

Issue Paper

**PAPERS EXAMINING CRITICAL ISSUES
FACING THE MICHIGAN LEGISLATURE**



MICHIGAN'S REVENUE SHARING PROGRAM: HISTORY, DESCRIPTION, AND A BRIEF COMPARISON TO OTHER STATES

by

**Rebecca Ross, Fiscal Analyst
Melissa Bain, Fiscal Analyst**

February 1996



ACKNOWLEDGMENT

This report was prepared and written by Rebecca Ross, Economist/Fiscal Analyst and Melissa Bain, Fiscal Analyst of the Senate Fiscal Agency. Assistance on the history and data for this paper was obtained from the Michigan Department of Treasury, Office of Revenue and Tax Analysis staff. Jay Wortley, Senior Economist; Ellen Jeffries, Deputy Director; and Gary Olson, Director of the Senate Fiscal Agency provided advice on the contents. Suzanne Margules, Bill Analysis Coordinator and Legal Counsel of the Senate Fiscal Agency assisted with the editing. Karen Hendrick, Executive Secretary provided technical assistance and coordinated the production of this report.

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. MICHIGAN'S REVENUE SHARING PROGRAM	2
A. History	2
1. Local-State Funding Prior to 1971	2
2. Revenue Sharing 1971-1979: The Revenue Sharing Act and Relative Tax Effort	4
3. Revenue Sharing 1980s: Reductions and Hold Harmless Guarantees	5
4. Revenue Sharing 1990-1995: Forward Funding and Freeze Lag	5
B. Revenue Sources	6
C. Revenue Sharing Payments and Reductions from Statutory Requirements	7
1. State and Local Perspectives	10
2. Revenue Sharing Growth	10
D. Revenue Sharing Distributions to Local Units	11
1. Revenue Sharing Distribution Criteria	11
2. Actual Distributions to Locals	16
3. Local Perspective	18
4. Revenue Sharing Payment Schedule	19

III. REVENUE SHARING PROGRAMS ACROSS THE UNITED STATES	20
A. United States Overview	20
B. State-by-State Comparison of Revenue Sharing Programs	20
C. State Revenue Sharing Programs	24
1. Financing of Revenue Sharing Programs	24
2. Distribution Programs Criteria	24
3. Revenue Sharing in Selected States	25
IV. CONCLUSION	29
V. APPENDICES	
Appendix A. State Revenue Sharing Act	30
Appendix B. Michigan Revenue Sharing Legislative History	33
Appendix C. Special Census Payments	34
Appendix D. Michigan Revenue Sharing Projected Distribution Rates 1994, 1995, 1996	35
Appendix E. City Income Tax Rates	36
VI. REFERENCES	37
VII. ENDNOTES	39

I. INTRODUCTION

This paper focuses on Michigan's revenue sharing program, giving special attention to its history and description, as well as an overview of revenue sharing programs in other states.

State revenue sharing, or unrestricted aid programs, provide revenue to local units of government to use at their discretion, while restricted aid is dedicated for a specific expenditure or purpose. State revenue sharing programs are designed to give revenue collected from the taxpayers across the state to local units of government.

Revenue sharing programs exist for two main reasons. First, revenue sharing programs allow for efficient collection of revenues at the state level. States have greater revenue-raising powers and can collect certain taxes, such as sales and income taxes, more efficiently than local units can. Second, revenue sharing programs enable states to equalize or redistribute revenues between local units. Most state revenue sharing programs attempt to redistribute between wealthy and poor local units.

II. MICHIGAN'S REVENUE SHARING PROGRAM

The Michigan State revenue sharing program is set forth in 1) constitutional requirements, pursuant to Article IX, Sections 8 and 10, and 2) the statutory requirements outlined in the State Revenue Sharing Act of 1971 (MCL 141.901) and the Single Business Tax Act of 1975 (MCL 208.1 et.seq.). Table 1 provides an overall summary of the State revenue sharing program and Appendix A provides further detail of the program.

A. History

Michigan's revenue sharing program began in the early 1930s and over the years has evolved to the present system. Appendix B lists the more significant public act changes in the revenue sharing program.

