



Background Briefing

REVENUE SHARING

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Fiscal information in this briefing is based on the May 2015 Consensus Revenue Estimates.

Overview of Revenue Sharing

- **There are 279 cities, 254 villages, 1,240 townships, and 83 counties in Michigan. The Constitution requires that 48.97% of state spending from state sources be returned to local units of government, and revenue sharing payments represent the largest portion of unrestricted funds.**

- **Total revenue sharing has traditionally been comprised of the following two components:**
 - **Constitutional revenue sharing payments are distributed to all cities, villages, and townships (CVTs), but not counties.**

 - **Statutory revenue sharing payments have generally been distributed to all CVTs and counties, although various changes over the past decade have significantly reduced the number of eligible local units.**

Overview of Constitutional Revenue Sharing

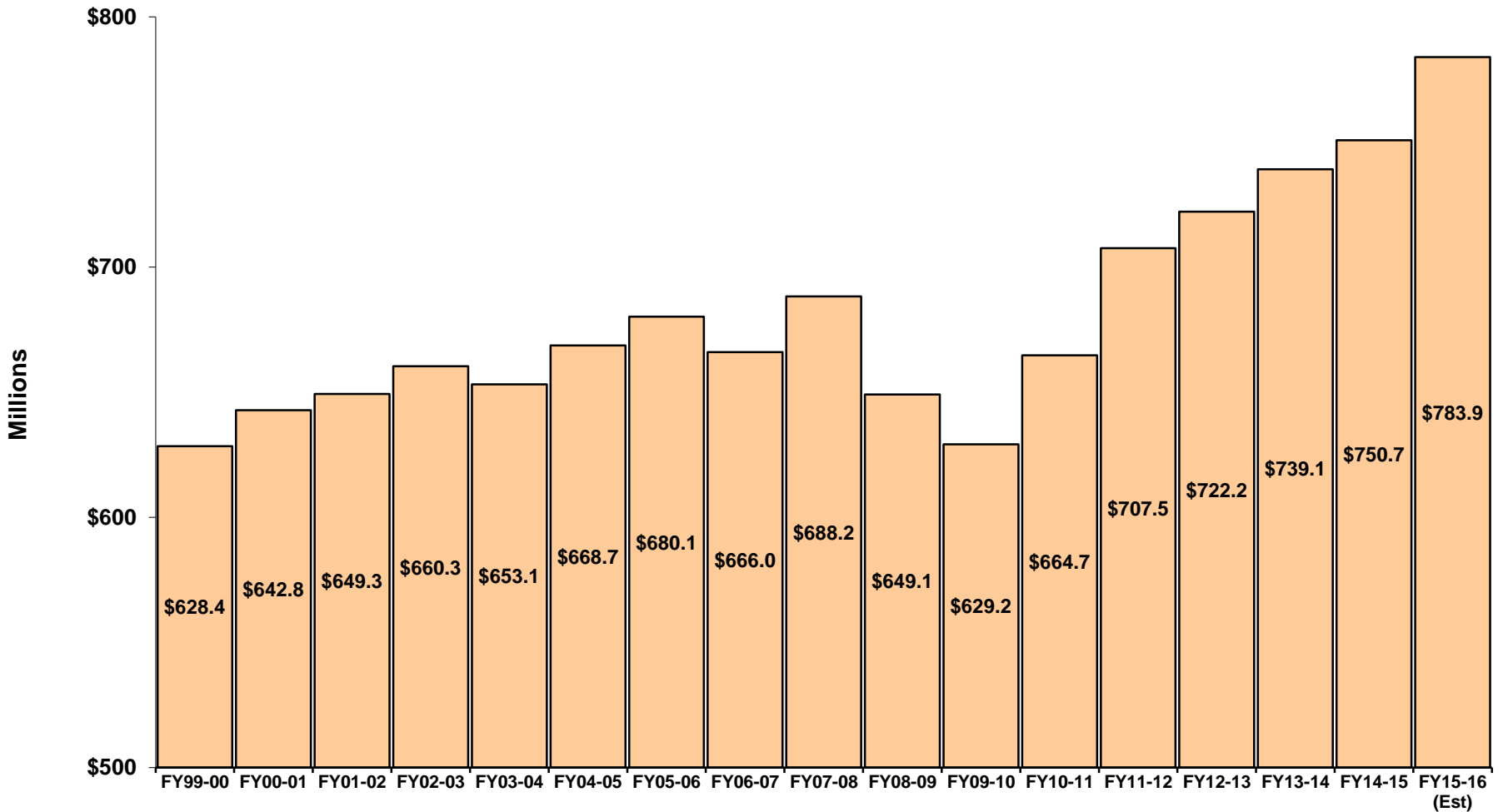
- Constitutional revenue sharing began in 1946, and was included in the state Constitution of 1963.
- The Constitution stipulates that 15% of sales tax collections at the 4% rate be distributed to CVTs on a per capita basis as determined by the most recently completed decennial census. Population adjustments not resulting from the decennial census are typically not factored into the distribution.
- Although voters approved an increase in the sales tax rate to 6% in 1994, Constitutional revenue sharing payments are still calculated based on the first 4% since the 2% increase is Constitutionally dedicated to the School Aid Fund.
- Constitutional revenue sharing payments are issued by the Department of Treasury at the end of October, December, February, April, June, and August of each state fiscal year based on actual sales tax collections from the prior two months.

