revenue sharing looks much like FY 2014-15.

Revenue Sharing

Two Types of Programs

- **Constitutional Revenue Sharing**
 - ▶ 15% of sales tax revenue at a sales tax rate of 4%
 - ▶ Distributed to cities, villages, and townships (CVTs) on a per capita basis.
 - ▶ Michigan Constitution of 1963, Article IX, Sec. 10.
- **Nonconstitutional Revenue Sharing (Statutory)**
 - ▶ Payments to eligible CVTs and counties.
 - ▶ Amounts and program requirements set annually in the State budget.

Revenue Sharing

Programs by Type of Local Unit

- **Cities, Villages, and Townships**
 - ▶ Constitutional Revenue Sharing (All CVTs)
 - ▶ City, Village, and Township Revenue Sharing (587 eligible CVTs)
 - ▶ Financially Distressed Cities, Villages, and Townships (Grants awarded by the Department of Treasury)
- **Counties**
 - ▶ County Revenue Sharing
 - ▶ County Incentive Program

Enrolled Appropriations

FY 2015-16 (in millions)

	FY 2014-15	FY 2015-16	Diff.	Pct. Chg.
Constitutional	\$760.2	\$783.9	\$23.7	3.1%
CVT Revenue Sharing (Statutory)	248.8	248.8	0.0	0.0%
County Revenue Sharing and County Incentive Prog.	211.2	214.7	3.5	1.7%
Financially Distressed CVTs	<u>8.0</u>	<u>5.0</u>	<u>-3.0</u>	<u>-37.5%</u>
Total	\$1,228.2	\$1,252.4	\$24.2	2.0%

Source: Senate Fiscal Agency

County Revenue Sharing

Background

- 2005: One-time acceleration of county property tax collections created a revenue sharing reserve fund for each county.
- Withdrawals of allowed amounts from the reserve funds replaced State-paid county revenue sharing until the reserve funds were depleted.
- 2008 to 2016: 76 counties returned to State-paid revenue sharing.

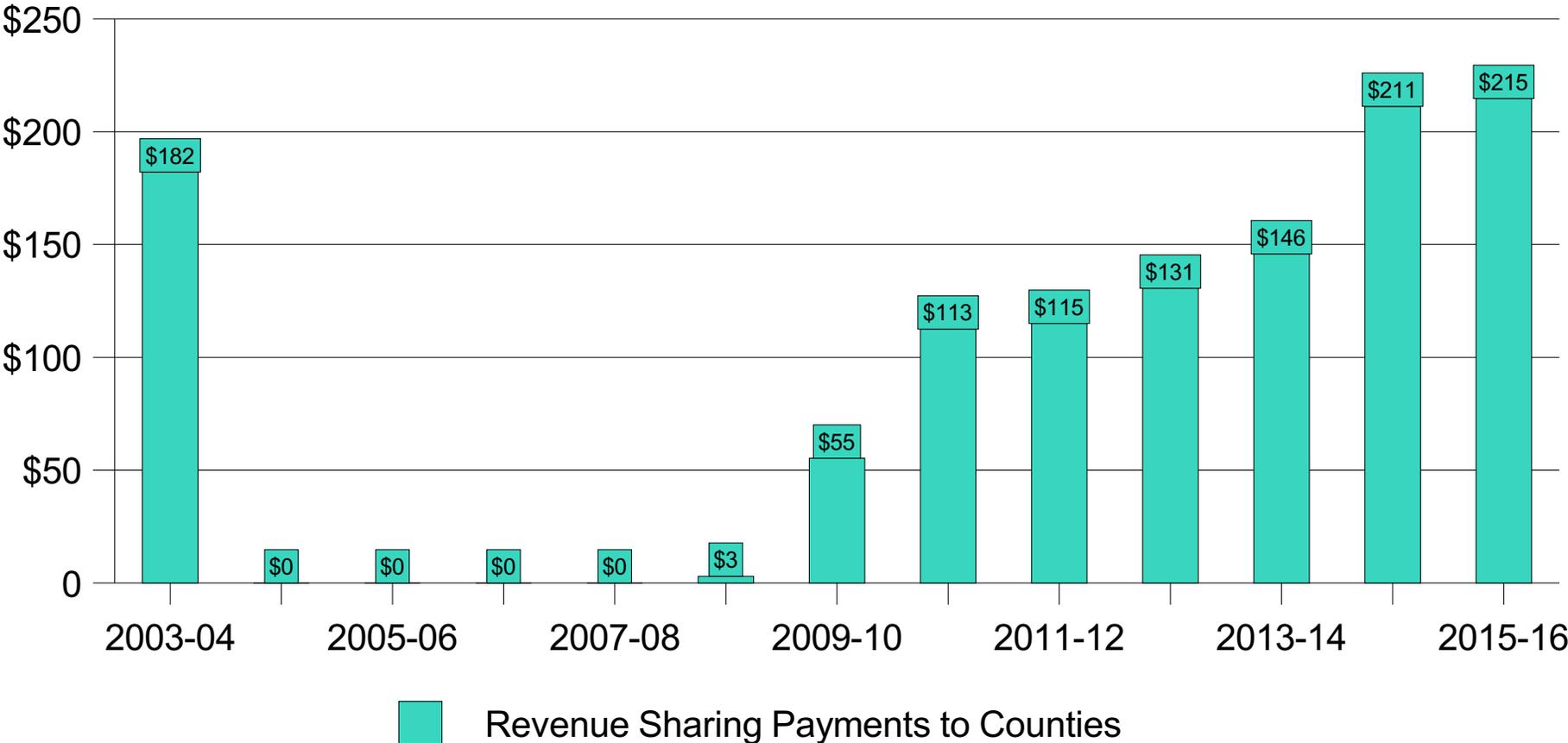
County Revenue Sharing

FY 2015-16

- Increases by \$3.5 million to cover the cost of counties returning to State-paid revenue sharing for a full or partial year.
- Two new counties, Kankaska and Mason.
- County Incentive Program (CIP) and County Revenue Sharing total \$214.7 million.
- Counties must comply with accountability and transparency requirements to receive CIP.