Local-State Funding Prior to 1971

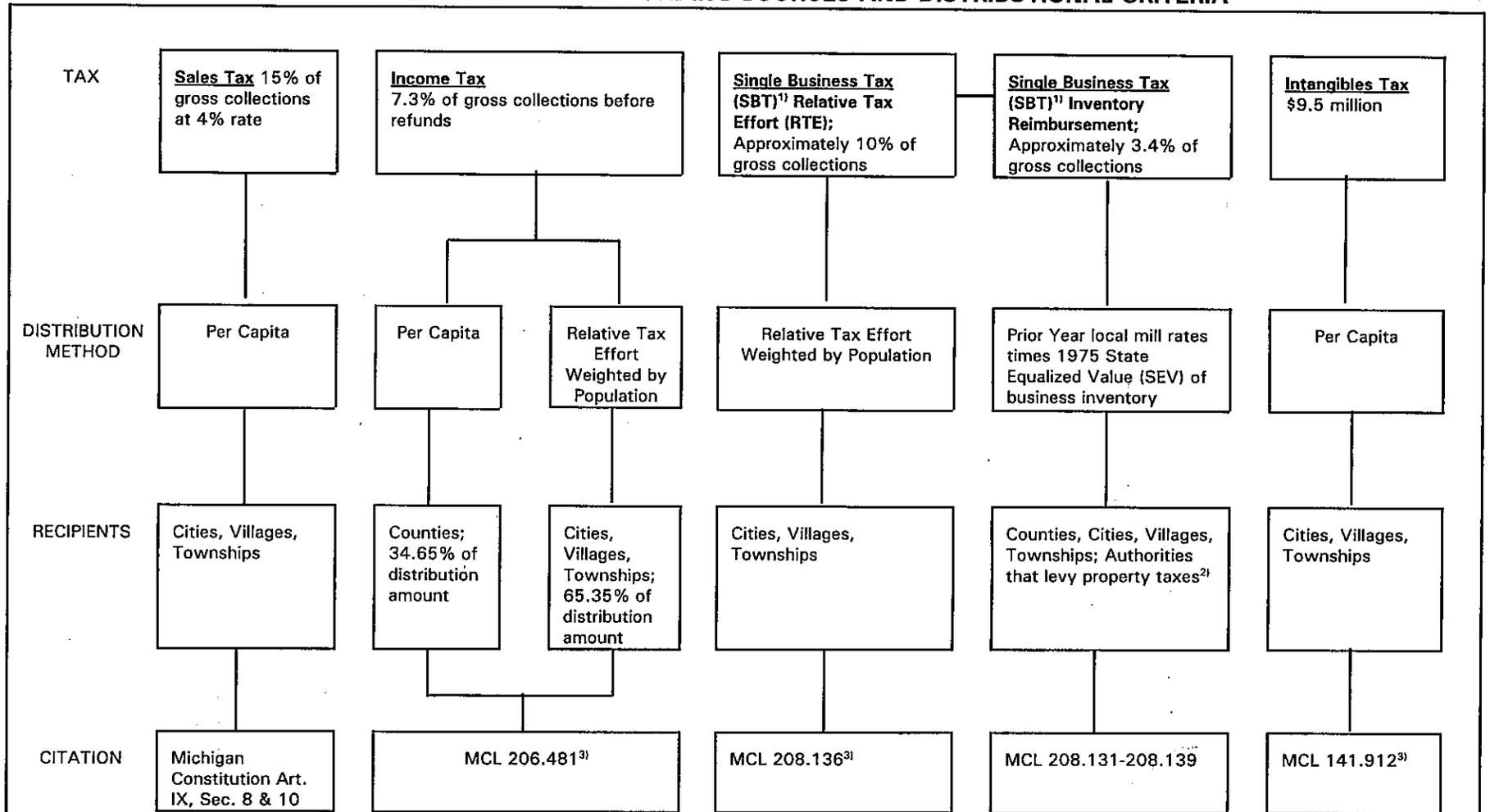
In the early 1930s, the State began taxing enterprises that held licenses for alcoholic beverages. Eighty-five percent of the retail liquor license tax collections were returned to the cities, villages, and townships of origin. Unrestricted aid from the liquor tax ended in 1945 when the source became restricted, most of which was for local law enforcement. Additionally, in 1939, the State Legislature added to local aid two-thirds of the State intangibles tax receipts to replace revenue lost from an exemption of intangibles property. Public Act 301 outlined the new State intangibles tax, which replaced local taxation of intangible personal property. The intangibles tax was levied on individuals, banks, insurance companies, and financial institutions, and distributed on a per capita basis to cities, villages, and townships. In 1951, a limit of \$11 million was put on intangibles tax distributions; the limit was reduced to \$9.5 million in 1952. With the adoption of the veterans' homestead property tax exemption in 1939, the State also paid the full dollar loss of property tax revenue to localities that were affected. The exemption required the State to pay the taxes on the first \$2,000 of equalized value of homesteads of World War I veterans up to a certain income level. The exemption subsequently was extended to veterans of later wars.

