Reforming Statutory State Revenue Sharing

General Government Subcommittee
of House Appropriations Committee

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Citizens Research Council
of Michigan

- Founded in 1916

- Statewide

- Nonpartisan

- Private not-for-profit

- Promotes sound policy for state and local governments through factual research

- Relies on charitable contributions from Michigan foundations, businesses, organizations, and individuals

Context for CRC's Report

- Filling request made last session by General Government subcommittee

- Timing delayed by internal transition in CRC offices

- Funding from W.K. Kellogg Foundation made the report possible

About State Revenue Sharing

- **Constitutional revenue sharing**
  - Initiated with 1946 constitutional amendment
  - Distributed on per capita basis
  - Change possible only with another amendment

- **Statutory revenue sharing**
  - Grown incrementally over the years
  - At one time larger than constitutional SRS
  - For 40+ years formula attempted to equalize tax capacity

Recent History
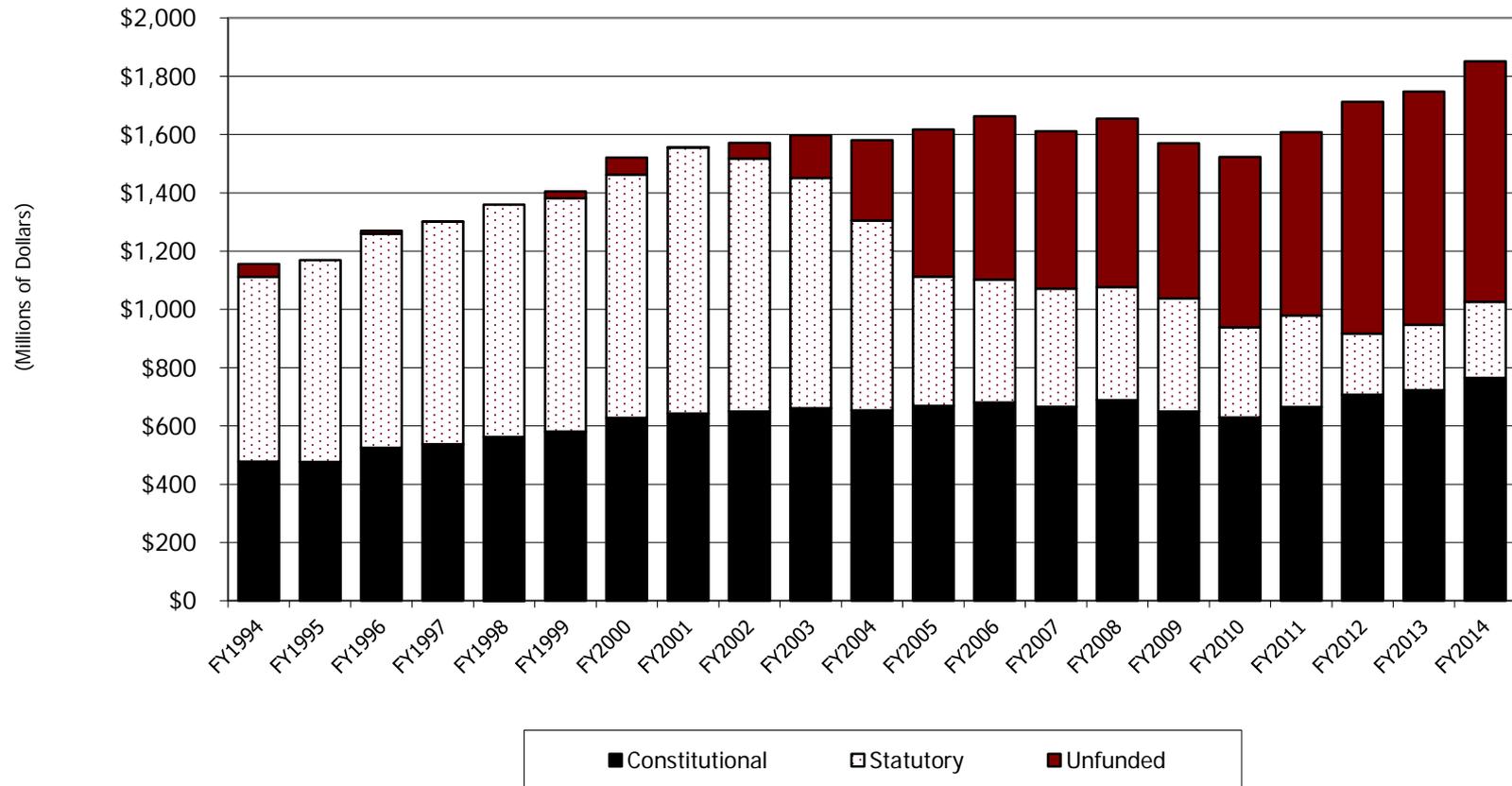
Why do we have local government?

