House Fiscal Agency

Budget Briefing:
State Revenue Sharing

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Briefing Topics

- Revenue Sharing Overview
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- Statutory Revenue Sharing
- Economic Vitality and Incentive Program (EVIP)
- CVT Revenue Sharing
- County Revenue Sharing

Revenue Sharing Overview

Revenue Sharing Overview

- There are 280 cities, 253 villages, and 1,240 townships (CVTs) in Michigan, along with 83 counties.
- Seventeen cities and 11 villages span across county lines and therefore have populations and/or taxable values in more than one county.
- Article IX, section 30 of the State Constitution requires that 48.97% of state spending from state sources be paid to local units of government, and state revenue sharing payments represent the largest unrestricted portion of that requirement for CVTs and counties.
- State revenue sharing payments have traditionally taken two forms:
  - Constitutional revenue sharing payments, which are distributed to cities, villages, and townships on a per capita basis.
  - Statutory revenue sharing payments, which have generally been distributed to all CVTs and counties, although various changes beginning in 2003 significantly reduced the number of eligible local units.

Constitutional Revenue Sharing

Constitutional Revenue Sharing

- Constitutional revenue sharing began in 1946 and was retained 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

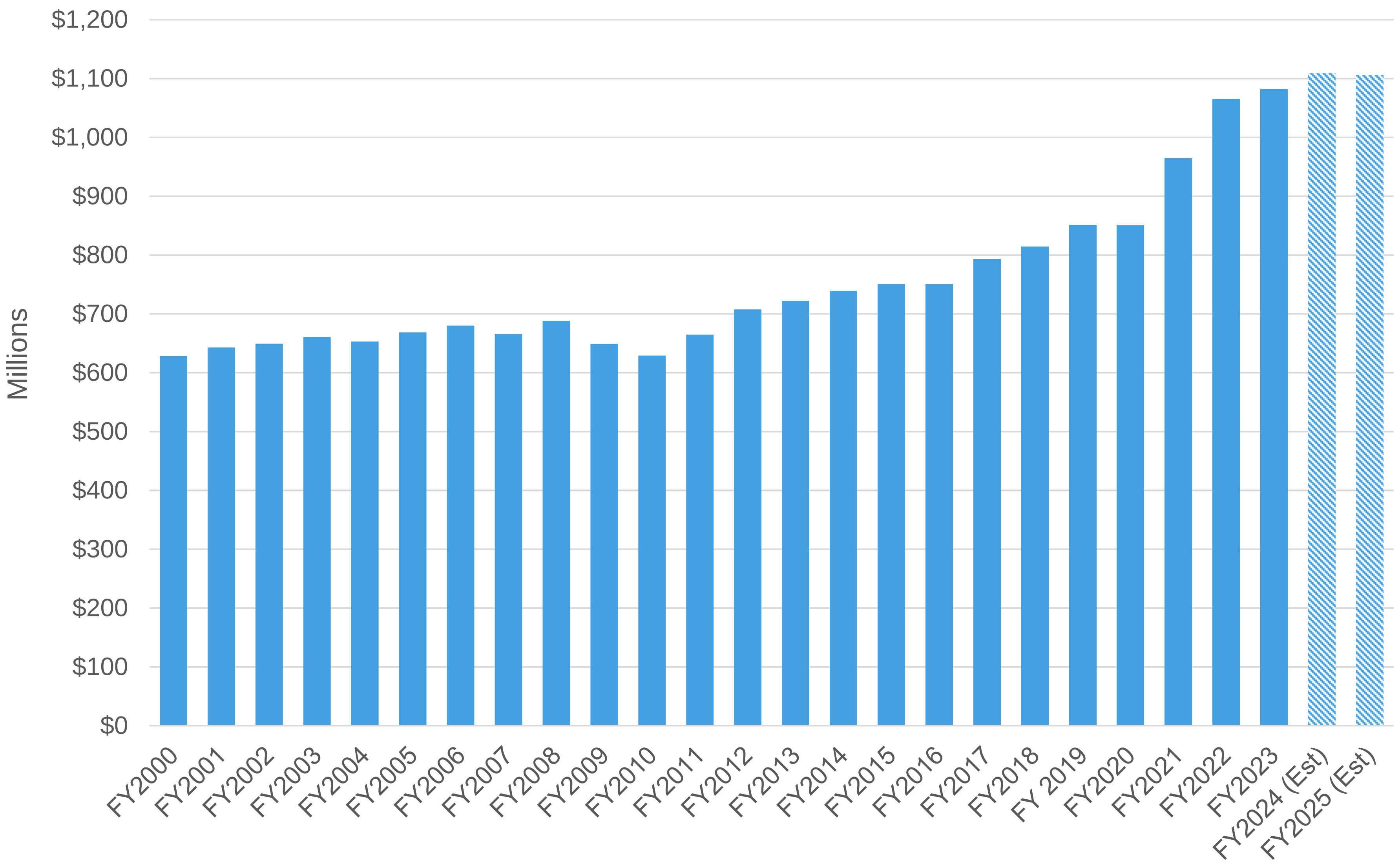
$ in millions

	Final FY 2022-23	Estimated FY 2023-24	Estimated FY 2024-25
Constitutional Revenue Sharing Payments	$1,082.0	$1,109.1	$1,106.1
Detroit	68.7	70.5	70.3
Other CVTs	1,013.3	1,038.6	1,035.8
Cities (280)	519.2	532.2	530.7
Villages (253)	29.1	29.8	29.8
Townships (1,240)	533.8	547.1	545.6

Notes

1) Dollar amounts may not sum to the total shown due to rounding.
2) Because constitutional revenue sharing payments are based on actual sales tax collections, FY 2023-24 and FY 2024-25 amounts are estimated using the January 2024 Consensus Revenue Estimating Conference sales tax projections.
3) Projections are based on populations from the 2020 decennial Census.

