

Revenue Sharing for Cities, Villages, and Townships: Impact of Declining Appropriations and Challenges in Revising the Formula

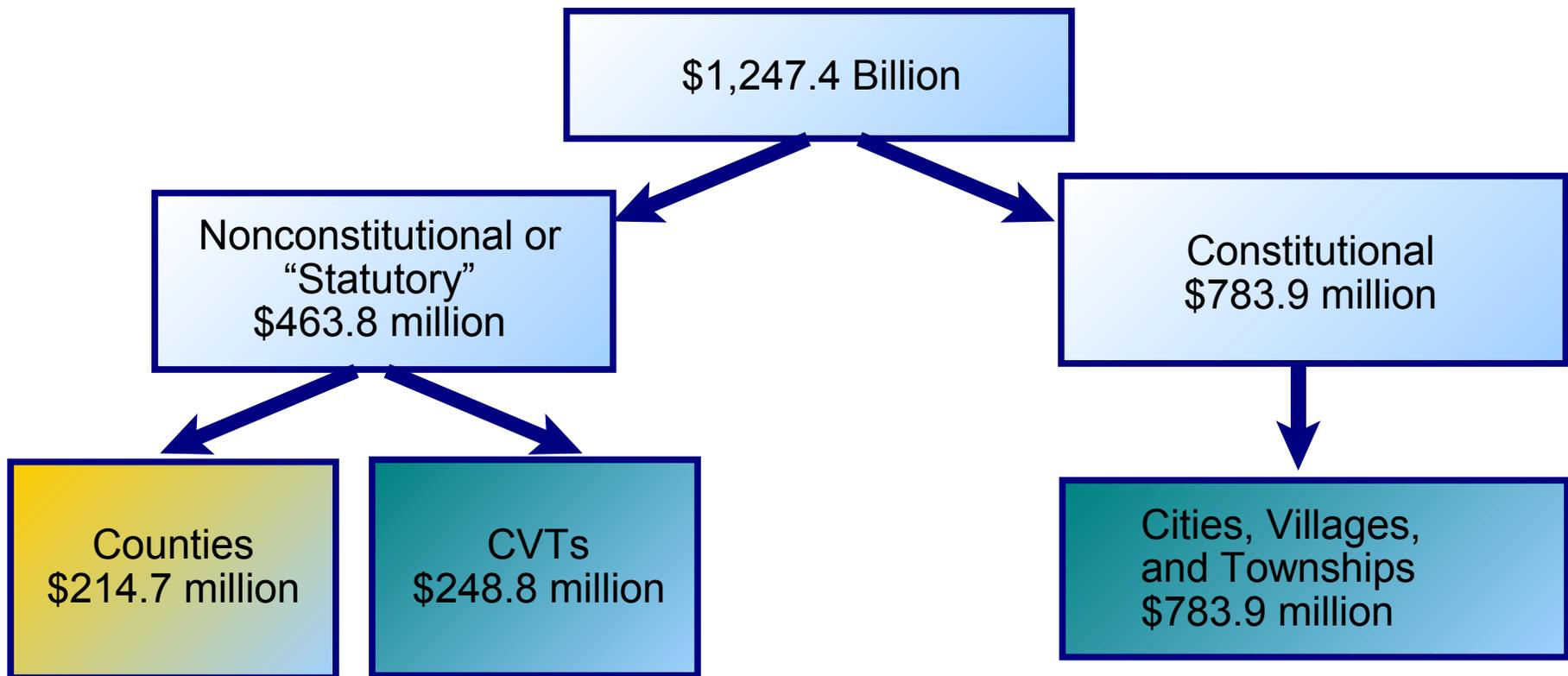


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Overview

- Current Revenue Sharing Programs
 - ▶ Formula distributions for cities, villages, and townships (CVTs).
- Reasons for Revenue Sharing.
- FY 1997-98 Statutory Reforms.
- Comparison of CVTs Eligible and Ineligible for “statutory”.
- Policy Questions: What are the goals of the program?
- Challenges in Revising CVT Statutory.