Despite the above mentioned taxes, there was still a lack of substantial unrestricted aid to local units of government. In 1946, a campaign, in which the Michigan Municipal League played a role, successfully amended the State Constitution to require a portion of the State sales tax to be returned to the cities, villages, and townships. The amendment stated:

There shall be returned to local government units by the method hereinafter set forth, one-half cent of a state tax levy on each dollar of sales of tangible personal property on the 1946 statutory base. The state disbursing authority shall remit to counties as a whole on a population basis and payment shall be made to the county treasurer who shall remit to the respective cities, townships, and villages within the county on a per capita basis. Population computation shall be based on the last and each succeeding statewide federal census for purposes of division among counties and upon the same basis or upon any special federal county wide census, whichever is later, for intra county division purposes.¹

Table 1

MICHIGAN REVENUE SHARING FUNDING SOURCES AND DISTRIBUTIONAL CRITERIA



Note: 1) Total Single Business Tax gross collections to local units is 13.91%.
 2) These payments are made by the State to the local government, which is required to allocate a proportionate share of the payments to authorities that levy property taxes.
 3) The State Revenue Sharing Act of 1971 (MCL 141.901-141.921) also affects these distributions.

The 1963 State Constitution, Article IX, Section 10, expanded the mandate for the sharing of the State sales tax revenues with local governments. The 1963 State Constitution change followed a sales tax rate increase from 3% to 4% in 1961. One-eighth of the sales tax was dedicated to cities, villages, and townships on a population basis. Article VII, Section 21, also granted each city and village limited power to levy other taxes for public purposes. The local taxing authority was subsequently limited.

During 1967, the Legislature passed a bill enacting a State personal income tax. The income tax was levied at a rate of 2.6% and allowed a personal exemption of \$1,200 for each dependent. A portion of this tax also was earmarked for local units. Under the bill, 11.5% of the gross receipts of the tax were earmarked for localities, with 50% designated to county governments and 50% going to cities, villages, and townships on a per capita basis.

Revenue Sharing 1971 - 1979: The Revenue Sharing Act and Relative Tax Effort

To solidify and specify the State revenue sharing payments to local units, the 1971 State Revenue Sharing Act was passed. The State Revenue Sharing Act, Public Act 140 of 1971, outlined the portions of the sales, personal income, and intangibles taxes that were devoted to local units. The distribution method was per capita and made payments directly to local units, instead of using the county as an intermediary, as was previously done.

Public Act 212 of 1972 used the tax burden and relative tax effort formula for income tax payments to cities, villages, and townships. The relative tax effort measures the property, income, and excise taxes a local unit levies compared with the Statewide average of all local units. The idea behind the relative tax effort formula was that it more accurately measured need than did population alone. According to the 1971 Economic Report of the Governor, the State's objective in revenue sharing was to better enable the local units to provide needed services for their residents. Population alone did not recognize the differences among local units in their need for public services and their ability to raise sufficient local revenues. Additionally, the problem with the per capita system was that it did not take into consideration that local units provide different services and levels of service. Unincorporated areas usually provide fewer public services; many services are private. Also, the State and county governments provide services in townships, but not in municipalities. It was felt that differences in the demand or need for public services in local units was reflected in their tax efforts.²