Constitutional Revenue Sharing Payments to Cities, Villages, and Townships

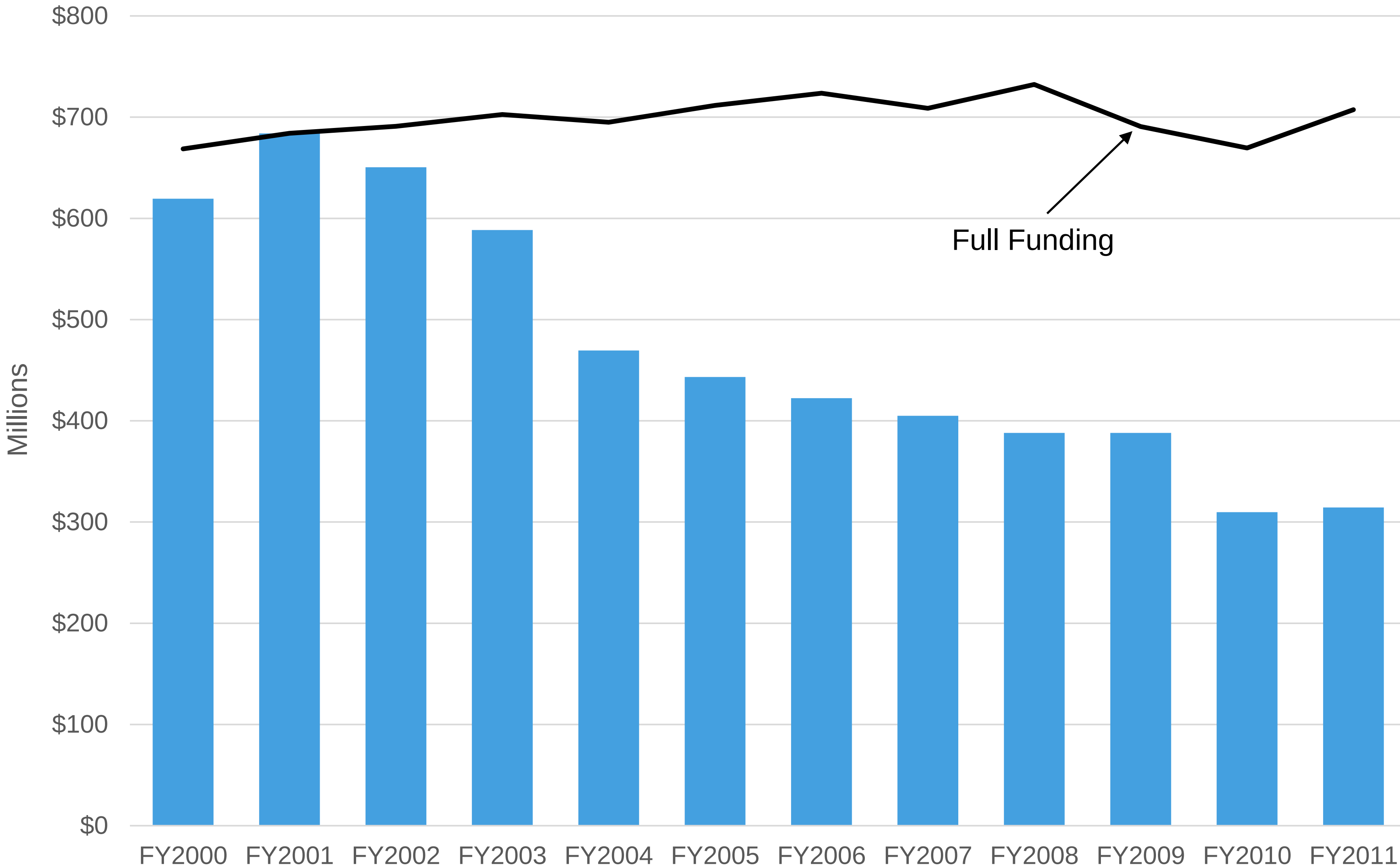


Statutory Revenue Sharing to Cities, Villages, and Townships

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 2009-10, reductions in funding and changes in the distribution formulas eliminated statutory revenue sharing payments for almost 1,300 CVTs.
- Only about 650 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



Economic Vitality and Incentive Program

Economic Vitality and Incentive Program

- The Economic Vitality and Incentive Program (EVIP) replaced statutory revenue sharing beginning in FY 2011-12, although it only existed in boilerplate and was never been codified into statute.
- A CVTs 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 about 650 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

CVT Revenue Sharing

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.
- Funding was increased from $235.84 million to $248.84 million to allow more CVTs to be eligible for payments.
- A CVT that was eligible for EVIP payments in prior years was 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 were eligible for a payment of $2.65 per person. 101 additional CVTs qualified under this provision, bringing the total number of eligible local units to 587.
- CVTs with populations less than 7,500 that had not previously been eligible for EVIP payments continued to be ineligible.