Constitutional Revenue Sharing Payments to Cities, Villages, and Townships

Millions of Dollars

	<u>Final FY2013-14</u>	<u>Final FY2014-15</u>	<u>Estimated FY2015-16</u>
Total Constitutional	\$739.1	\$750.7	\$783.9
Detroit	53.5	55.3	56.7
Other CVTs	685.6	696.4	727.2
Cities (279)	360.3	366.2	382.4
Villages (254)	20.2	20.5	21.4
Townships (1,240)	358.4	364.0	380.1

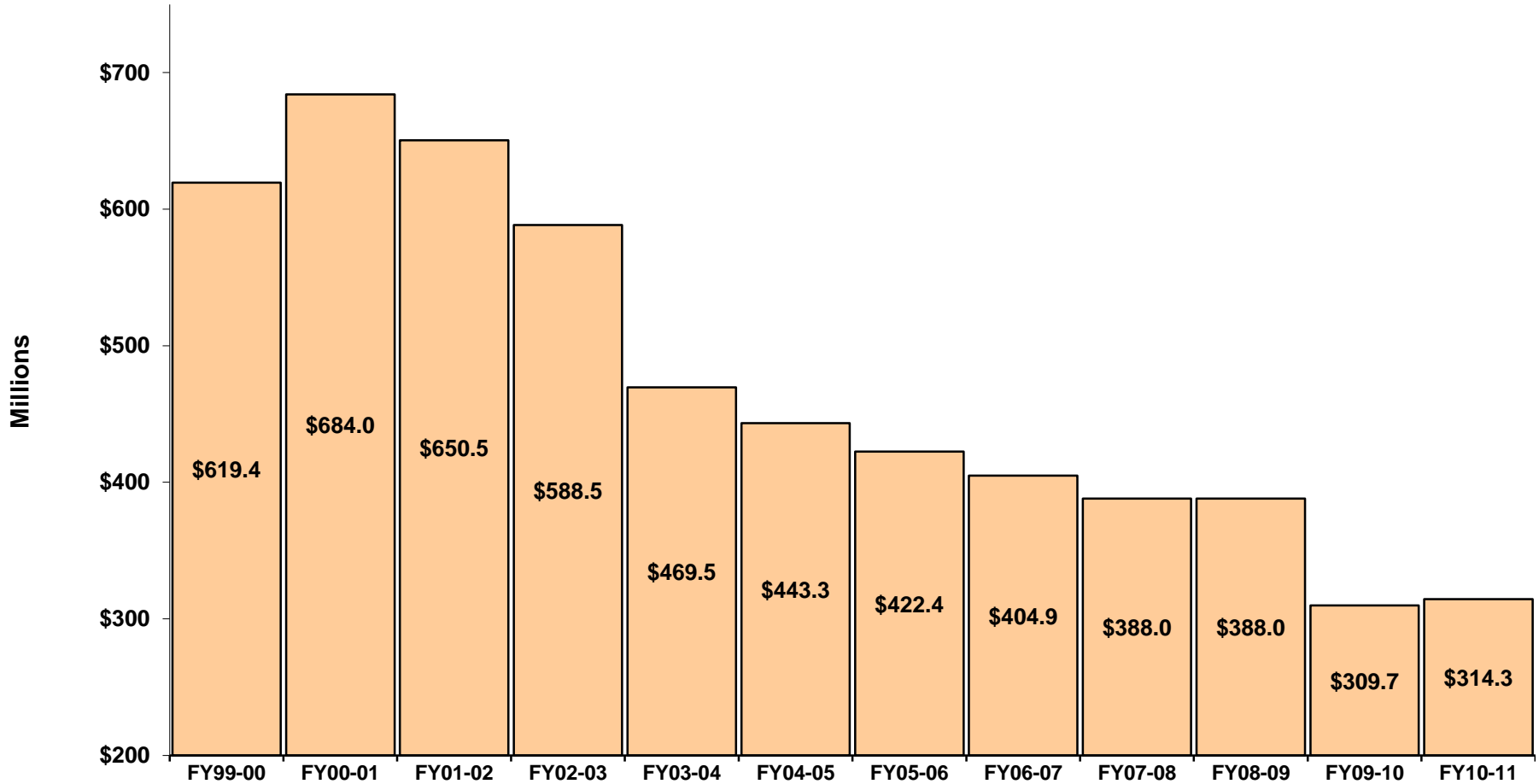
Constitutional Revenue Sharing Payments to Cities, Villages, and Townships