Revenue Sharing Payments to Counties

Most counties have returned to State-paid revenue sharing



CVT Revenue Sharing FY 2015-16

- Constitutional - Estimated 3.1% increase to \$783.9 million.
- Nonconstitutional or Statutory - Same as FY 2014-15, steady at \$248.8 million.
- Financially Distressed CVTs Grant Program - \$5.0 million in FY 2015-16, a decrease of \$3.0 million.

CVT

“Statutory” Revenue Sharing

A Short Story

- FY 2015-16 appropriation and formula are the same as FY 2014-15.
- CVTs that were eligible in FY 2014-15 are eligible for the same amount in FY 2015-16.

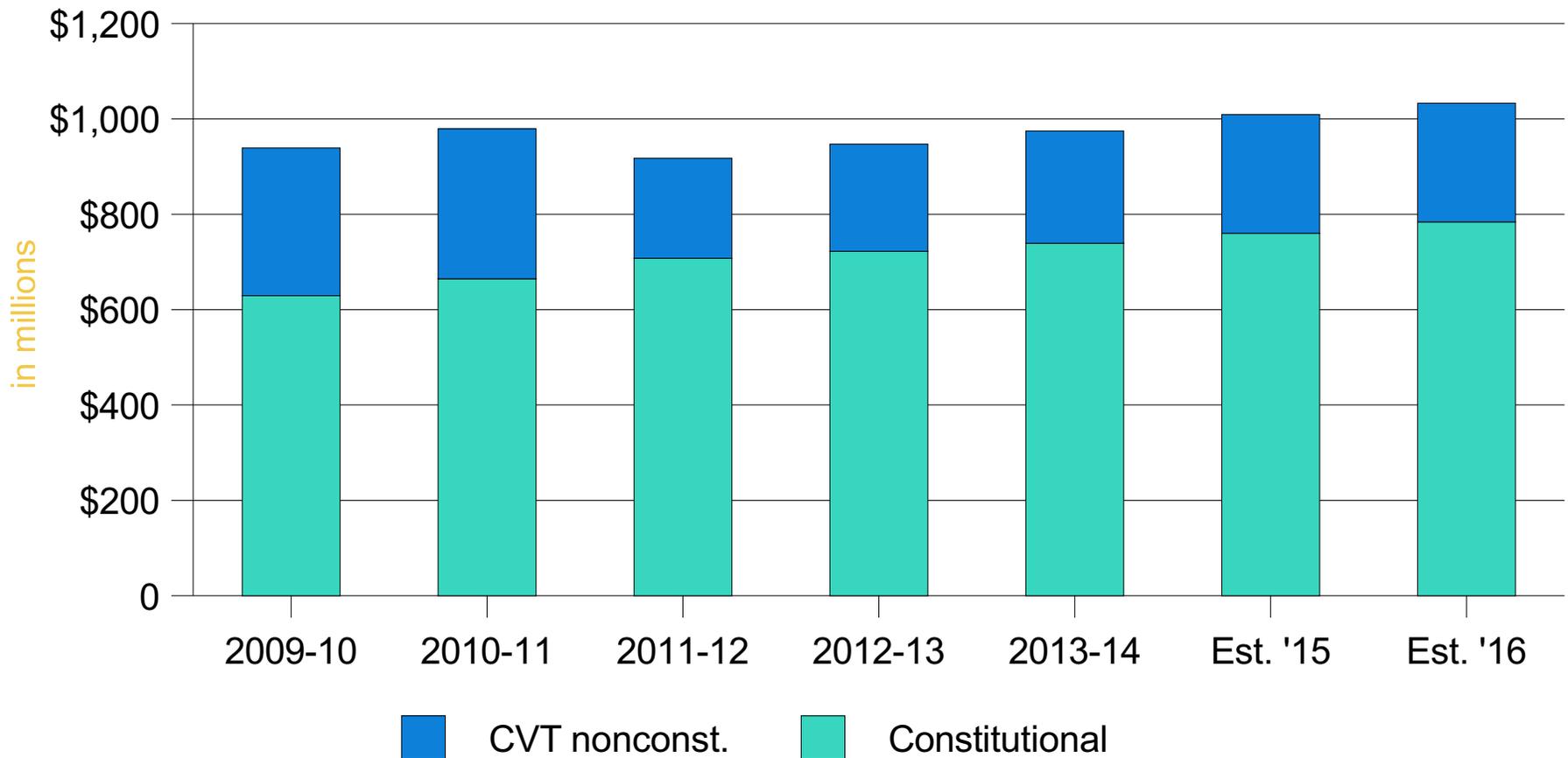
CVT Revenue Sharing

Review of Eligibility and Payment Amount

- Eligible CVTs: Were eligible in FY 2014-15
 - ▶ Received a payment >\$4,500 in FY 2009-10 OR
 - ▶ Population over 7,500
- Payment Amount: Eligible for same amount as in FY 2014-15, which is the higher of:
 - ▶ 78.51044% of the FY 2009-10 payment OR
 - ▶ \$2.64659 per capita
- Meet accountability and transparency requirements
 - ▶ Citizen's guide to finances, performance dashboard, debt service report, budget report, report unfunded liabilities

CVT Revenue Sharing

Since FY 2009-10,
Constitutional Up 25%, Statutory down 20%, Total up 10%



Source: Senate Fiscal Agency and May 2015 Consensus Revenue Estimates

Accountability and Transparency Requirements

Changes for FY 2015-16

- Debt service report must include a list of payment amounts until the maturity of the debt.
- Include the location (either internet address or physical location) of accountability and transparency reports in any general interest mailing.
- Requirements apply to eligible CVTs and counties.

Legislative Workgroup

New Language in the Budget

Sec. 957. It is the intent of the legislature that a legislative workgroup that includes representatives from the executive office shall meet to explore revisions to the distribution of nonconstitutional revenue sharing payments for cities, villages, and township.