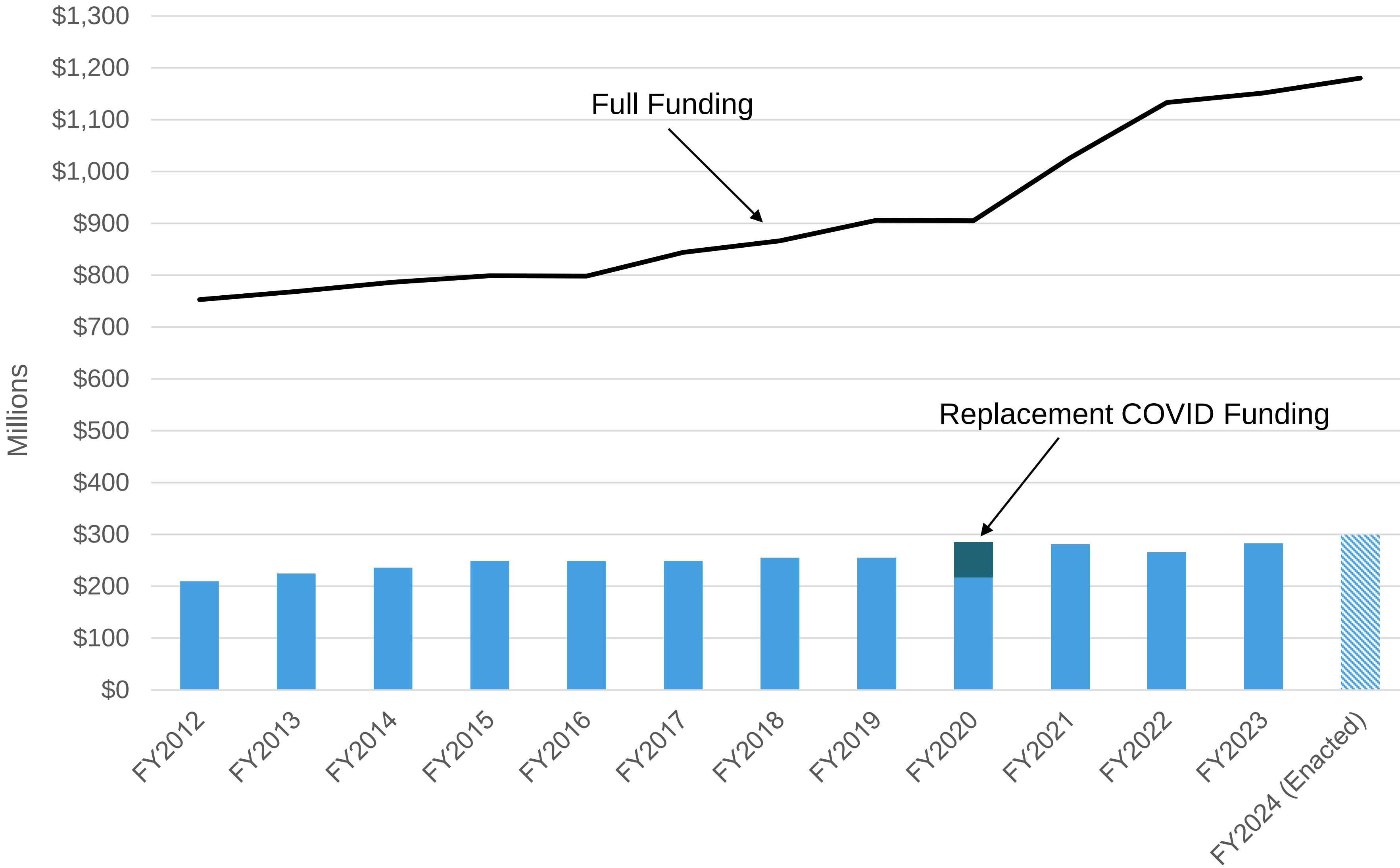
CVT Revenue Sharing

- The same FY 2014-15 distribution provisions were extended for both FY 2015-16 and FY 2016-17. Total funding remained at $248.84 million.
- For FY 2017-18, the FY 2014-15 distribution provisions were continued at the same $248.84 million funding level as in prior years. However, an additional $6.2 million was appropriated to eligible CVTs, and was to be distributed on a per capita basis at $0.811980 per person.
- The FY 2018-19 appropriation included $116,000 to provide funding for an additional 49 CVTs in addition to the same $255.0 million funding amount as in FY 2017-18. Because the $6.2 million per capita amount was distributed to a larger number of CVTs, the per person distribution declined to $0.807929.
- The appropriation for FY 2019-20 combined all the individual amounts into a single appropriation along with an additional $6.0 million, bringing the total to $261.0 million. Funding was later reduced by $43.5 million to $217.5 million when state revenue fell during the COVID-19 pandemic. The reduction in revenue sharing was replaced by $67.6 million in CARES funding.