The relative tax burden also was discussed in the early 1970s. The relative tax burden had all the taxes that were included in the relative tax effort, but also had taxes that involved overlapping governments, such as county, school districts, and special districts. Specifically, the relative tax burden included municipal taxes, special assessments, and 25% of the taxes of counties and school districts, the overlying jurisdictions. In 1972, the Legislature provided for supplemental payments to local units to make up the difference between payments generated using the relative tax effort formula and the payments the relative tax burden formula produced. Relative tax burden payments were distributed in fiscal year (FY) 1973-74 through FY 1978-79. The supplemental payments for the relative tax burden were capped at \$3.5 million in FY 1977-78 and were last paid in FY 1978-79.

In 1974, following a food and prescription drugs sales tax exemption, Article IX, Section 8, of the Michigan Constitution was amended to increase the sales tax amount earmarked to local units from one-eighth to one-fifth. This raised the percentage of sales tax revenue sharing payments to locals from 12% to 15%.

With the addition of the single business tax in 1975, Public Act 245 of 1975 provided for local government payments to cities, villages, and townships from the single business tax to be paid based on the relative tax effort formula. Inventory payments, also from single business tax revenues, were to be made to all local units to replace revenues lost as a result of exempting business inventories from local property taxes. Inventory payment distributions were based on the 1975 business inventory state equalized values multiplied by the local unit millage or tax rate in the year prior to the year the payment was made.

Additionally in 1975, Public Act 225 of 1975 changed the percentage distribution of the income tax earmarked to counties and cities, villages, and townships. In FY 1975-76, counties received 50% of the income tax revenue sharing distribution and cities, villages, and townships received 50%. The 1975 change phased-in the percentage distribution to 35% to counties and 65% to cities, villages, and townships in FY 1979-80. This funding shift away from the counties resulted from a compromise between Governor Milliken, who wanted the State to take on additional county welfare costs by eliminating \$8 million in relative tax burden supplemental payments, and the Legislature, which did not want to reduce the money to municipalities. The compromise also limited the relative tax burden supplemental payments to \$3.5 million and provided for mid-decade special census payments to provide additional payments to local units that had large increases in population. (See [Appendix C](#).)

Revenue Sharing 1980s: Reductions and Hold-Harmless Guarantees

The early 1980s were characterized by reductions from the statutory payment levels, detailed in section C of this report, due to fiscal pressures on the overall State budget. The first revenue sharing reduction was enacted in FY 1980-81 and totaled \$43.5 million. The two subsequent fiscal years had reductions of \$40.0 million and \$11.9 million.

Public Act 275 of 1980 addressed census and tax limitation changes. The effective date of the 1980 census population data was changed from April 1, to October 1, 1980. This change helped local units with large population decreases. Four annual "census delay adjustment" payments from income tax revenues were provided to local units with population growth. Cities, villages, and townships in which local tax levies were rolled back to less than one mill, pursuant to the 1978 Tax Limitation Amendment, received revenue sharing payments that required a one-mill levy under a hold-harmless guarantee. In 1982, under Public Act 317 hold-harmless protections for cities, villages, and townships were extended to cover additional tax rollbacks.