Revenue Sharing Formula Distributions Cities, Villages, Townships, and Counties FY 2015-16



Source: Senate Fiscal Agency

Revenue Sharing Formula Distributions Focus on CVTs FY 2015-16

\$1,032.7 Billion
to CVTs

CVT Statutory
\$248.8 million
Requires Transparency
Reporting

Eligibility:
Rec'd at Least
\$4,500 in
FY 2009-10
OR
Population > 7,500

Payment:
78.5% of FY 2009-10
Payment
Or
\$2.65 Per Capita

Constitutional
\$783.9 million

No Conditions

Eligibility:
All CVTs

Payment:
About \$79.56
Per Capita

Source: Senate Fiscal Agency

Historical Reasons for Revenue Sharing in Michigan

- Constitutional Amendment
 - ▶ Voters approved Constitutional revenue sharing to share sales tax revenue in 1946.
- Sharing of State revenue collections by statute
 - ▶ Sales tax, income tax.
- Reimburse for State laws that reduced the local tax base.
 - ▶ Elimination of local property taxes on inventories when the SBT was enacted in 1975.
 - ▶ Elimination of local property tax on intangibles.

1998 Reforms

Only 30% Implemented Prior to Reductions

- Planned to eliminate relative tax effort (RTE) factor.
 - ▶ Concern: Basing distributions on RTE encouraged higher millages.
- Sales tax earmark for statutory revenue sharing.
 - ▶ 21.3% of sales tax at a rate of 4%.
 - ▶ Not effective if revenue is not appropriated.
- 1998 formula based on:
 - ▶ The population and type of local unit (city, village, or township).
 - ▶ The tax capacity of the local unit measured by taxable value per person.
 - ▶ Equalization of millage revenue for a limited number of local mills.
 - ▶ 10-year phase-in, FY 1998-99 to FY 2006-07.
 - ▶ Capped payment increases from year-to-year.
 - Maximum increase of 8%.
 - ▶ Set the payment to Detroit separately.

1998 Formula for CVTs (Excluding Detroit)

Three Equal Components

Unit-Type Population

A proxy for local services offered.

Assumed higher population units offered more services.

Assumed cities and villages offered more services than townships.

Exception for large, high service townships.

All CVTs received pmt.

Taxable Value Per Capita

A measure of the tax capacity of a CVT.

Compared local taxable value per capita to the statewide average.

CVTs lower than the statewide average received a greater share of payments in this category.

All CVTs received pmt.

Millage Yield Equalization Payment or Guaranteed Tax Base

Additional payment to local units with the lowest taxing capacity.

Equalized revenue for up to 20 mills for CVTs with taxable value per capita lower than the guaranteed tax base.