Overview of Statutory Revenue Sharing to Cities, Villages, and Townships

- **Statutory revenue sharing began with the repeal of prohibition in 1933 when 85% of liquor license fees were returned to local units.**
- **The State Revenue Sharing Act of 1971 was amended by 1998 PA532 to implement new distribution formulas. Under 1998 PA532, full funding for statutory revenue sharing to CVTs was defined as 74.94% of 21.3% of sales tax revenue at the 4% rate. Between FY 1999-00 and FY 2001-02, statutory revenue sharing payments followed the provisions of 1998 PA 532.**
- **Because actual appropriations were routinely well below the full funding guideline, between FY 2004-05 and FY 2010-11, reductions in funding and changes in the distribution formulas eliminated statutory revenue sharing payments for 1,033 CVTs.**
- **Only 740 CVTs received statutory revenue sharing in FY 2010-11, the last year in which statutory revenue sharing payments were made.**

Statutory Revenue Sharing Payments to Cities, Villages, and Townships



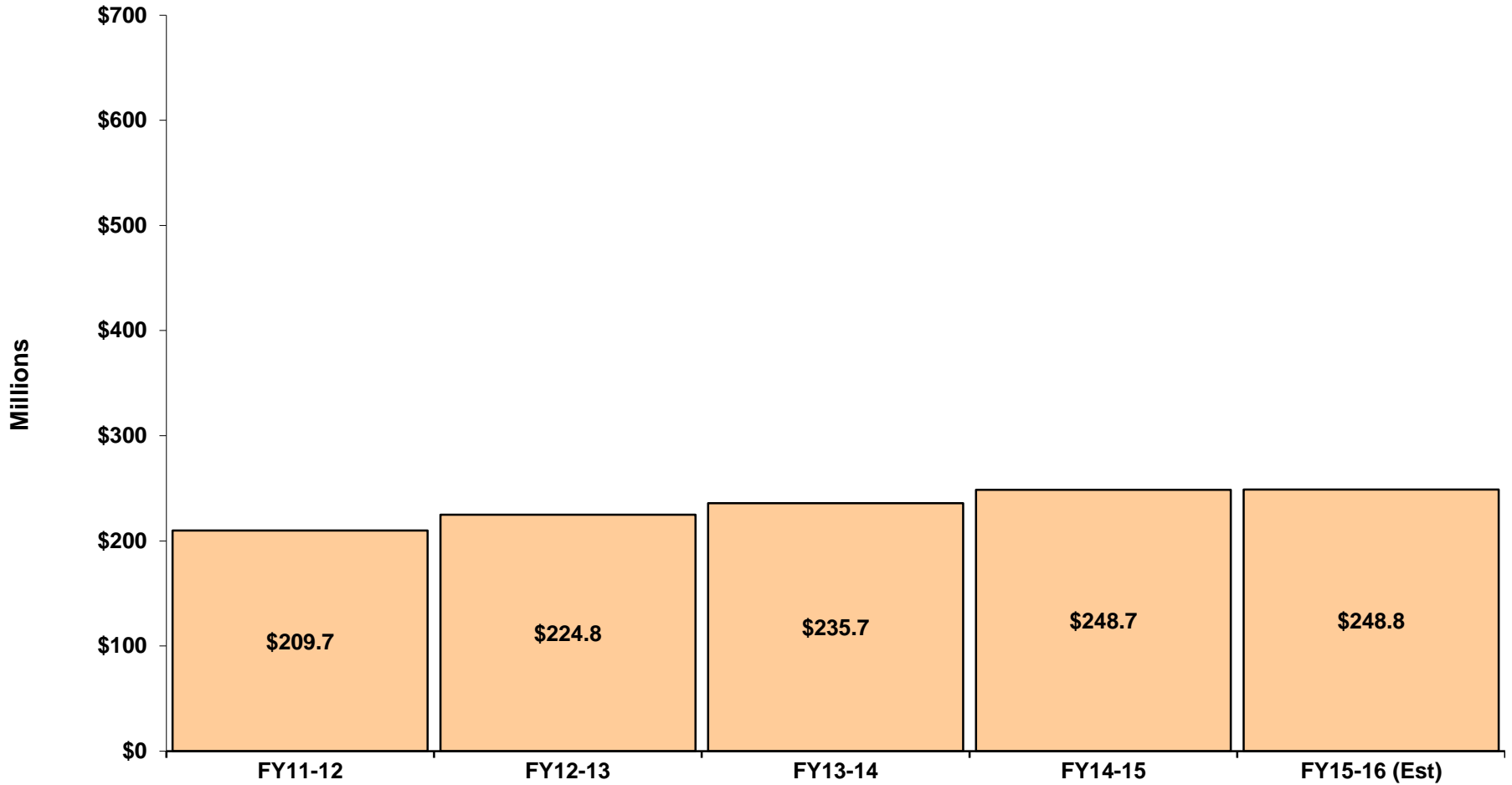
Overview of the Economic Vitality and Incentive Program (EVIP)