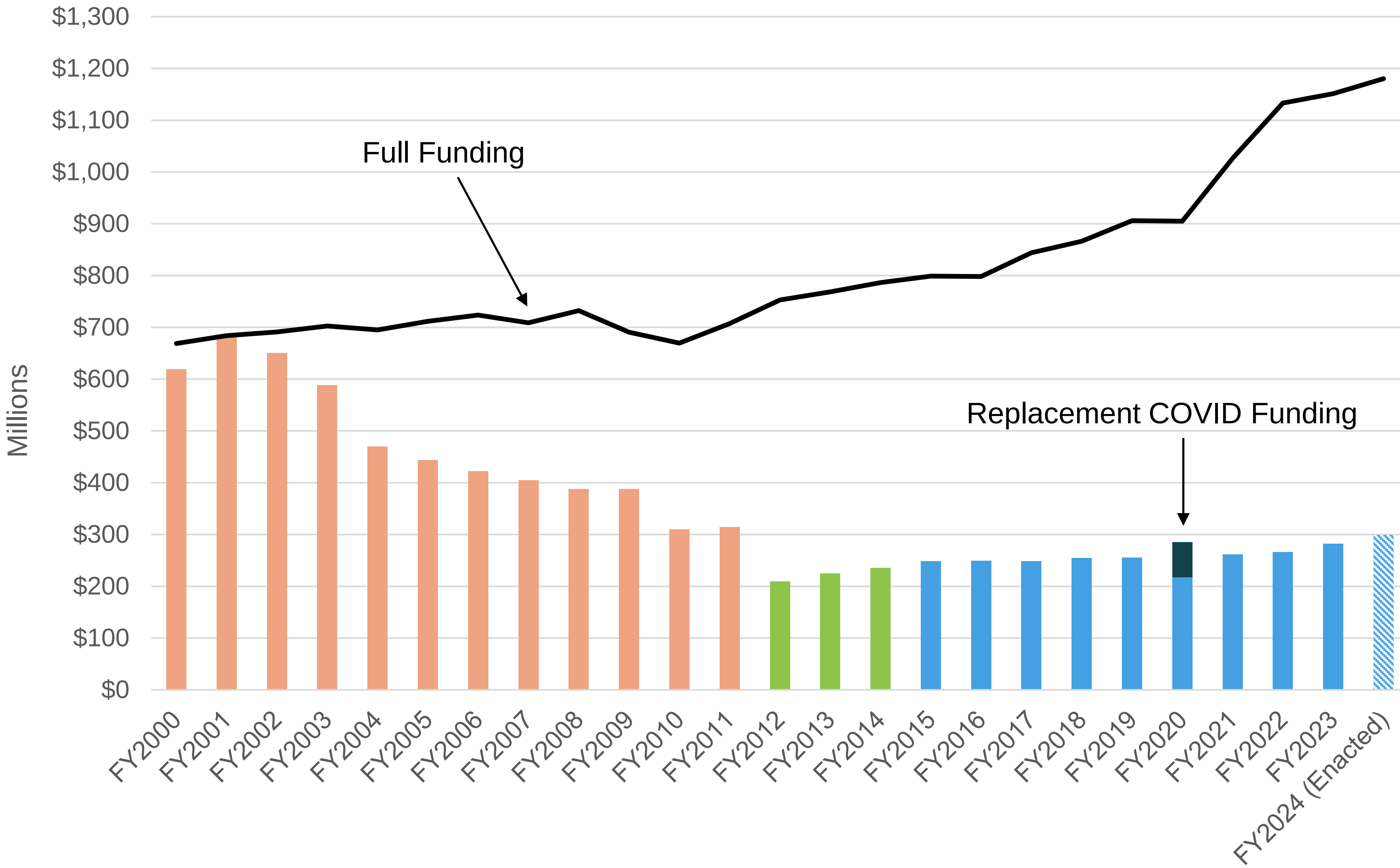
CVT Revenue Sharing

- For FY 2020-21, the appropriation was $261.1 million, essentially identical to the initial FY 2019-20 appropriation before reduction.
- For FY 2021-22, the appropriation was $266.3 million, which represented a 2.0% increase relative to FY 2020-21.
- For FY 2022-23, the appropriation was $282.2 million, which represented a 6.0% increase relative to FY 2021-22. Of the increase, 5.0% was ongoing while the remaining 1.0% represented a one-time increase.
- For FY 2023-24, the appropriation was $299.1 million, which represented a 7.0% increase relative to FY 2022-23. Of the increase, 5.0% was ongoing (1.0% was dependent on obligating all ARP - Local Fiscal Recovery Funds) while the remaining 2.0% ($5.6 million) represented a one-time increase tied to public safety initiatives.