CRC's answer:

To manage the interaction between people.

You might have a different response

What is the state's interest in an effective provision of local government services?

CRC's answers:

- Local government hosts the people and businesses upon which state taxes are levied.
- Local governments provide services for the health and safety of Michigan residents and guests.

You might have a different response

Objectives of State Revenue Sharing

- Improving the overall state and local tax structure

- Promoting economic development

- Maintaining acceptable levels of government services from community to community

Are there disadvantages?

- Violates the fundamental and sound principle of good government
  - That responsibility for raising money should accompany the pleasure of spending it.
- Earmarking hamstrings state budget makers
- Per capita distribution bears no relationship to need
- Increased dependence on state funding
- Lack of accountability to taxpayers
- Loss of local control
- Others

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Local Government Objectives

- Revenue adequacy

- Stability and predictability

- Equity

- Accountability

- Intergovernmental coordination

Recommendations

1. Determine if state revenue sharing is a priority
   - If it is, fund it

2. Determine your vision of the purpose of local government

3. Based on that purpose, determine the role you envision state revenue sharing playing in helping to fulfill that purpose?

   - Amend revenue sharing act instead of year to year continuation in appropriation boilerplate language

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Alternatives

1. Equalize the <u>fiscal capacity</u> of local governments
   - Revenue raising abilities
   - Service demands

2. Fund the local government <u>activities</u> that the state most values
   - Hosting key economic activities
   - Providing public safety services
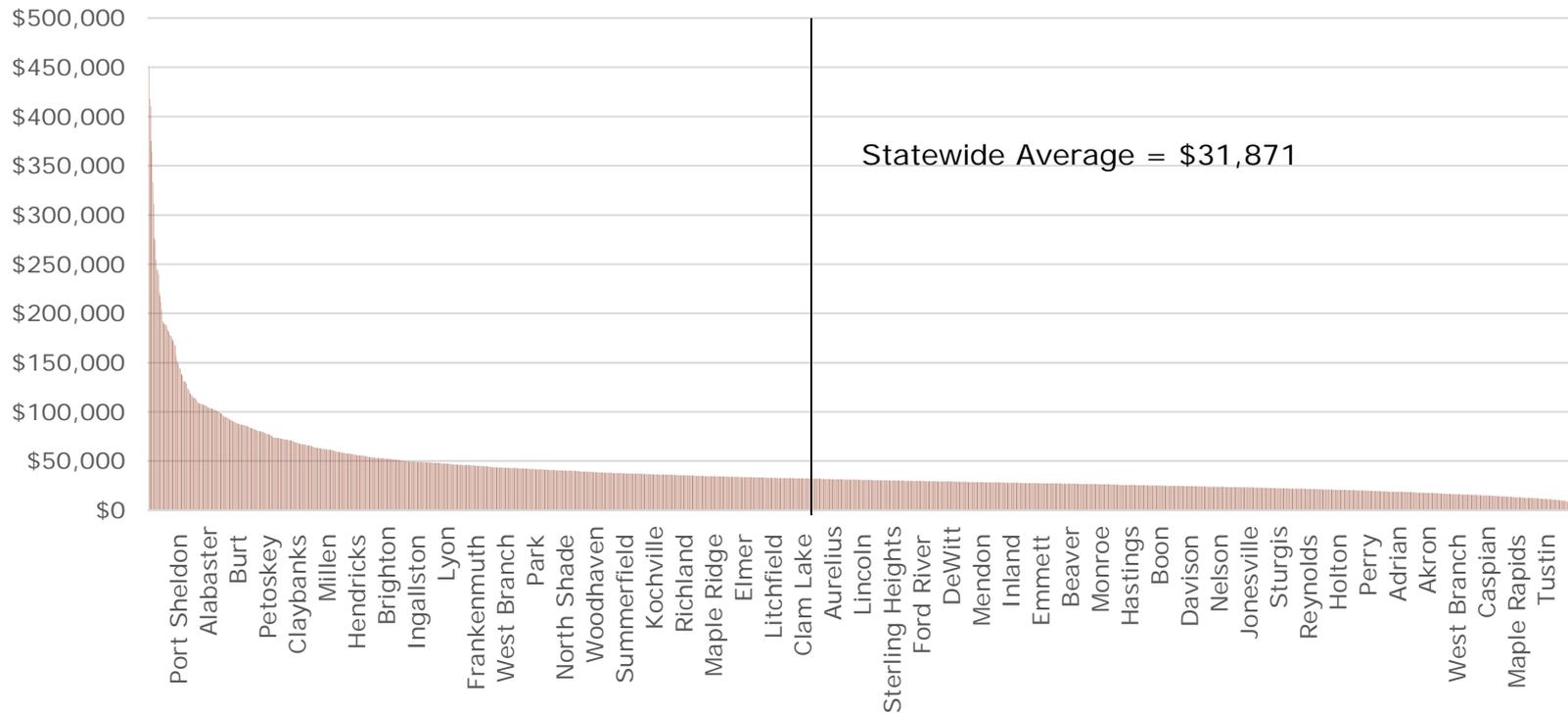
Equalize Fiscal Capacity