Enrolled Senate Bill 133, Article VIII, Sec. 957

Recent Report on Revenue Sharing

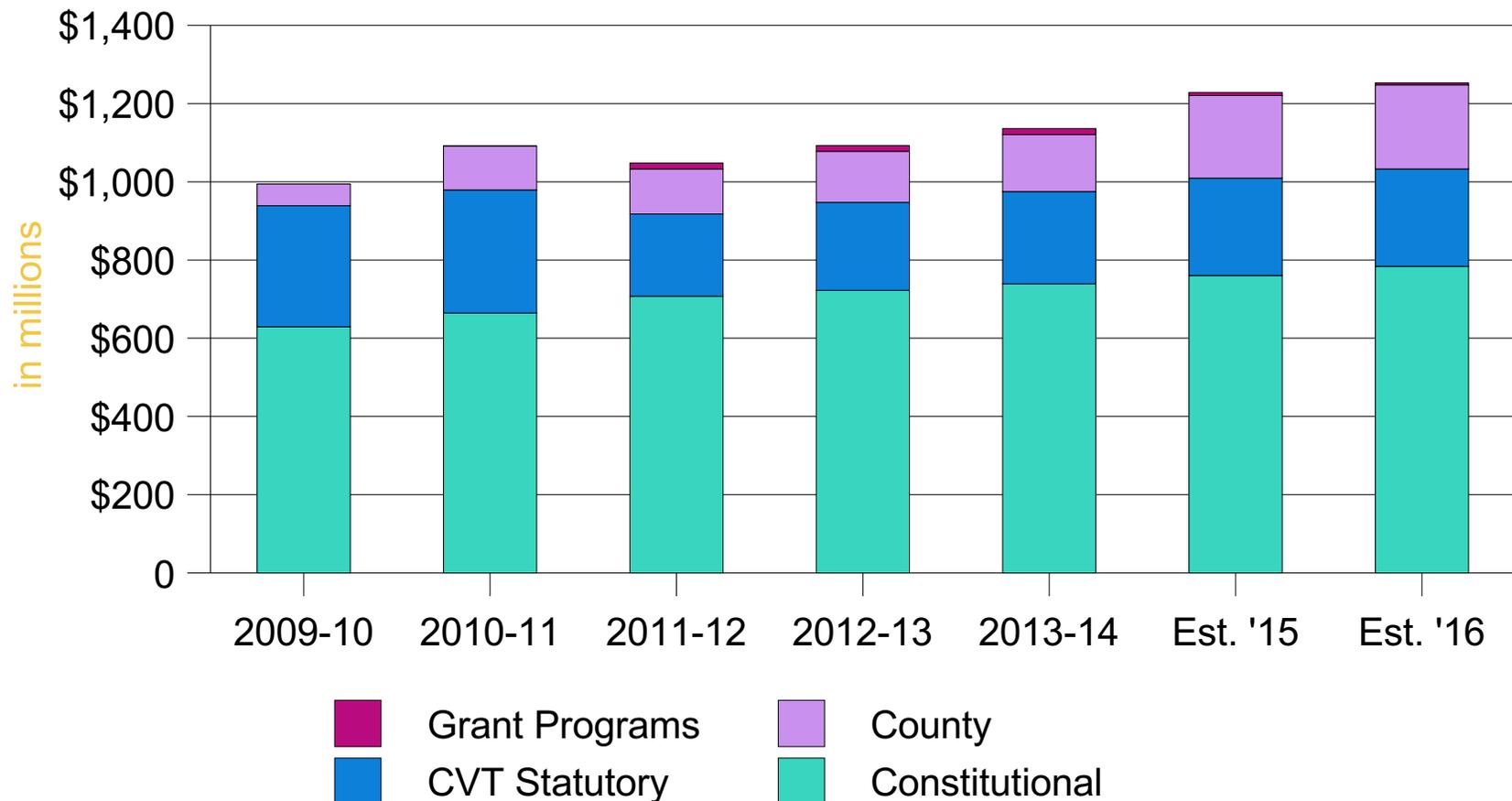
An Excellent Resource

Reforming Statutory State Revenue Sharing
By the Citizens Research Council of Michigan
February 2015

Available for download at www.crcmich.org

Revenue Sharing Appropriations

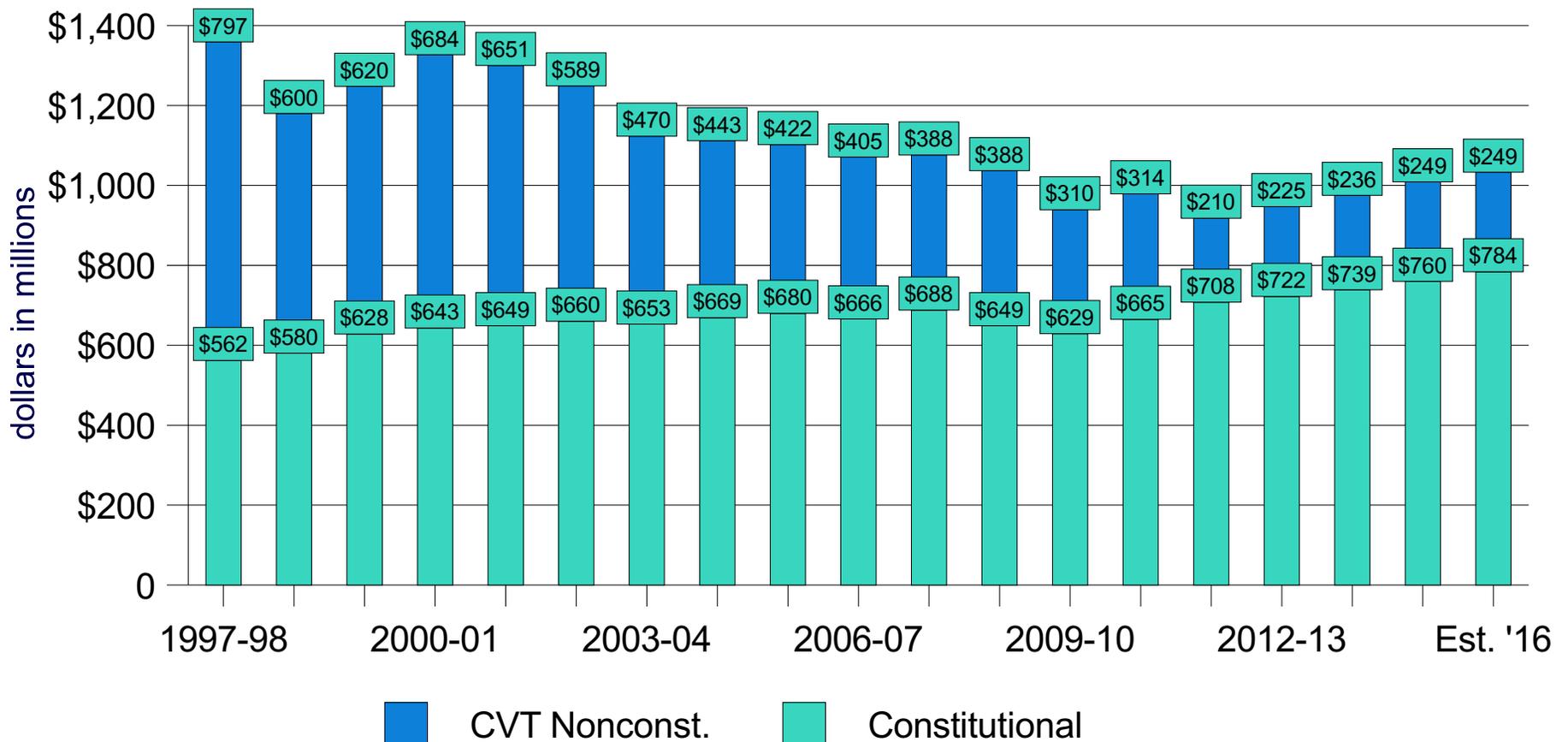
CVTs, Counties, and Grant Programs, FY 2010 to FY 2016