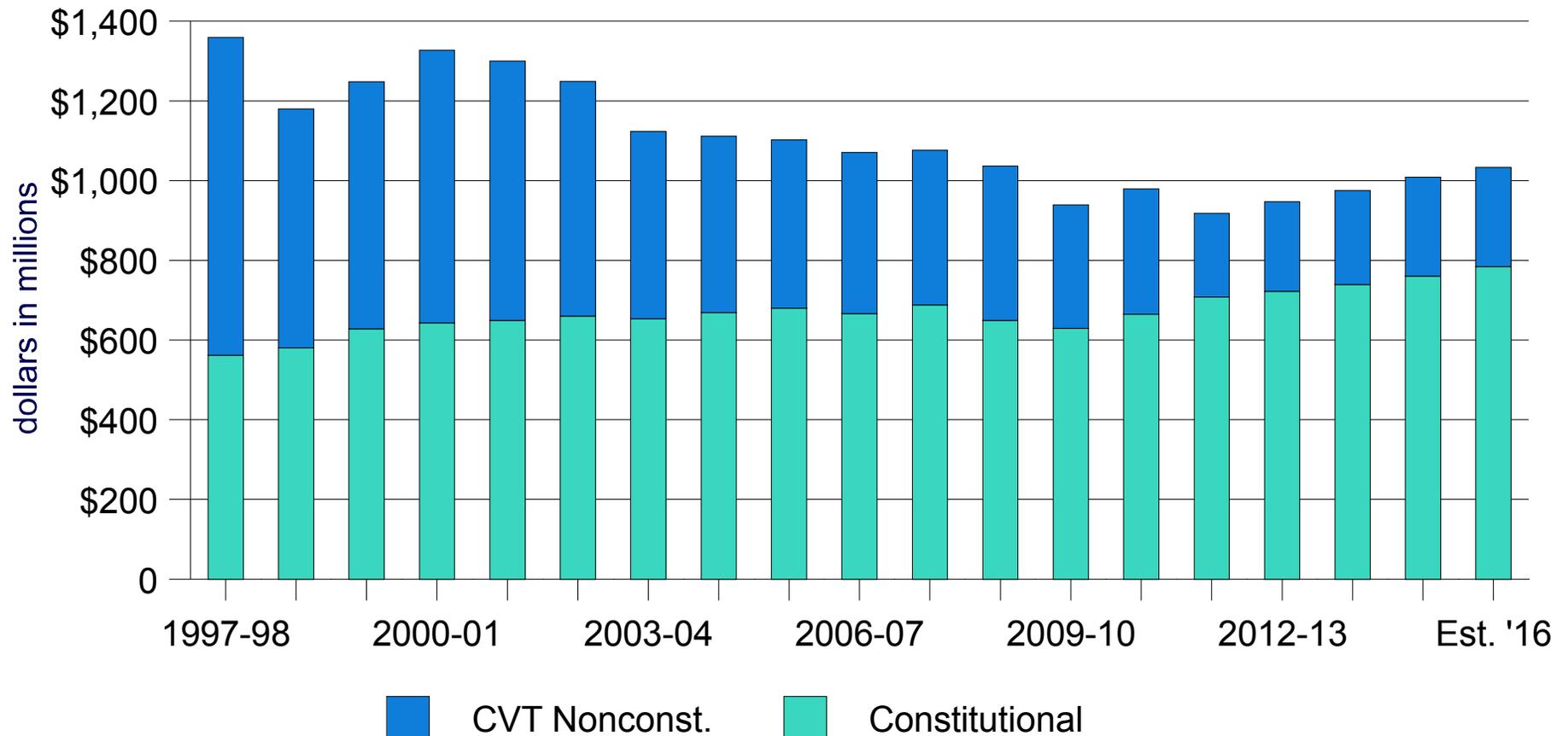
Limited number of recipients.

1998 Reforms: Planned Payments to Detroit

- Detroit not part of the formula distribution.
- Fixed payments to Detroit:
 - ▶ \$333.9 million annually
 - ▶ This included ***both Statutory and Constitutional*** payments to Detroit.
 - As constitutional revenue sharing payments increased over time, the statutory payment would decrease.
 - With the implementation of the population from the 2000 census, constitutional would decline and the statutory share would increase.
- Like CVTs in the formula, payments to Detroit were reduced.