- EVIP replaced statutory revenue sharing beginning in FY 2011-12, although it only existed in boilerplate. EVIP has never been codified into statute, and statutory revenue sharing has never been repealed.
- A CVT's EVIP payment was contingent on fulfilling requirements in such areas as Accountability and Transparency, Consolidation and Collaboration, Employee Compensation Issues, and Reducing Unfunded Liabilities.
- Due to limited funding, the number of CVTs eligible for EVIP funding decreased from 740 during the final year of statutory revenue sharing to 486 CVTs when EVIP was initiated. Eligible CVTs received a percentage of their FY 2009-10 statutory revenue sharing payments.
- For a more thorough explanation of the EVIP program, see the following document: [HFA EVIP Memo](#)

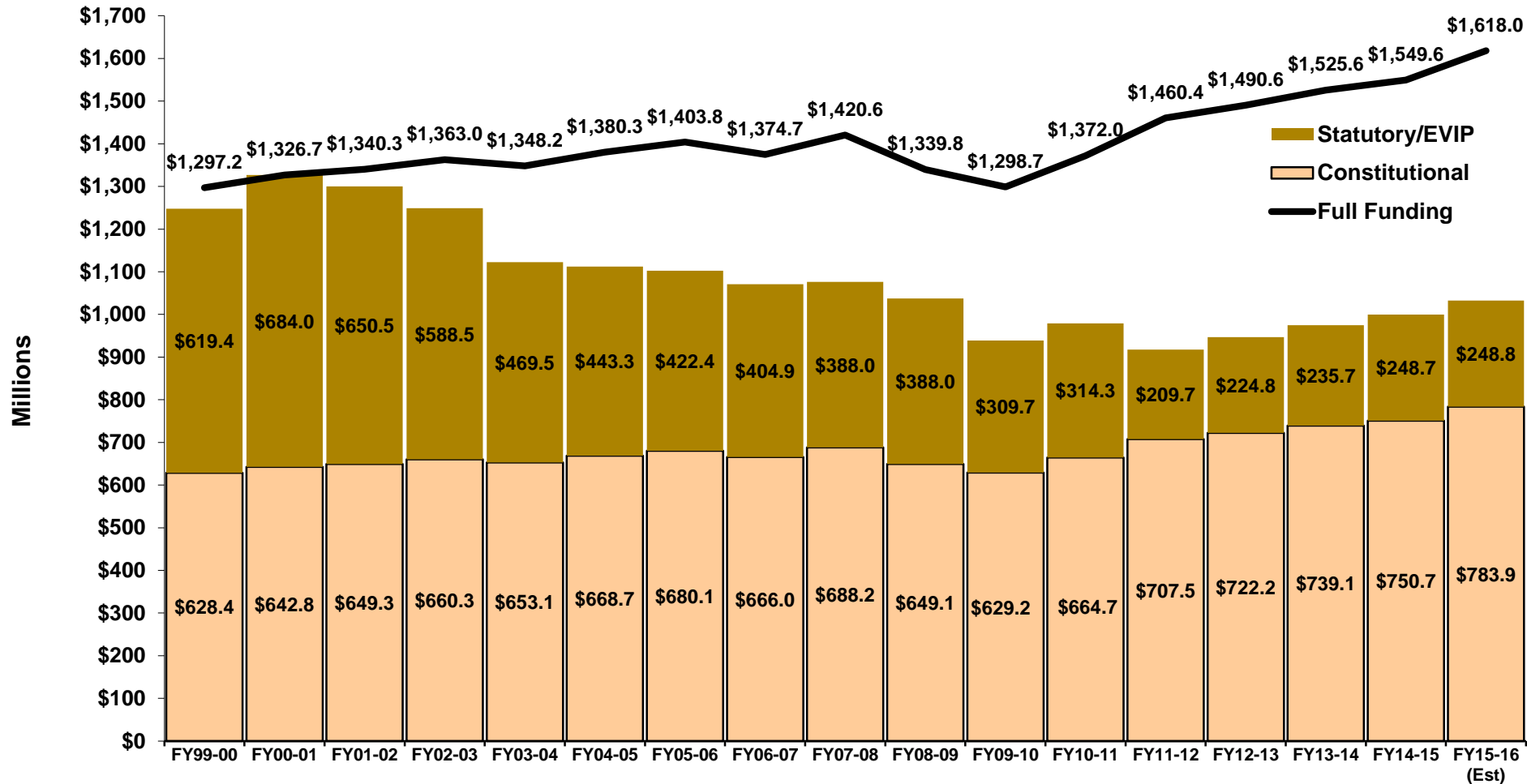
Overview of CVT Revenue Sharing

- For FY 2014-15, the majority of the EVIP compliance requirements were eliminated, leaving only Accountability and Transparency, and the program name was changed from EVIP to CVT Revenue Sharing in boilerplate.
- A CVT that was eligible for EVIP payments in prior years is eligible to receive the greater of 78.51% of its FY 2009-10 statutory payment or a payment of \$2.65 per person.
- CVTs with populations in excess of 7,500 that had not previously been eligible for EVIP payments are eligible for a payment of \$2.65 per person. 101 additional CVTs qualify under this provision.
- CVTs with populations less than 7,500 that had not previously been eligible for EVIP payments continue to be ineligible.
- The same FY 2014-15 provisions were extended for FY 2015-16.

EVIP and CVT Revenue Sharing Payments to Cities, Villages, and Townships



Total Revenue Sharing and EVIP Payments to Cities, Villages, and Townships



Total Revenue Sharing and EVIP Payments to Cities, Villages, and Townships

Millions of Dollars

	<u>Final FY2013-14</u>	<u>Final FY2014-15</u>	<u>Estimated FY2015-16</u>
Total Payments	\$974.8	\$999.4	\$1,032.7
Detroit	189.8	194.8	197.2
Other CVTs	785.1	804.6	835.5
Cities (279)	587.8	600.9	617.0
Villages (254)	23.6	24.0	25.0
Townships (1,240)	363.4	374.5	390.7

For individual CVT detail, please see: [HFA Revenue Sharing Memo](#)