Source: Senate Fiscal Agency and May 2015 Consensus Revenue Estimates.

CVT Revenue Sharing

Since FY 1997-98:
 Constitutional up 40%, Nonconstitutional down 69%



Source: Senate Fiscal Agency and May 2015 Consensus Revenue Estimates

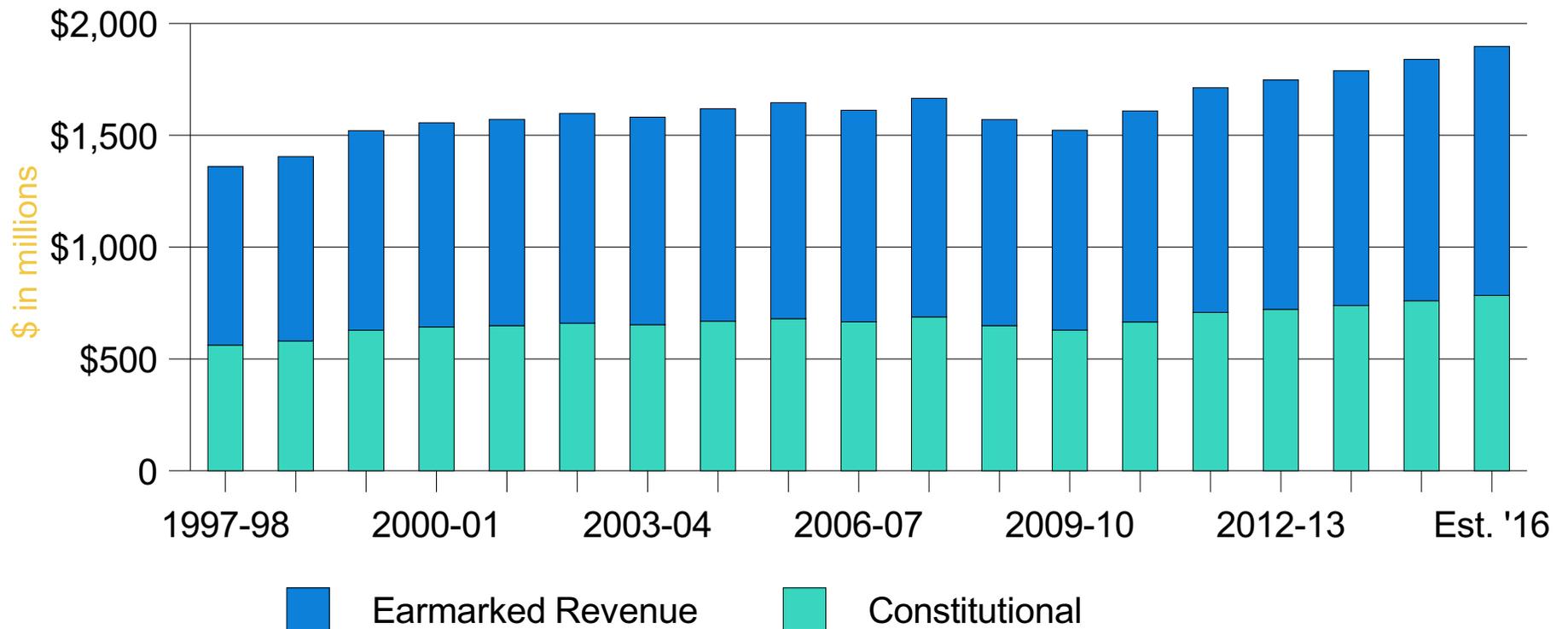
But What About the Sales Tax Earmark?

The sales tax earmark for statutory revenue sharing only is effective if the money is appropriated.

- 21.3% of sales tax revenue at a sales tax rate of 4% to be distributed for revenue sharing.
 - ▶ 25.06% of that amount for counties
 - ▶ 74.94% for cities, villages, and townships.
- This level of funding has not been appropriated.
- There is no longer any statutory revenue sharing distribution formula for CVTs.
- The county distribution formula in statute is paid in full, but is still less than the earmarked revenue.

What Would Full Funding Look Like?