CVT Revenue Sharing

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



Source: Senate Fiscal Agency and May 2015 Consensus Revenue Estimates

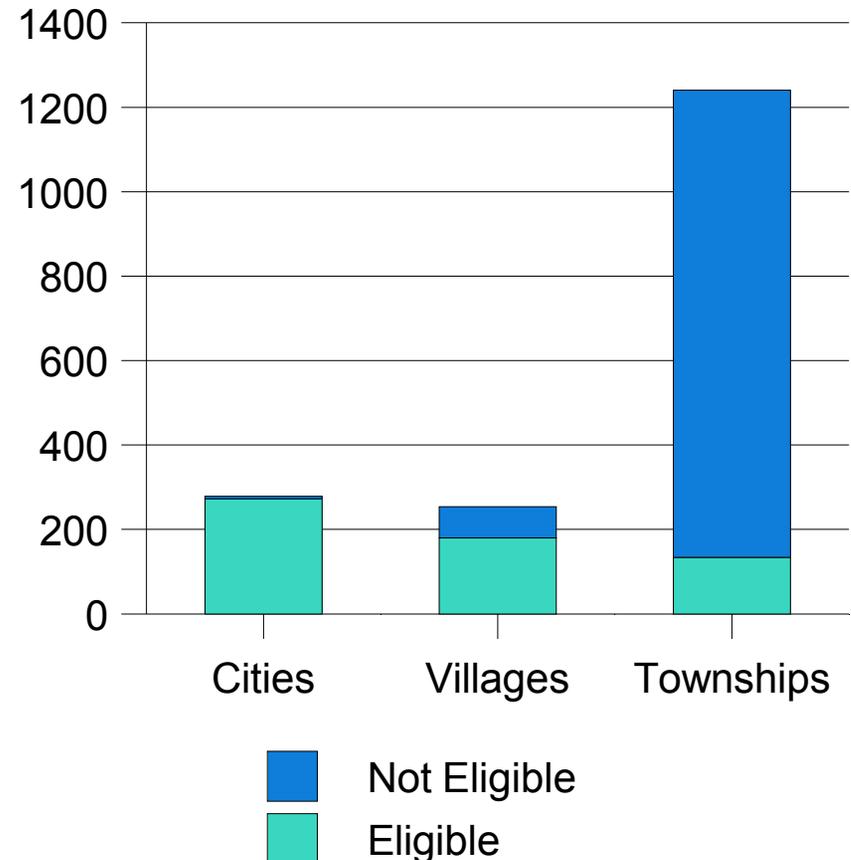
Implications of the 69% Reduction in Statutory Revenue Sharing to CVTs

- The total of constitutional and statutory revenue sharing payments was reduced by a percentage set in boilerplate.
 - ▶ Initially, all CVTs reduced by the same % of prior year total payments.
 - ▶ Over time, CVTs with low statutory payments relative to their constitutional payments no longer had any statutory payment to cut.
 - Constitutional typically grew each year. It could not be reduced.
 - Growth in constitutional revenue sharing made it impossible to reduce the total of statutory and constitutional payments for some CVTs.
 - Those CVTs were eliminated from statutory revenue sharing.
- FY 2011-12 language limited eligibility to CVTs that received more than \$4,500 in statutory in FY 2009-10.
- Result: Fewer CVTs eligible for statutory revenue sharing.
- FY 2014-15 added back 101 local units with per capita pmt.

Number of CVTs Eligible For Statutory

FY 2014-15

- Eligible CVTs
 - ▶ 273 of 279 cities
 - ▶ 180 of 254 villages
 - ▶ 134 of 1,240 townships