Revenue Sharing 1990 - 1995: Forward Funding and Freeze Lag

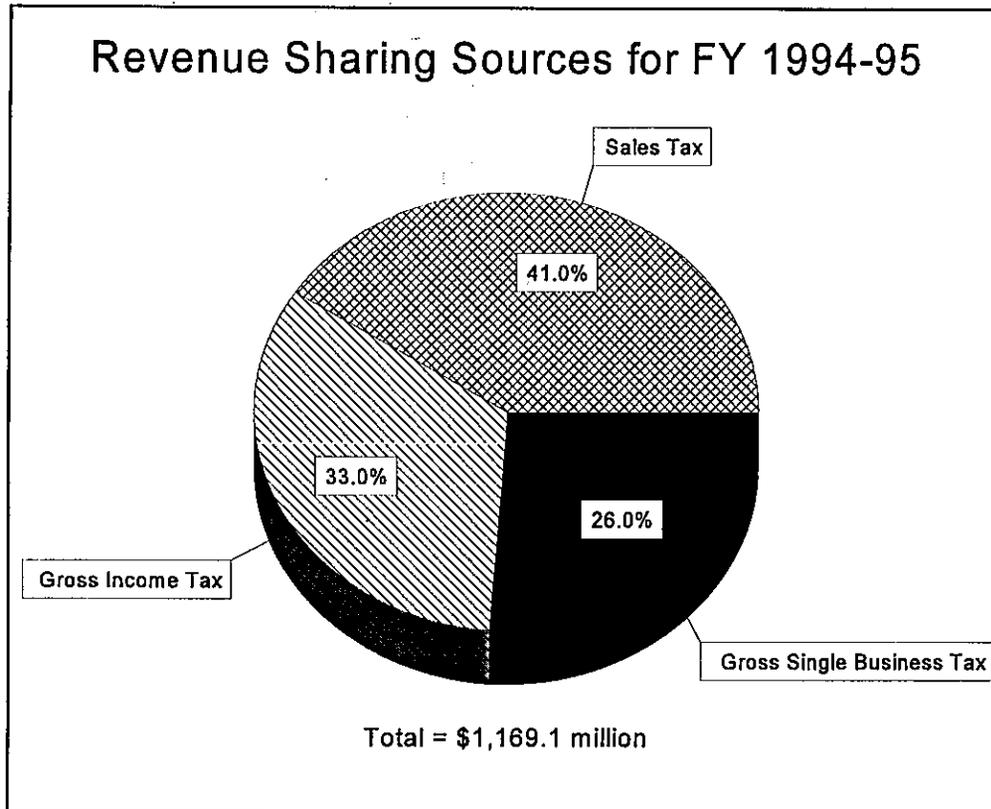
The 1990s started a yearly trend of reductions in revenue sharing revenues, termed freeze lag reductions, which was a means of moderating growth rates of the revenue sharing payments local units received. Freeze lag reductions are calculated as the

difference between total statutory payments in one fiscal year and total statutory payments in the previous fiscal year. In FY 1990-91 revenue sharing payments were reduced \$10.7 million. Every year since FY 1990-91 payments have been reduced.

Forward funding began in FY 1991-92 and involved shifting payments from one State fiscal year to the next. This resulted in a payment delay to the local units because of the different fiscal years of the State and local units.

Also, during the mid-1990s, hold-harmless guarantees continued to play a role, as percentages earmarked to local units increased to offset some State tax changes. The percentage of the sales tax earmarked to local units remained at 15% of the 4% rate. The \$9.5 million of the intangibles tax dedicated to local units remained constant since the early 1970s; however, payments from this source have not been made since FY 1991-92. The income tax portion restricted to local units increased to 12.1% of a 2.6% income tax rate in the early 1970s and was adjusted to 6.84% of income tax collections when the income tax rate changed to 4.6% in 1986. In May 1994, the income tax rate was reduced from 4.6% to 4.4% and the amount going to local units changed from 6.91% to 7.21%, then to 7.3%. The 13.35% of the single business tax earmarked to local units was increased to 13.53% then 13.88% to reflect a single business tax rate decrease from 2.35% to 2.3% in 1994. The single business tax going to local units was increased again in 1995 to 13.91%, but was a technical change and had no fiscal impact.

Figure 1



B. Revenue Sources

In recent years there have been three sources for revenue sharing money—sales tax, income tax, and the single business tax; however, a portion of the intangibles tax is earmarked to locals in the Revenue Sharing Act, but no amount has been appropriated by the Legislature since FY 1991-92. The amount distributed from each of the sales, income and single business taxes depends on their collections, the percentage of total collections that are earmarked to revenue sharing, and any enacted reductions from the statutory levels. Figure 1 shows the revenue sharing percentage of each source for FY 1994-95.

Sales tax collections earmarked to revenue sharing equal 15% of the amount collected at a tax rate of 4%, which in FY 1994-95 accounted for 41% of total revenue sharing payments. Cities, villages, and townships receive sales tax distributions on a per capita basis.