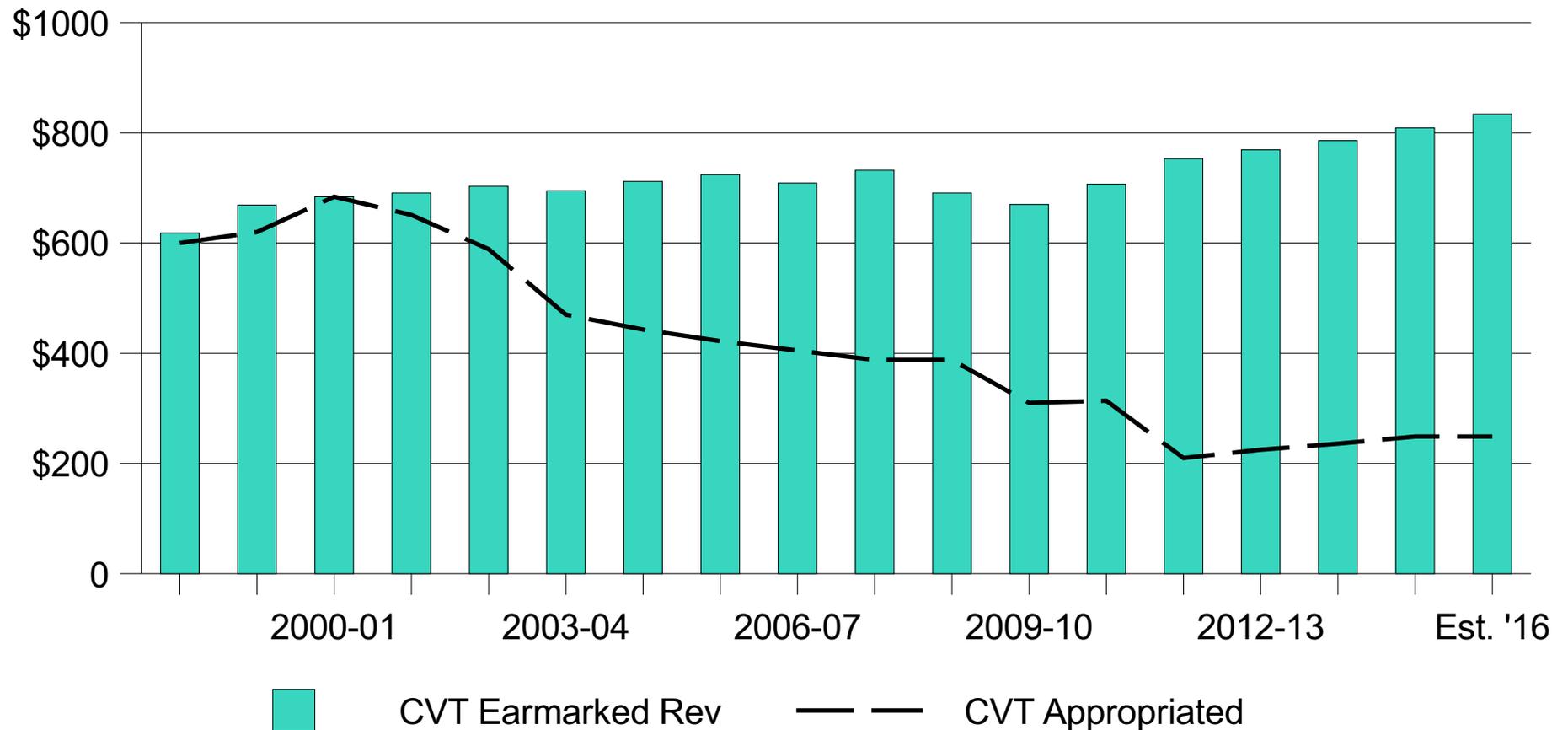
Constitutional Revenue Sharing Plus Earmarked Revenue



Source: Senate Fiscal Agency and May 2015 Consensus Revenue Estimates

Earmarked Revenue vs. Appropriations

CVT “Statutory” Revenue Sharing

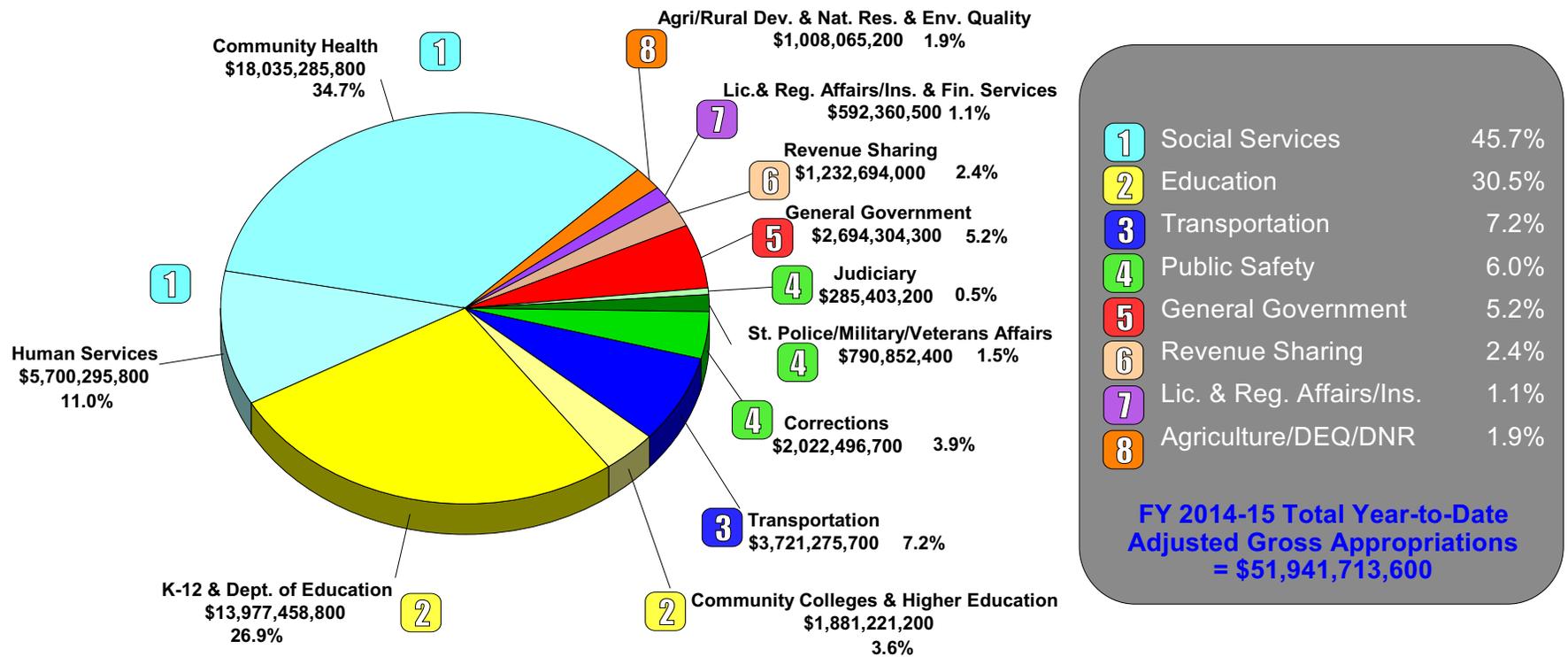


Source: Senate Fiscal Agency

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Where State of Michigan Tax Dollars Are Spent

