

MICHIGAN LEAGUE FOR PUBLIC POLICY

MUNICIPAL CRISES: SYMPTOMS & SOLUTIONS

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TOPICS

I. STATE OF MICHIGAN REVENUE SOURCES

II. REVENUE SHARING

III. LOCAL REVENUES

TOTAL STATE REVENUES BY SOURCE

(IN MILLIONS)	Final FY 2011-12	Estimated FY 2012-13	Estimated FY 2013-14
Sales & Use Taxes	\$8,383.5	\$8,345.2	\$8,663.2
Individual Income Tax	\$8,148.4	\$8,171.5	\$8,268.9
Other Revenue	\$4,537.9	\$4,302.0	\$4,580.1
Transportation Tax	\$1,827.0	\$1,839.1	\$1,852.7
State Education Tax	\$1,788.7	\$1,792.0	\$1,818.0
Tobacco Taxes	\$963.2	\$950.1	\$936.3
Lottery	\$778.4	\$745.0	\$742.5
Net Business Taxes	\$1,565.3	\$735.0	\$755.2
Other	\$654.4	\$612.5	\$635.2
TOTAL	\$28,646.8	\$27,492.4	\$28,252.1
Source: House Fiscal Agency, Revenue Source & Distribution, Oct 2013			

TOTAL STATE REVENUES BY SOURCE

PERCENT OF TOTAL	Final FY 2011-12	Estimated FY 2012-13	Estimated FY 2013-14
Sales & Use Taxes	29.3%	30.4%	30.7%
Individual Income Tax	28.4%	29.7%	29.3%
Other Revenue	15.8%	15.6%	16.2%
Transportation Tax	6.4%	6.7%	6.6%
State Education Tax	6.2%	6.5%	6.4%
Tobacco Taxes	3.4%	3.5%	3.3%
Lottery	2.7%	2.7%	2.6%
Net Business Taxes	5.5%	2.7%	2.7%
Other	2.3%	2.2%	2.2%
Source: House Fiscal Agency, Revenue Source & Distribution, Oct 2013			

SALES TAX REVENUE DISTRIBUTION

(In Millions)	Estimated FY 2013-14	% of Total
School Aid Fund	\$5,332.1	72.7%
General Fund/General Purpose	\$1,153.8	15.7%
Constitutional Revenue Sharing	\$737.3	10.1%
Comprehensive Transportation Fund	\$98.5	1.3%
Health Initiative	\$9.0	0.1%
TOTAL	\$7,330.7	
Source: House Fiscal Agency, Revenue Source & Distribution, October 2013		

INDIVIDUAL INCOME TAX DISTRIBUTION

(In Millions)	Estimated	% of
	FY 2013-14	Total
General Fund/General Purpose	\$5,914.2	71.52%
School Aid Fund	\$2,353.7	28.46%
State Campaign Fund	\$1.0	0.01%
TOTAL	\$8,268.9	
Source: House Fiscal Agency, Revenue Source & Distribution, October 2013		

HISTORY OF STATE REVENUE SHARING

REVENUE SHARING WAS ESTABLISHED AS A MEANS TO SHARE STATE TAX REVENUES WITH LOCAL UNITS OF GOVERNMENT IN EXCHANGE FOR LIMITING LOCAL TAXING AUTHORITY:

- **1933:** Unrestricted revenue sharing begins with liquor tax collections.
- **1939:** Intangibles tax is shared. One half goes to counties and one half to cities, villages and townships (CVTs).
- **1946:** Constitutional amendment passes. State begins sharing one-half cent of sales tax with CVTs.
- **1967:** 11.5% of new state income tax shared. One-half goes to counties and one-half to CVTs.
- **1972:** Distribution of CVT income tax payments based on relative tax effort (RTE).
- **1975:** Single Business Tax enacted and shared on RTE basis with CVTs. Reimbursement of local revenue loss resulting from removal of business inventories from tax base begins.

HISTORY OF REVENUE SHARING

Continued

- **1991:** State discontinues intangibles tax distribution
- **1996:** State consolidates income tax and single business tax shared revenues into an expanded percentage of the sales tax. Past revenue reductions in statutory reductions made permanent through lower sales tax percentage.
- **1998:** Statutory formulas are repealed and replaced by new formulas with a ten-year phase in period.¹
- **2005:** County revenue sharing is replaced by revenue sharing reserve funds (RSRF) funded with the acceleration of property tax collection dates. State agrees to restore revenue sharing to counties once their RSRF is depleted.
- **2012:** Statutory revenue sharing for CVTs are replaced by economic vitality.

¹Citizens Research Council

REVENUE SHARING PAYMENTS

CONSTITUTIONAL REVENUE SHARING

15% of gross sales tax collections at a 4% rate are distributed to CVTs on a per capita basis, pursuant to Article IX, Section 10 of the Michigan Constitution.

STATUTORY REVENUE SHARING

21.3% of gross sales taxes collected at a 4% rate, with 75% earmarked to CVTs and 25% to counties.

REVENUE SHARING PAYMENTS

Continued

CVTs—STATUTORY

Payments are subject to annual appropriation.

Full funding for just CVTs would be approximately 15.96% of gross collections of the state sales tax collected at a 4% rate.

The 1998 revenue sharing statute established a complicated set of formulas for the distribution of statutory revenue sharing to CVTs that was to be phased in over a 10-year period. Since fiscal year 2003 the statutory formulas have been abandoned and the act was amended annually to set the combined revenue sharing payments to each CVT based on a percentage of the previous fiscal year.