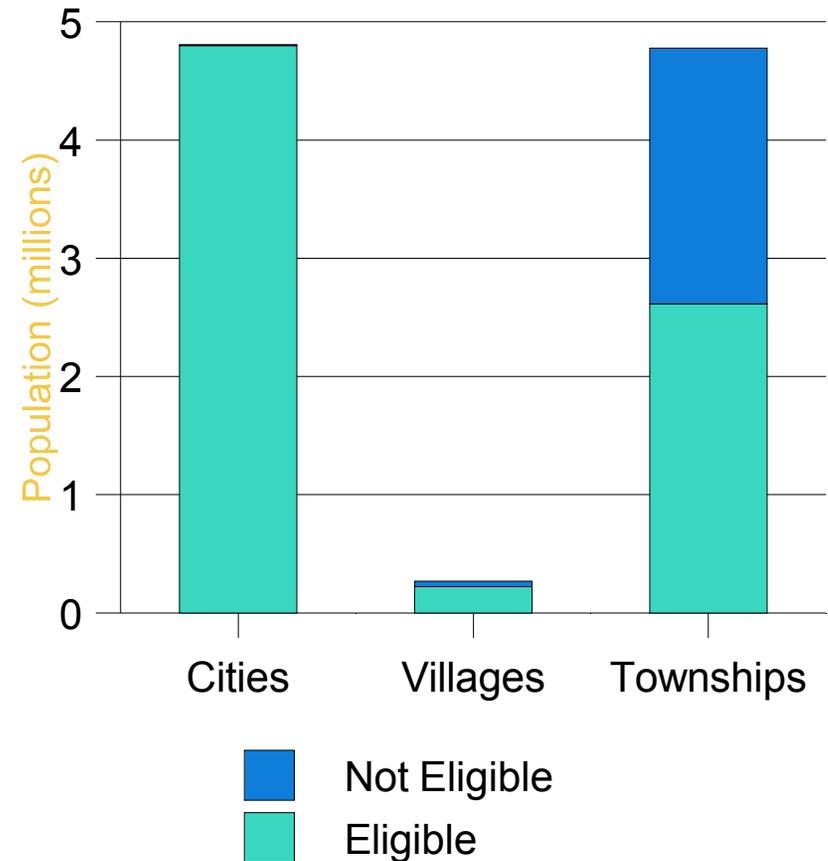


Eligible Population

Population Residing in an Eligible CVT

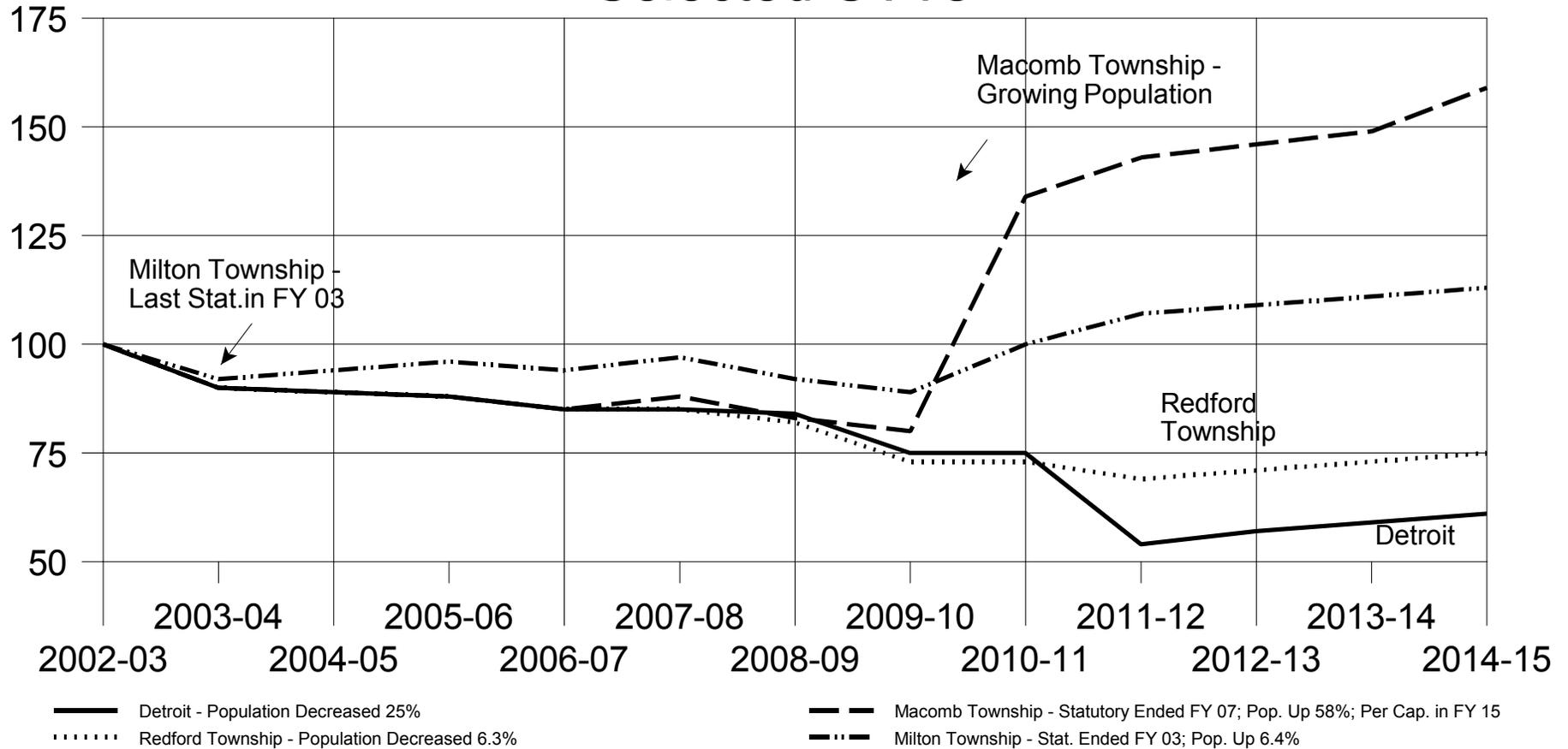
FY 2014-15

- Eligible Population
 - ▶ 4.8 million in cities
 - ▶ 222,545 in villages
 - ▶ 2.6 million in townships



Revenue Sharing Payments - Indexed to Show Relative Changes FY 2002-03 to FY 2014-15

Total of Statutory and Constitutional Payments Selected CVTs



Source: Senate Fiscal Agency

Comparison of CVTs Eligible for Statutory Revenue Sharing and Ineligible CVTs

Estimated FY 2014-15

	Eligible	Ineligible	All
Average Population			
City	17,575	1,450	17,229
Village	1,236	623	1,058
Township	19,515	1,955	3,853
Statewide Average			5,557
Average Millage			
City	17.704	9.242	17.594
Village	12.837	7.576	11.328
Township	5.565	2.537	3.898
Statewide Average			9.350
Average Taxable Value Per Capita			
City	\$28,637	\$205,180	\$32,434
Village	\$19,833	\$45,570	\$27,332
Township	\$36,168	\$99,004	\$92,213
Statewide Average			\$32,974

Source: Senate Fiscal Agency

Various Goals for Revenue Sharing

- Simple and predictable.
- Fair - Consider standards of fairness:
 - ▶ Treat all local units the same.
 - ▶ Treat similar local units the same, treat different local units differently.
 - ▶ What characteristics determine “same” or “different”?
- Reimburse for prior lost revenue due to changes in State tax policy.
- State payments for certain local services.
 - ▶ Police, fire, ambulance, parks, other.
- Use as an incentive for meeting certain goals. (The Economic Vitality Incentive Program was eliminated in FY 15.)
- Focus payments on units that meet criteria of need.
 - ▶ Density, poverty, daytime population, low tax base.
- Focus payments on local units that meet criteria of success.
 - ▶ Level of taxation, level of services, financial stability.

Challenges in Revising Revenue Sharing

CVTs Vary Greatly in Michigan

- Size - Population and geographic area.
- Tax capacity and variety of revenue sources.
- Voter-approved tax rates.
- Voter-approved special millages for specific services.
- Local preferences and need for public services.
- Amount of taxable value decline and recovery from the Great Recession.

Challenges in Revising the Program

- State budget constraints.
- Expanding eligibility for the program while keeping the appropriation the same will result in declines in payments for some CVTs.
 - ▶ What payment decline can be absorbed?
 - ▶ What payment increase is appropriate?
- Some local units in financial distress.
- Data limitations.
 - ▶ Will a new formula require additional reporting.

For additional information, please contact:

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