Fiscal Year 2014-15 Year-to-Date Adjusted Gross Appropriations

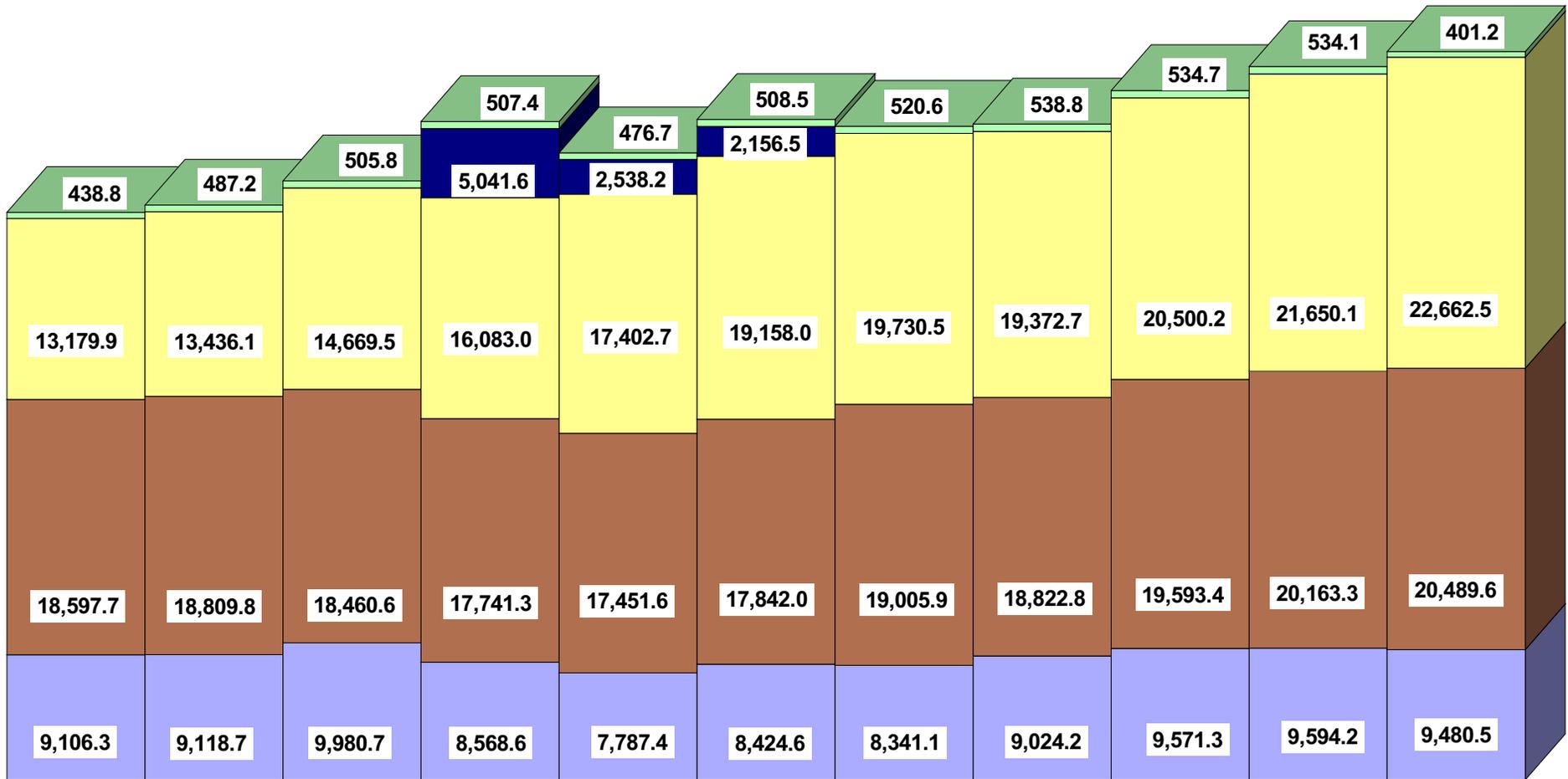


Source: Senate Fiscal Agency - 3/20/2015

State Of Michigan Appropriations by Fund Source

Year-To-Date (Millions of Dollars)