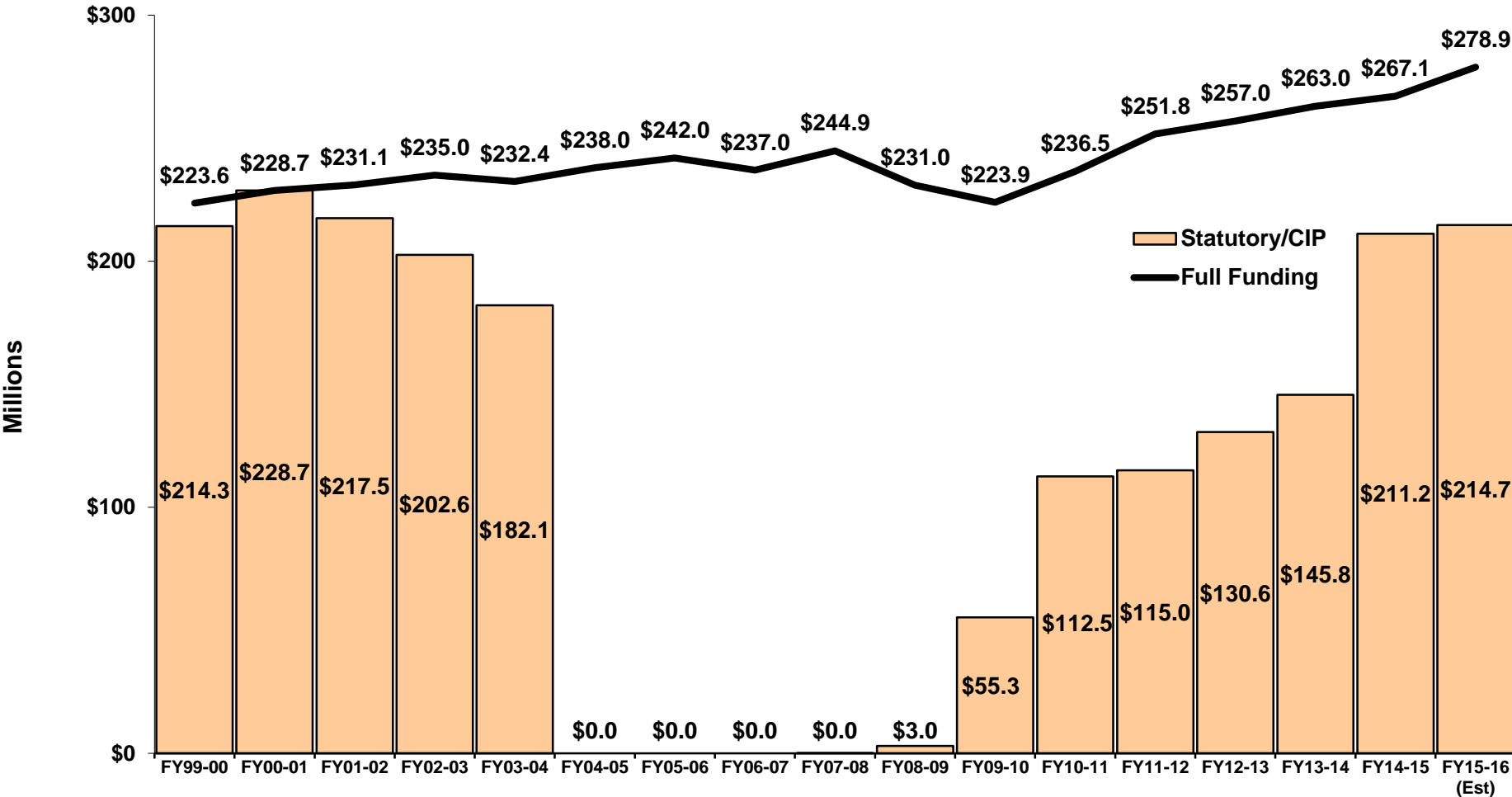
Overview of County Revenue Sharing

- **Counties do not receive Constitutional payments.**
- **The State Revenue Sharing Act of 1971, as amended by 1998 PA532, defined full funding for county revenue sharing as 25.06% of 21.3% of sales tax revenue at the 4% rate. County revenue sharing payments were distributed on a per capita basis.**
- **As with CVTs, actual appropriations for county revenue sharing were routinely below the full funding guideline.**
- **Beginning in FY 2013-14, 20% of a county's revenue sharing payment was subject to the provisions of the County Incentive Plan (CIP), which imposed the same requirements as EVIP.**
- **County revenue sharing was temporarily suspended beginning in FY 2004-05.**

Overview of County Revenue Sharing

- **Counties were required to create reserve funds with own-source general operating revenue from which they were allowed to withdraw an annual amount in lieu of state revenue sharing.**
- **The annual authorized withdrawal for each county was its FY 2003-04 payment, adjusted for inflation.**
- **When a county's reserve fund balance is exhausted, it will again be eligible for state revenue sharing payments equal to its final authorized withdrawal amount. Additional inflation adjustments will not be applied.**
- **In FY 2015-16, an estimated 76 counties will receive state revenue sharing payments, leaving only seven counties with positive reserve fund balances.**
- **Beginning in FY 2013-14, 20% of a county's revenue sharing payment became subject to the County Incentive Program (CIP), which imposes the same requirements as EVIP.**

County Revenue Sharing and CIP Payments



**For more information about
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