Gross income tax collections dedicated to local units equal 7.3% of gross collections and are the second largest revenue sharing source, which accounted for one-third of total revenue sharing money in FY 1994-95. Cities, villages, and townships receive 65.35% of the revenue sharing income tax payments, which are distributed using the relative tax effort formula. Counties receive the remaining 34.65% on a per capita basis.

Single business tax collections earmarked to local units equal 13.91% of gross collections before refunds, which in FY 1994-95 accounted for 26% of total revenue sharing payments. Cities, villages, and townships receive gross single business tax distributions based on the relative tax effort formula after inventory payments. Inventory payments are made to all local units based on 1975 State equalized value and the last year's local millage rate.

Intangibles tax collections earmarked to revenue sharing have in the past been a set amount of \$9.5 million; however, no payments have been appropriated in recent years due to statutory reductions in the overall level of revenue sharing payments. When a portion of intangibles tax revenue is appropriated to revenue sharing it is distributed to cities, villages, and townships on a per-capita basis.

C. Revenue Sharing Payments and Reductions from Statutory Requirements

Given the constitutional and statutory revenue sharing provisions, revenue sharing payments are determined by two criteria: 1) revenue collections of the taxes involved, and 2) statutory reductions. As revenues from the sales tax, income tax, and single business tax decrease or increase, so do revenue sharing payments to local units. Sales and income tax payments are based on the gross collections from the previous quarter; single business tax revenue sharing payments depend on gross collections from the year-ago previous quarter.

The second item that determines revenue sharing payments to local units is statutory reductions, which represent one of the main debates between the State and local units surrounding the revenue sharing program. In FY 1980-81, FY 1981-82, FY 1982-83, and each year since FY 1990-91, the State has decreased statutory revenue sharing payments to local units. Table 2 shows payments for the fiscal years 1980-81 through 1995-96 both before and after statutory reductions by tax source. Reductions from statutory levels since FY 1980-81 total \$466.6 million from the State's perspective; however, due to different State and local fiscal years, reductions for local units totaled \$354.4 million. The reductions are calculated to make payments in one year equal to what payments would have been in the prior year without reductions.

Table 2

**REVENUE SHARING PAYMENTS PRIOR TO CHANGES AND ACTUAL WITH PUBLIC ACT REDUCTIONS
(Millions of Dollars)**

	Original Allocation FY '80-81	Actual FY '80-81	Original Allocation FY '81-82	Actual FY '81-82	Original Allocation FY '82-83	Actual FY '82-83	Actual FY '83-84	Actual FY '84-85	Actual FY '85-86	Actual FY '86-87	Actual FY '87-88	Actual FY '88-89	Actual FY '89-90
Sales Tax	\$231.0	\$231.0	\$237.4	\$237.4	\$243.6	\$243.6	\$279.4	\$308.2	\$335.4	\$345.4	\$365.2	\$385.3	\$400.0
Income Tax													
Cities, Villages, Townships	119.4	101.8	107.9	91.5	124.4	122.9	138.3	156.7	170.0	182.6	198.1	214.0	222.2
Counties	64.7	48.2	57.2	40.9	66.0	65.1	74.3	84.2	91.5	98.3	105.1	113.5	117.8
Subtotal	184.0	150.0	165.1	132.4	190.4	188.0	212.6	240.9	261.5	280.9	303.2	327.5	340.0
Single Business Tax (SBT)													
Relative Tax Effort Basis	56.6	56.6	49.3	49.3	60.9	60.9	72.1	99.9	121.6	136.2	143.6	160.6	171.4
Inventory Reimbursement	104.5	104.5	103.7	103.7	102.6	102.6	100.8	101.7	102.3	102.8	104.4	106.6	108.0
Subtotal	161.1	161.1	153.0	153.0	163.5	163.5	172.9	201.6	223.9	239.0	248.0	267.2	279.4
Intangibles Tax	9.5	0.0	9.5	2.4	9.5	0.0	9.5	9.5	9.5	9.5	9.5	9.5	9.5
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	2.9	3.7	4.0	4.0
TOTAL	\$585.6	\$542.1	\$565.0	\$525.0	\$607.0	\$595.1	\$674.4	\$760.2	\$832.2	\$877.7	\$929.6	\$993.5	\$1,032.9
Public Act Reductions		(43.5)		(40.0)		(11.9)							
Change from Prior Year ¹⁾													
Amount			(20.6)	(17.1)	49.1	69.9	79.3	85.8	72.0	45.5	51.9	63.9	39.4
Percent			(3.5)%	(3.2)%	8.8%	13.3%	13.3%	12.7%	9.5%	5.5%	5.9%	6.9%	4.0%

1) Change from Prior Year compares original allocations and actual payments separately.