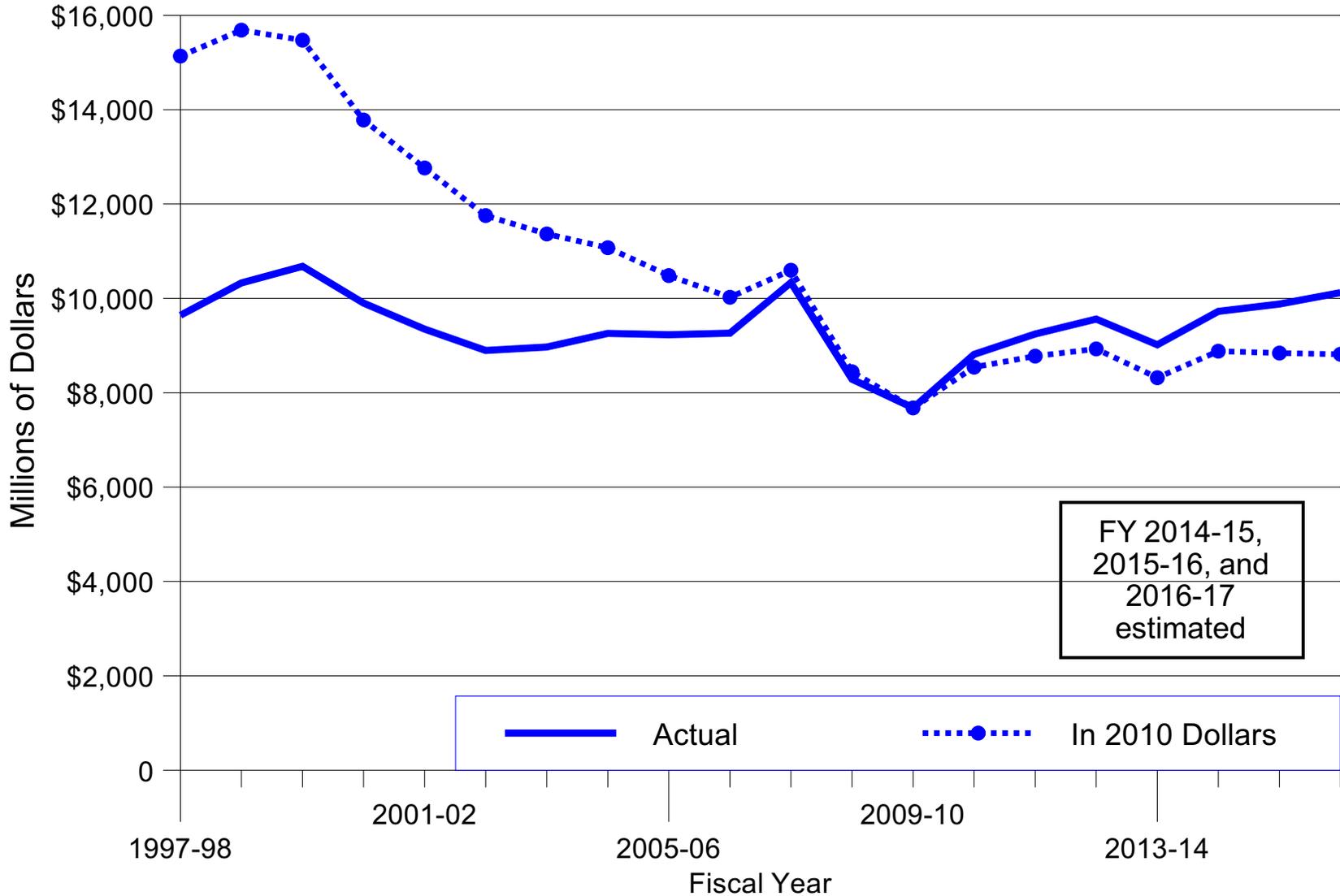
■ LOCAL/PRIVATE
 ■ ARRA
 ■ FED FUNDS
 ■ RESTRICTED
 ■ GF/GP



FY 2005-06
 FY 2006-07
 FY 2007-08
 FY 2008-09
 FY 2009-10
 FY 2010-11
 FY 2011-12
 FY 2012-13
 FY 2013-14
 FY 2014-15
 FY 2015-16

Ongoing General Fund Revenue

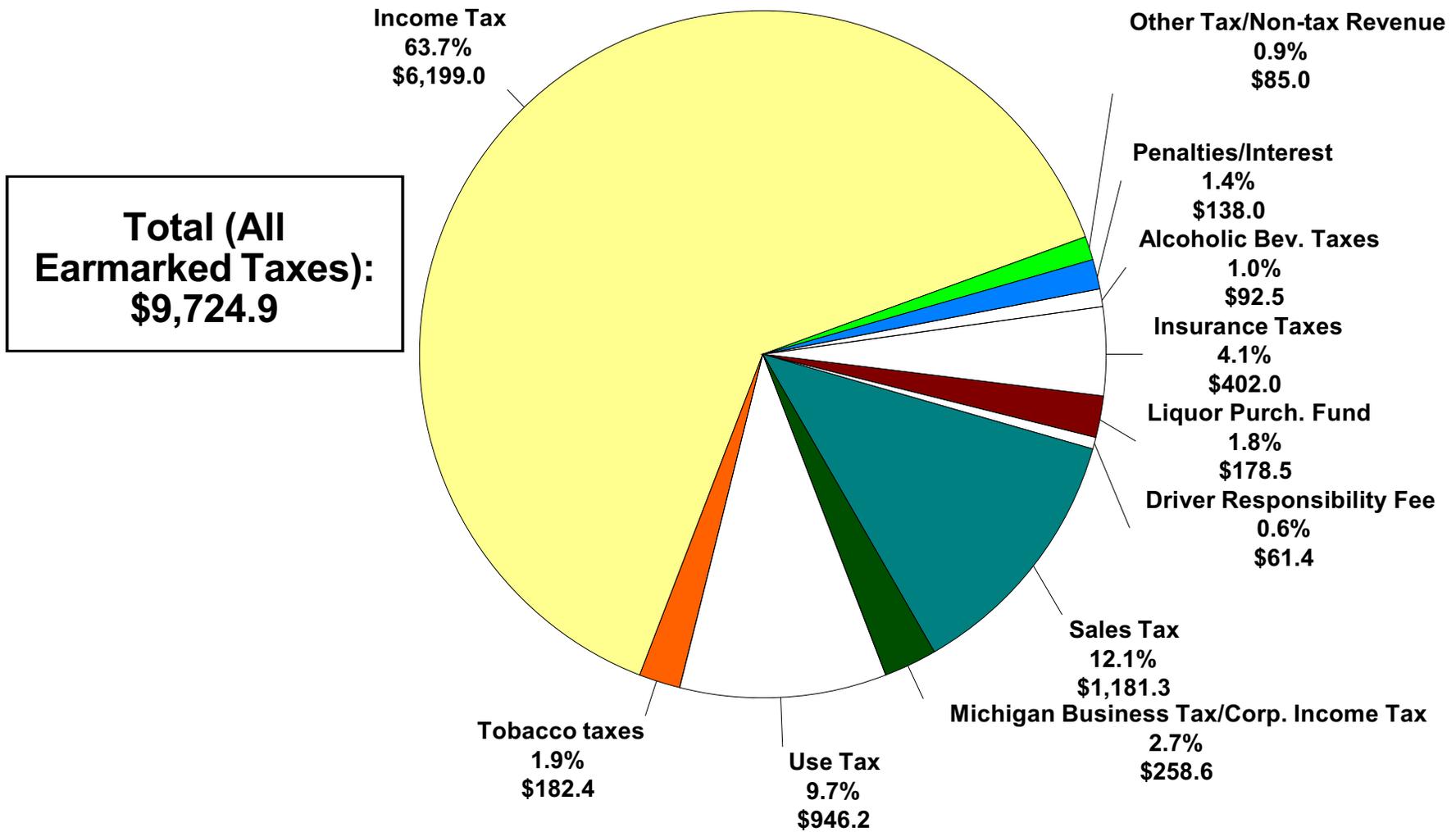
Nominal Revenue in FY 15 Below FY 98 Level; Adj. for Inflation, the FY 68 Level