Beginning in fiscal year 2012 statutory revenue sharing payments were replaced with economic vitality incentive payments. Three categories of funding incentives were created: accountability and transparency; consolidation of services; and employee compensation.

REVENUE SHARING PAYMENTS

Continued

COUNTIES-- STATUTORY

Full funding for counties would equate to approximately 5.34% of gross collections in state sales tax collected at a 4% rate.

Payments are subject to annual appropriation.

Payments are distributed on a per capita basis.

Only counties that have exhausted their RSRF are eligible.

Sources:

House Fiscal Agency July 23 memorandum

Senate Fiscal Agency May 28 memorandum

HISTORY OF CVTs REVENUE SHARING PAYMENTS

	FY 1997	FY 2001	FY 2006	FY 2011	FY 2014	CHANGE	CHANGE
	FINAL	FINAL*	FINAL	FINAL	ESTIMATE	97-2014	2001-14
Constitutional--CVTs	\$535.6	\$642.8	\$680.1	\$664.7	\$737.3	\$201.7	\$94.5
Statutory--CVTs/EVIP	\$570.4	\$684.0	\$422.4	\$314.3	\$235.8	-\$334.6	-\$448.2
Total CVT Revenue Sharing	\$1,106.0	\$1,326.8	\$1,102.5	\$979.0	\$973.1	-\$132.9	-\$353.7
% CHANGE FROM PRIOR PERIOD		19.96%	-16.91%	-11.20%	-0.60%		
% CHANGE FROM 1997-2014					-12.01%		
% CHANGE FROM 2001-2014					-26.66%		
* 2001 Full Funding Statutory Revenue Sharing							
Source: House Fiscal Agency July 23, 2013 Memorandum							

LOCAL REVENUES

PRIMARY SOURCES OF LOCAL REVENUES

- Property taxes are the largest source of revenues for counties and CVTs. In 2010 the counties and CVTs collected \$5.52 billion in local property taxes.
- The 2nd largest source of local revenues is the city income tax. In 2010, 22 cities levied an income tax that generated a combined \$373 million in net tax revenues.
- Local units of government are prohibited from levying a sales tax.

Source: Citizens Research Council of Michigan Outline of the Michigan Tax System

LOCAL REVENUES

INCOME TAXES

- **In 1964 The Uniform City Income Tax was enacted. The law authorized cities to adopt an income tax ordinance. The authorization is subject to referendum upon petition of voters.**
- **The basis of the tax is a direct tax on income of residents and corporations, as well as a direct tax on earnings of nonresidents.**
- **Generally speaking the rates are capped at 1% on residents and corporations, as well as .5% on income of non-residents. The nonresident rate cannot exceed one-half of the resident rate.**
- **18 cities levy a 1% tax on resident's income, 1% on corporations, and .5% on the income of nonresidents.**

LOCAL REVENUES

INCOME TAXES-continued

- **The city council in cities over 600,000 (Detroit) may impose rates of up to 2.5% on residents, 1% on corporations, and 1.25% on residents. Rates may be further reduced until the rates reach 2% and 1% respectively by 2016, according to adjustments to the Uniform Tax Act.**
- **The cities of Highland Park, Saginaw, and Grand Rapids are authorized to impose rates of up to 2% on residents and corporations, and 1% on nonresidents.**
- **City income taxes generated \$440 million in 2008, declined to \$395 million in 2009, and declined further to \$373 million in 2010.**

Source:

Citizens Research Council

Outline of the Michigan Tax System

LOCAL REVENUES

PROPERTY TAXES

- Local property taxes were first authorized in the Territorial Act of 1893 and are subject to certain constitutional and statutory limitations.
- The basis of the tax is a levy on the owner of real and personal property not otherwise exempted.
- Property taxes are determined by multiplying the tax rate by the taxable value of a parcel of property.
- The local governing body authorizes the tax rate, which is subject to numerous constitutional and statutory provisions and limitations.

LOCAL REVENUES

PROPERTY TAXES-continued

Property values have declined dramatically over the last 5 years, drastically impacting the bottom line of CVTs and counties. The 2010 levies generated \$5.5 billion in property tax revenues, a \$313 million reduction from the previous year. Please note the following decreases in taxable values from 2008 thru 2012:

- **Statewide** -13.1%
- **Pontiac** -46.3%
- **Flint** -42.4%
- **Farmington Hills** -30.2%
- **Detroit** -15.8%
- **Grand Rapids** - 8.2%
- **Wayne County** -21.7%
- **Oakland County** -24.0%

**Sources:
Citizens Research Council
Outline of Michigan Tax System**

State Tax Commission Records

LOCAL REVENUES

PROPERTY TAX LIMITATIONS

- Millage rates vary by unit but in general are subject to the overall millage caps established in Section 6 of Article IX of the Michigan Constitution.
- Headlee Rollback Rates: The Constitutional Amendment of 1978 requires a taxing jurisdiction to roll back maximum authorized rates if the state equalized value, excluding new construction, increases faster than the rate of inflation.
- Proposal A: The 1994 Constitutional Amendment requires that taxable value may not rise by more than the lesser of the increase in the consumer price index or 5%.
- In 2012 the legislature passed a series of bills that reformed personal property taxes. The bills reduced certain personal property taxes and provided for partial replacement of lost local revenues.