



2022 BUDGET PRIORITY: ENSURE THAT MICHIGAN'S CITIES, VILLAGES, TOWNSHIPS AND COUNTIES HAVE THE RESOURCES THEY NEED TO ADDRESS THE FALLOUT OF THE COVID-19 PUBLIC HEALTH CRISIS

LEAGUE RECOMMENDATION:

The COVID-19 crisis has exacerbated structural financial barriers faced by local units of government, leading to deficits and major reductions in fund balances. These reductions threaten to undermine the ability of local units of government to provide essential goods and services to their residents. Revenue sharing is a significant source of revenue for counties, cities, villages and townships. When utilized to its full extent, revenue sharing can provide relief to counties, cities, villages, and townships, which are unable to raise their own revenue due to constitutional restrictions on property tax revenue growth and preemptions on raising their own revenue.

In the 2021 budget, lawmakers held harmless statutory revenue sharing but did not account for declines in total revenue sharing payments stemming from anticipated decreased sales tax collections.

BACKGROUND:

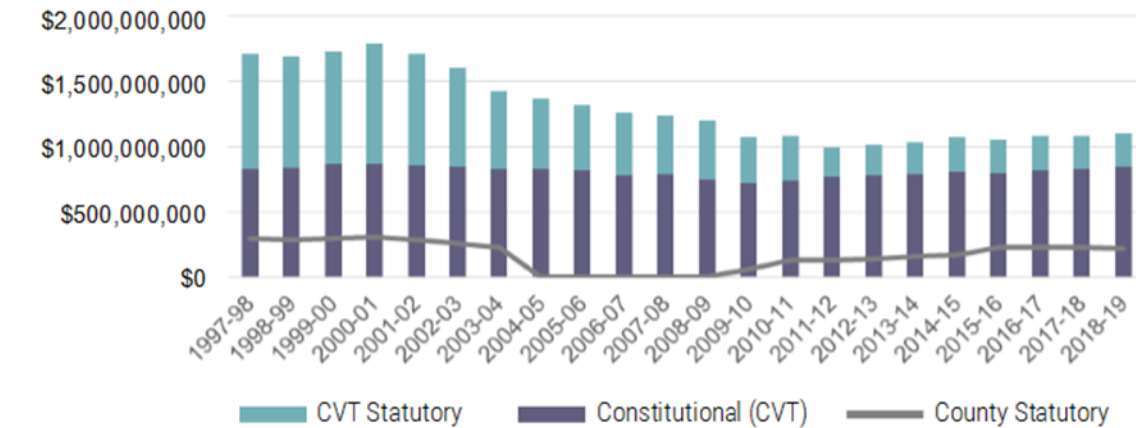
Revenue collections for counties, cities, villages and townships have lagged behind the increasing demand for services and other inflationary pressures, leaving many local units of government in states of fiscal stress. Although property values have been increasing since the Great Recession, property taxes have lagged behind inflation because of constitutional caps on the taxable value of property. Most alternative local revenue options have either been pre-empted or eliminated by the state. In exchange for these limitations and to ensure robust funding of locally provisioned services, the state has historically compensated local units of government through revenue sharing. Revenue sharing has declined significantly over the last twenty years.

There are two types of revenue sharing, known as constitutional revenue sharing and statutory revenue sharing. Constitutional revenue sharing is distributed to cities, villages and townships on a per capita basis. The source of constitutional revenue sharing has changed over time but has largely been maintained since 1946. Since 1974, the constitutional earmark for revenue sharing is equal to 15% of the revenue generated by the sales tax levied at the 4% rate.

Statutory revenue sharing, on the other hand, has not been maintained over time. The original purpose for statutory revenue sharing was to reimburse local units of government for the erosion of local taxing authority by the state. There have been various earmarks for statutory revenue sharing over the years, including the distribution of liquor license fees, sales taxes, income taxes and single business taxes. In 1998, the Revenue Sharing Act was amended to specify that the above funding sources would be replaced by 21.3% of sales tax revenue collected at the 4% rate.

Since statute cannot mandate an appropriation, statutory revenue sharing has not been fully funded since 2001.

Revenue Sharing Payments, Adjusted for Inflation to 2019 Dollars



Source: Michigan House Fiscal Agency

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WHY DOES IT MATTER?

To create and maintain an equitable society, governments, organizations and people need funds. Though not all racial equity issues are economic, economic conditions play an integral part in defining racial inequities. Creating equitable systems means putting resources into communities.

Without increased revenue sharing, local units of government will either have to cut services that we rely on or pay for them in other ways, such as raising property taxes or increasing fines or fees. Revenue sharing is a much more equitable option for local funding because local property taxes are more regressive than state taxes as a whole, meaning that people with lower incomes contribute a higher proportion of their income in property taxes than do individuals with higher incomes. With a higher proportion of income spent on taxes related to housing, individuals with low incomes have to forego other necessary purchases.

Revenue sharing is a useful tool because it gives some diversity in revenue sources for local governments. While local property tax revenues are directly related to the housing market, revenue sharing dollars are drawn from many revenue sources at the state level that better track the economy. As such, counties, cities, villages and townships that receive revenue sharing dollars can benefit from wider economic growth that is not captured in property values.