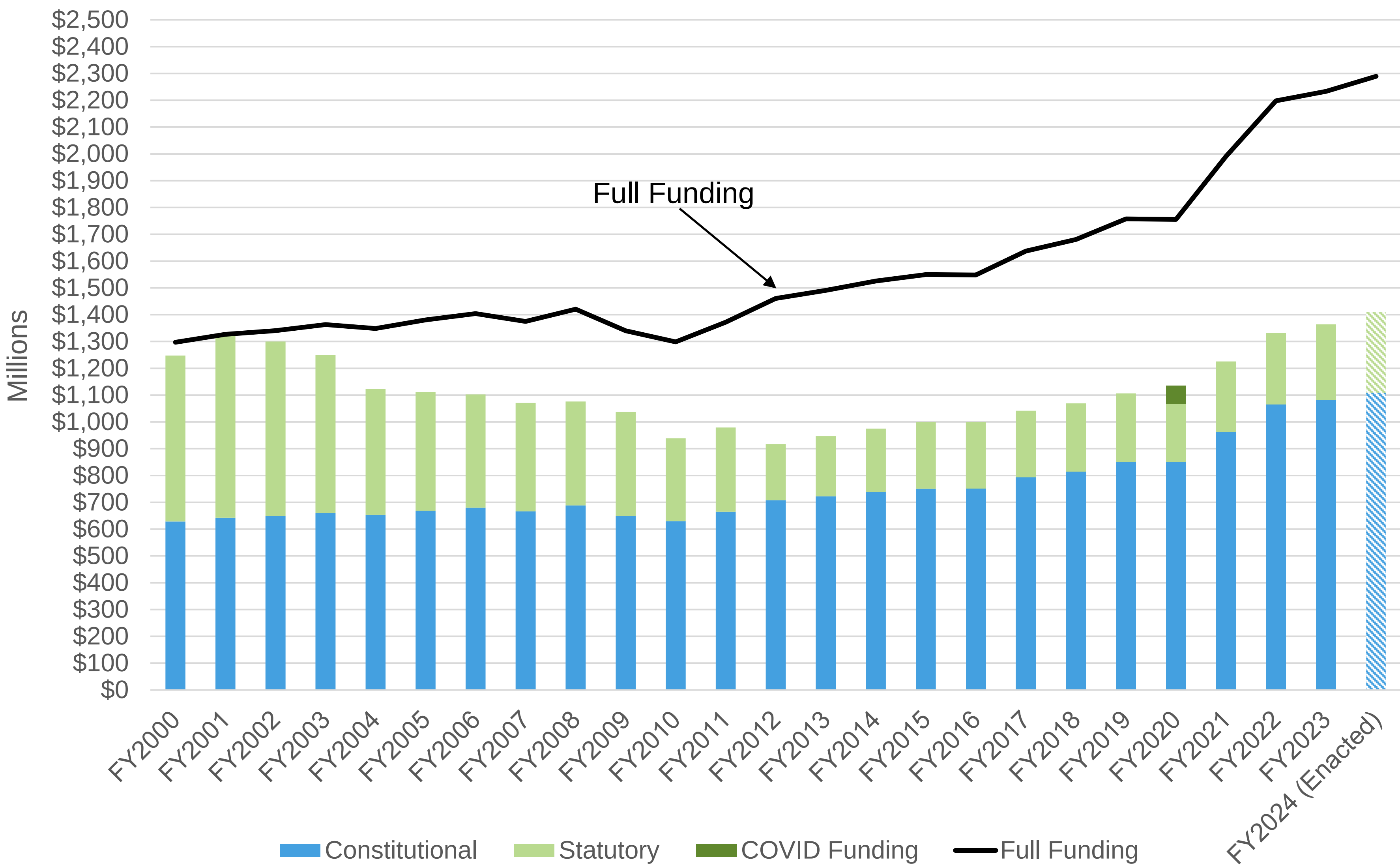
EVIP and CVT Revenue Sharing Payments to Cities, Villages, and Townships