Table 2 (continued)

REVENUE SHARING PAYMENTS PRIOR TO CHANGES AND ACTUAL WITH PUBLIC ACT REDUCTIONS (Millions of Dollars)													
	Original Allocation FY '90-91	Actual FY '90-91	Original Allocation FY '91-92	Actual FY '91-92	Original Allocation FY '92-93	Actual FY '92-93	Original Allocation FY '93-94	Actual FY '93-94	Original Allocation FY '94-95	Actual FY '94-95	Original Allocation FY '95-96	Enacted Estimated FY '95-96	Prior to Public Acts FY '96-97
Sales Tax	\$400.6	\$400.6	\$404.4	\$404.4	\$424.2	\$424.2	\$477.6	\$477.6	\$477.0	\$477.0	\$510.8	\$510.8	\$529.8
Income Tax													
Cities, Villages, Townships	225.1	218.1	235.6	187.1	241.7	224.1	261.7	231.4	289.7	249.1	303.0	259.4	317.1
Counties	119.4	115.7	124.9	99.2	128.2	121.6	138.8	130.9	153.6	143.6	160.7	148.5	168.2
Subtotal	344.5	333.8	360.5	286.3	369.9	345.7	400.4	362.3	443.3	392.7	463.7	407.9	485.3
Single Business Tax (SBT)													
Relative Tax Effort Basis	166.3	166.3	157.5	119.5	165.3	163.5	169.2	162.3	198.8	191.9	238.1	222.1	253.8
Inventory Reimbursement	107.1	107.1	106.6	106.6	109.1	109.1	109.5	109.5	107.4	107.4	110.6	110.6	113.8
Subtotal	273.4	273.4	264.1	226.1	274.4	262.6	278.7	271.8	306.2	299.3	348.7	332.7	367.6
Intangibles Tax	9.5	9.5	9.5	9.5	9.5	0.0	9.5	0.0	9.5	0.0	9.5	0.0	9.5
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4 ²⁾	0.0
TOTAL	\$1,028.0	\$1,017.3	\$1,038.5	\$926.3	\$1,078.0	\$1,032.5	\$1,166.1	\$1,111.6	\$1,236.1	\$1,169.1	\$1,332.7	\$1,251.8	\$1,392.2
Public Act Reductions		(10.7)		(112.2) ³⁾		(45.5)		(54.5)		(67.0)		(81.3)	
Change from Prior Year ¹⁾													
Amount			\$10.5	\$(91.0)	\$39.5	\$106.2	\$88.1	\$79.1	\$70.0	\$57.5	\$96.6	\$82.7	\$59.5 ⁴⁾
Percent			1.0%	(8.9)%	3.8%	11.5%	8.2%	7.7%	6.0%	5.2%	7.8%	7.1%	4.5% ⁴⁾
<p>1) Change from Prior Year compares fiscal years original allocations and actual payments separately.</p> <p>2) This was a State FY 1995-96 appropriation for FY 1994-95 special census payments.</p> <p>3) Due to different fiscal years, this was a State but not a local reduction. As a result of forward funding, \$112.2 was shifted into the State's next fiscal year, but was only postponed for local units.</p> <p>4) The estimate for FY 1996-97 is \$140.4 million or 11.2% more than FY 1995-96.</p>													

State and Local Perspectives

The State's view is that most of the revenue sharing money is discretionary and the actual level provided is contingent on the overall State budget process.

The locals' point of view is that the revenue sharing money is due to them by law. Local units share in the revenue decreases and should, therefore, share in revenue increases. Like the State, locals have budget requirements to meet.