- Revenue Raising Ability

  Taxable Value per Capita
  - Average = $31,871
  - Median = $30,958
  - Highest = $1,423,511
    - Pointe Aux Barques Township in Huron County
  - Smallest = $5,693
    - Kinross Township in Chippewa County

Taxable Value per Capita

Taxable Value per Capita
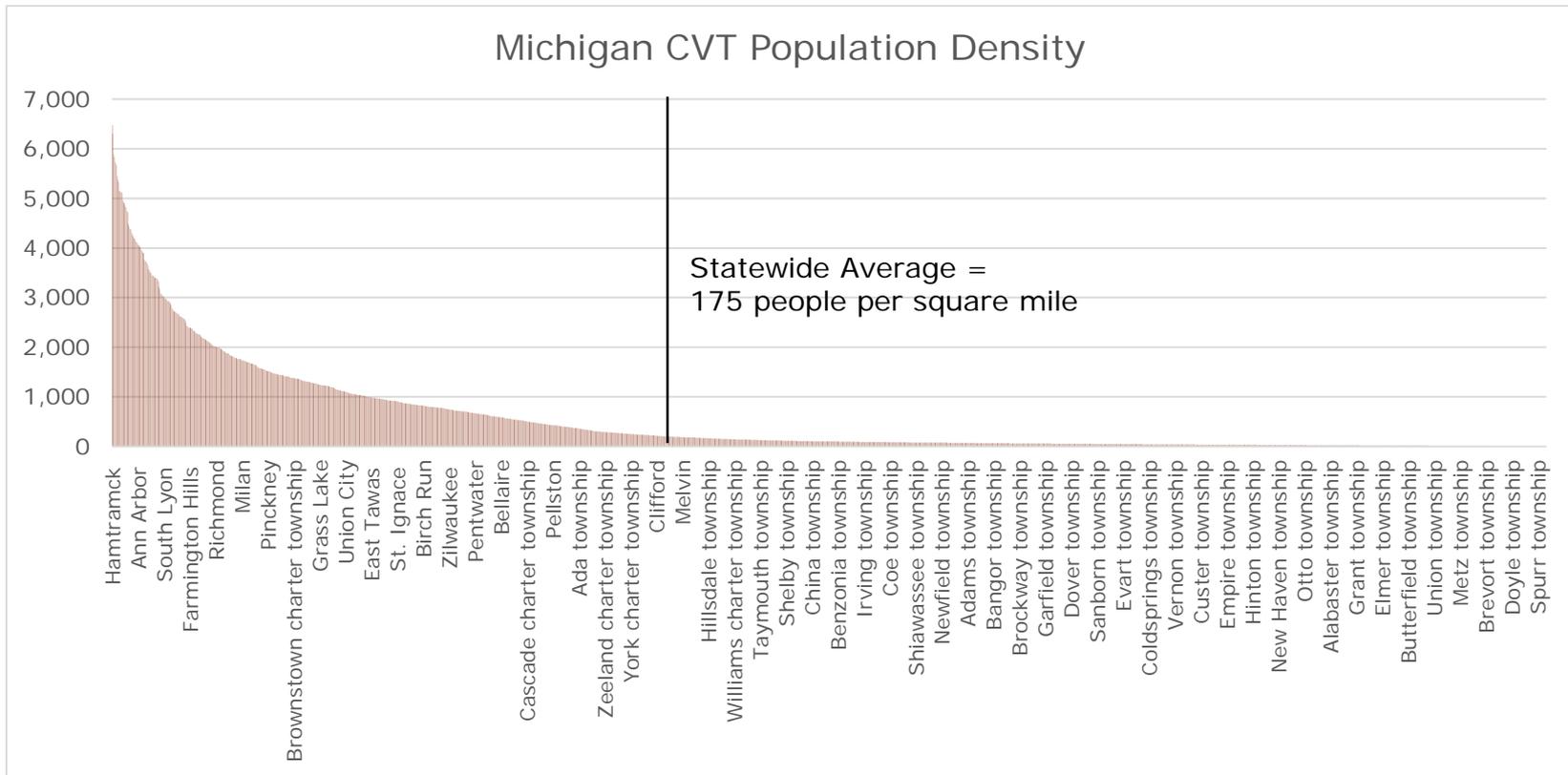
Statewide Average = $31,871