Source: U.S. Dept. of Commerce, Michigan Dept. of Treasury, and May, 2015 Consensus Revenue Estimates

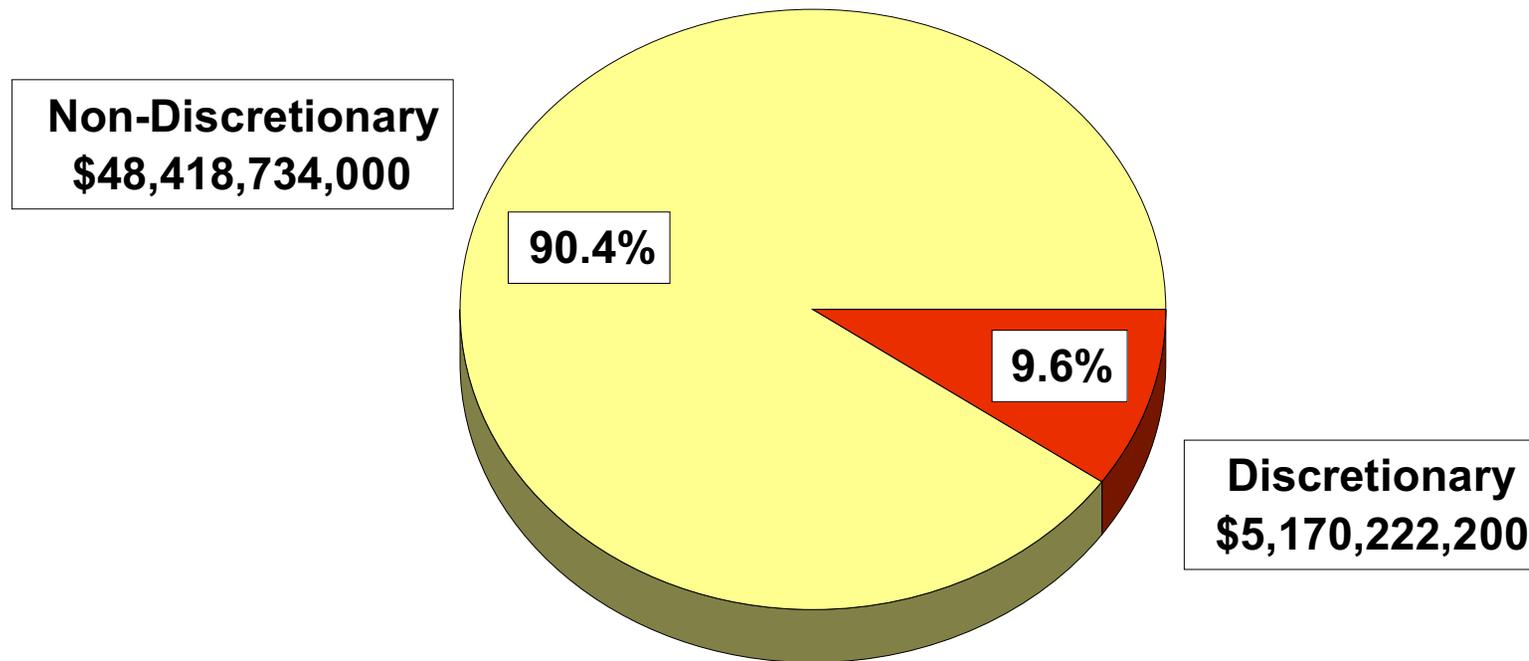
FY 2014-15 General Fund Ongoing Revenue Sources

(Millions of Dollars)



State Appropriations From All Sources

How Much is Discretionary Spending?



Total Appropriations = \$ 53,588,956,200

**State Appropriations From All Sources:
How Much Is Discretionary?
(Actual Dollars)**

FY 2015-16 Adjusted Gross Appropriation.....	\$53,588,956,200
(Conference Reports)	
<u>Constitutional/Statutory Earmarking Requirements:</u>	
School Aid Fund (50% Constitutional).....	(\$12,582,454,400)
Transportation (87% Constitutional).....	(2,184,391,400)
Regulatory Restricted Revenue (Statutory).....	(1,372,817,500)
Constitutional Revenue Sharing.....	(783,866,100)
Federal Funding Requirement.....	(23,071,877,000)
Local and Private Revenue.....	(395,441,200)
Debt Service Payments.....	(422,919,600)
Caseload/Inmate Driven.....	<u>(7,604,966,800)</u>
Estimated Balance for Discretionary Spending.....	\$5,170,222,200

Estimated Balance for Discretionary Spending Includes:

GF/GP Funding for Higher Education.....	\$1,232,418,500
State Restricted and GF/GP Funding for State Police.....	501,133,800
Nonconstitutional State Revenue Sharing Funding.....	468,540,000
GF/GP for Transportation.....	400,000,000
Medicaid Programs-includes GME and MIChoice Waiver.....	400,000,000
Non-Medicaid Programs-includes CMH, Local Public Health, Aging.....	300,000,000
State Restricted and GF/GP Funding for Department of State.....	203,796,600
GF/GP Funding for Judiciary.....	183,442,200
State Restricted Revenue for Various State Departments.....	331,622,200
GF/GP Funding for: Agriculture, Attorney General, Civil Rights, Education, DEQ, Executive, Insurance & Financial Services, Legislature, Licensing & Regulatory, Military & Veterans, DNR, Tech., Mgt., & Budget, Treasury-Ops., and Talent and Econ. Dev.....	<u>1,149,268,900</u>
TOTAL.....	\$5,170,222,200

Summary

- Revenue sharing funding for FY 2015-16 is stable in a difficult State budget environment. All currently eligible local units remain eligible in FY 2015-16.
- Constitutional revenue sharing is estimated to grow 3.1%.
- A workgroup will discuss the CVT nonconst. distribution.
- There are many demands for limited State discretionary revenue.



Thank you!

For additional information, please contact:

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