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



Total Revenue Sharing Payments to Cities, Villages, and Townships



Total Revenue Sharing Payments to Cities, Villages, and Townships

$ in Millions

	Final FY 2021-22	Final FY 2022-23	Enacted FY 2023-24
Total Revenue Sharing Payments	$1,331.0	$1,364.1	$1,408.2
Detroit	219.5	224.7	235.8
Other CVTs	1,111.6	1,139.3	1,172.4
Cities (280)	764.2	783.0	811.8
Villages (253)	32.6	33.3	34.3
Townships (1,240)	534.1	547.8	562.1

Notes

1) Dollar amounts may not sum to the total shown due to rounding.
2) Because constitutional revenue sharing payments are based on actual sales tax collections, FY 2023-24 amounts are calculated using the January 2024 Consensus Revenue Estimating Conference sales tax projections and 2020 Census population estimates.
3) CVT revenue sharing payments for FY 2023-24 reflect the enacted appropriations.

County Revenue Sharing

County Revenue Sharing

- Counties do not receive constitutional revenue sharing payments.
- The State Revenue Sharing Act of 1971, as amended by 1998 PA532, defined full funding for statutory revenue sharing to counties as 25.06% of 21.3% of sales tax revenue at the 4% rate.
- Statutory revenue sharing payments to counties were generally distributed on a per capita basis, although a portion was based on single business tax revenue that had been earmarked to counties as repayment for making inventories exempt from the personal property tax.
- As with CVTs, actual appropriations for statutory revenue sharing to counties were routinely below the full funding guideline.

County Revenue Sharing

- Statutory revenue sharing payments to counties were temporarily suspended beginning in FY 2004-05.
- 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 statutory 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 statutory revenue sharing payments equal to its final authorized withdrawal amount. Additional inflation adjustments will not be applied.
- 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 transparency and accountability requirements as EVIP.

County Revenue Sharing

- In FY 2016-17 and FY 2017-18, an estimated 78 counties will receive statutory revenue sharing payments, leaving only five counties with positive reserve fund balances.
- Additional funding of $2.1 million was appropriated in FY 2016-17 to provide counties with a 1% increase over full funding.
- The appropriation for FY 2017-18 provided an increase of $634,400 to allow for full payments for Alcona and Charlevoix counties along with an additional $4.3 million to provide a 2% increase over full funding for the 78 eligible counties.

County Revenue Sharing

- The appropriation for FY 2018-19 provided an increase of $291,730 to allow for the addition of Antrim, Keweenaw, and Mackinac counties along with an additional $4.0 million to continue the 2% increase over full funding provided in FY 2017-18. In addition, an extra $1.0 million was appropriated as supplemental revenue sharing.

- The FY 2019-20 appropriation was increased by $6.1 million to $226.5 million relative to FY 2018-19, although funding was subsequently reduced by $53.0 million when state revenue fell during the COVID-19 pandemic. The reduction in revenue sharing was replaced by $82.4 million in CARES funding.

- For FY 2020-21, $226.5 million was appropriated, which the same amount that was originally appropriated for FY 2019-20. In addition, $21,300 was appropriated for Leelanau county, which was expected to exhaust its reserve fund. The appropriation provided for 4.6% more than the full funding amount.