Service Demands

- Greater density = greater demand for services
    - Population density
    - Housing/building density

    - Local ordinances
    - Planning and zoning
    - Police and fire protection
   - Refuse collection
    - Transit services
    - Etc.

Population Density

Michigan CVT Population Density

Statewide Average =
175 people per square mile

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Density

- Population Density
  - Average = 175 people per square mile
  - Median = 100 people per square mile
  - Largest = 10,751 in Hamtramck
  - Smallest = less than 1 person per square mile in 5 townships in the Upper Peninsula

- Housing Density
  - Average = 80.2 housing units per square mile
  - Median = 37.1 housing units per square mile
  - Largest = 4,139.5 in Hamtramck
  - Smallest = 1 house per square mile in Seney township in Schoolcraft County

Plotting Revenue Raising Abilities against Service Demands

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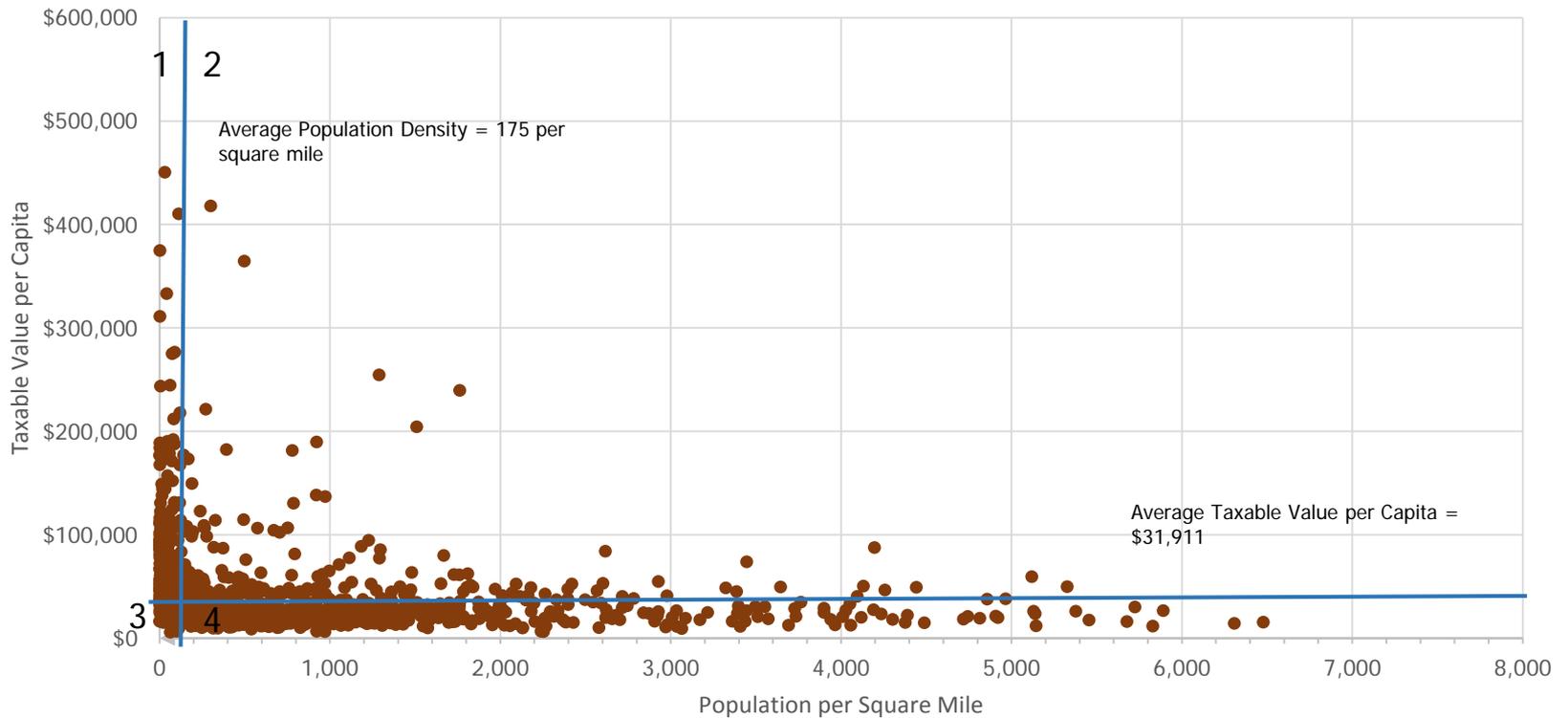
The Numbers by Quadrant

1. Below Average Density & Above Average TVC (upper left): 604
    - Number of Units as Percent of all Local Governments: 34%
    - Population: 1,056,921
    - Population as Percent of State: 11%
2. Above Average Density & Above Average TVC (upper right): 235
    - Number of Units as Percent of all Local Governments: 13%
    - Population: 3,030,165
    - Population as Percent of State: 31%
3. Below Average Density & Below Average TVC (lower left): 446
    - Number of Units as Percent of all Local Governments: 25%
    - Population: 1,140,657
    - Population as Percent of State: 12%
4. Above Average Density & Below Average TVC (lower right): 488
    - Number of Units as Percent of all Local Governments: 28%
    - Population: 4,918,292
    - Population as Percent of State: 50%

The Challenge

- A formula that shares revenues with governments in quadrants #2, #3, and #4
    - With emphasis on funding governments in #4
    - Governments with small tax bases and high demands for local government services

Fund local governments that host key economic activities

- Forestry and agriculture very important to state economy, but they do not require local government

- What economic sectors do require local government?
  - Manufacturing
  - Commerce
  - Health Care
  - Tourism

- Supporting many of these activities does more to add to state tax revenues than local government revenues

Fund local governments that host key economic activities

- Such an approach would create population multipliers

- It would align local governments with the state's economic development efforts

Fund key local government services

- Many local government services add to quality of place
    - But does the state have an interest in any particular local government services?
    - Public Safety – Police, Fire, EMS

- Transition funding from unrestricted revenue sharing to restricted program
    - In spirit of school aid, highway funding, court funding

Fund key local government services

- Use police statistics, fire department calls, EMS runs rather than "pseudo" measures called for with fiscal capacity approach
  - Incidents already reported to the state

- Accounts for differences between census populations and daytime/seasonal populations

- Intergovernmental collaboration commonly used in provision of these services

- Should the funding go to
  - Local governments getting the services or
  - Governmental entity providing the services?

Thank You

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