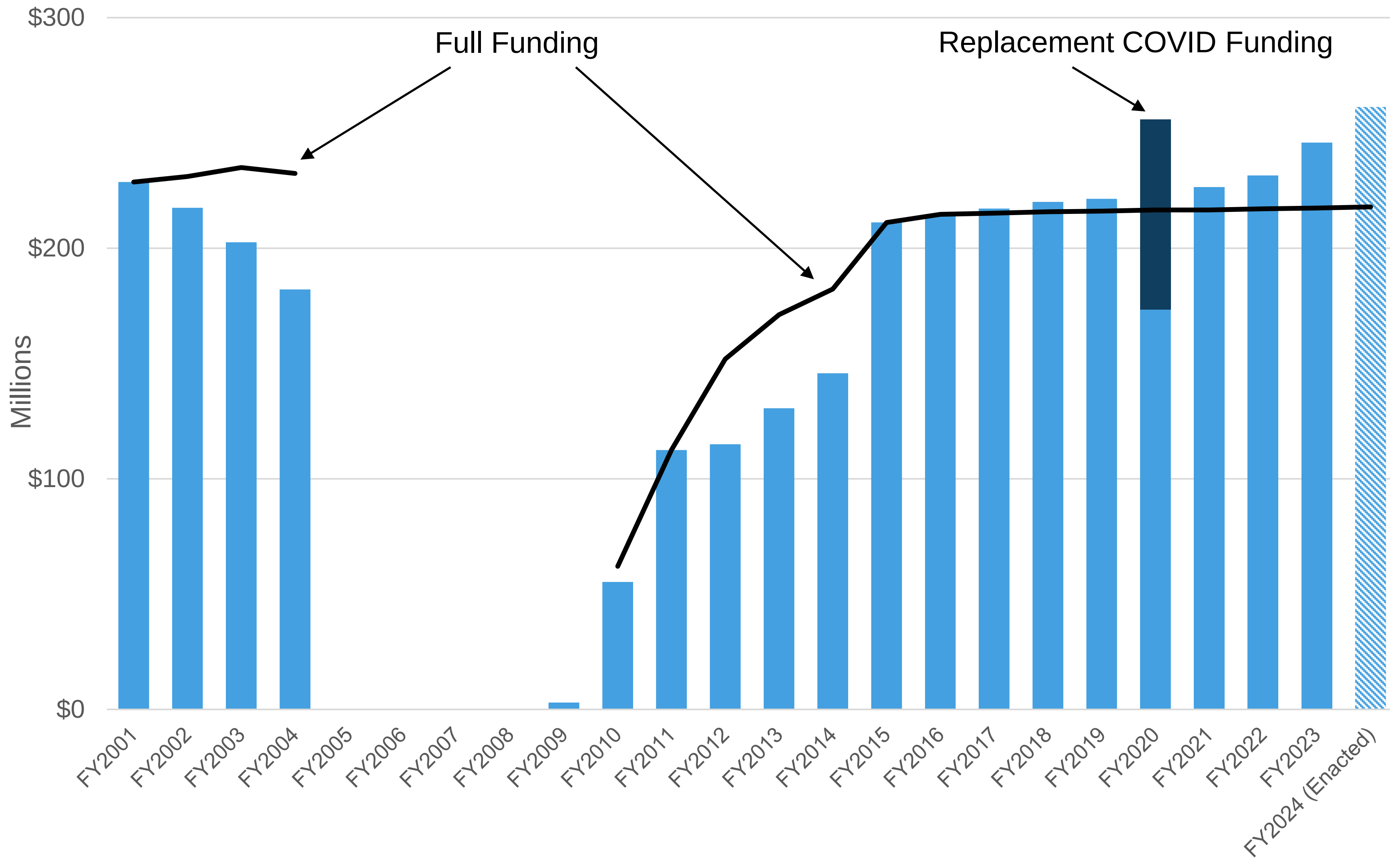
County Revenue Sharing

- For FY 2021-22, the appropriation was $231.5 million, including $447,800 for Leelanau county, which exhausted its reserve fund in the prior year. The appropriation provides for 6.6% more than the full funding amount for the 82 eligible counties.

- For FY 2022-23, the appropriation was $245.8 million, including $376,000 for Emmet county, the last county to exhaust its reserve fund, and for a final reconciliation payment for Leelanau county. The appropriation provides for 13.0% more than the full funding amount for the 83 counties.

- For FY 2023-24, the appropriation was $261.1 million, including $503,600 for Emmet county, the last county to exhaust its reserve fund. The appropriation represents an increase over FY 2022-23 of 5% ongoing (one-fifth of which is contingent upon a county obligating any remaining ARP -local fiscal recovery funds by the end of 2023) and 2% one-time designated for public safety. The appropriation provides for 16.5% more than the full funding amount for the 83 counties.

State Revenue Sharing Payments to Counties



For more information about state revenue sharing:

HFA website

http://www.house.mi.gov/hfa/

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