Court decisions in the past, and recently with trial court funding, have dealt with the issue of State appropriations to local units of government. In one such decision, *Board of Education of Oakland Schools v Superintendent of Public Instruction*, 392 Mich 613, 620-621; 221 NW2d 345 (1974) the Michigan Supreme Court described the appropriations and budgeting process as follows:

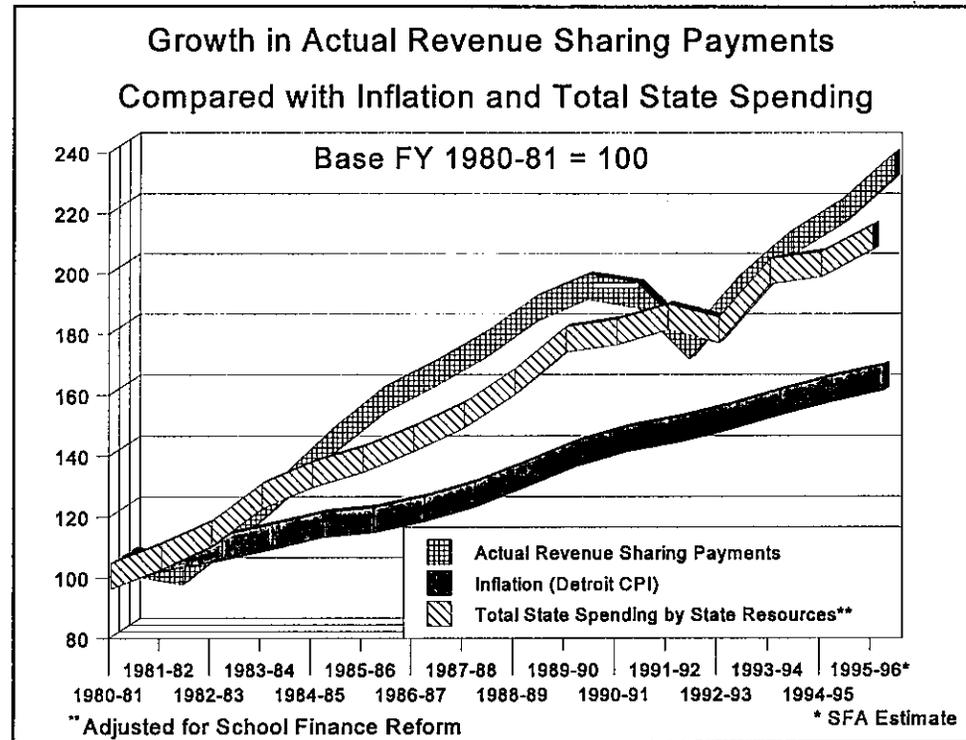
Although the Michigan Legislature may at times place authorization provisions and appropriation provisions in the same bill, we believe that any provision that does not take initial effect during the ensuing fiscal year is intended to function only as an authorization—an intention to appropriate. The dynamics of the budget change from year to year on the basis of the revenues derived and the expenditures required by the people of Michigan. Responsible fiscal policy consequently also requires a yearly reassessment of revenues, spending goals and priorities.

This decision appears to reaffirm the current belief by the State that revenue sharing payments may be reduced each year to reflect overall State budget policy.

Revenue Sharing Growth

Figure 2 shows growth in actual revenue sharing payments, inflation, as measured by the Detroit Consumer Price Index, and total State spending from State resources for FY 1980-81 through FY 1995-96. Over this 16-year period, State revenue sharing payments increased 130.8%, total State spending from State resources (adjusted for school finance reform) increased 111.5%, and inflation increased 62.8%.

Figure 2



D. Revenue Sharing Distributions to Local Units

Revenue Sharing Distribution Criteria

Once the total amount distributed from each source is specified, revenue sharing payments to locals are determined by the local unit type and the distribution method: population, relative tax effort formula, and inventory reimbursement. Appendix D includes distribution rates that are used to calculate payments for local units.

Counties receive revenue sharing payments from the income tax and the inventory reimbursement. Cities, villages, and townships receive revenue sharing payments from all sources, as indicated in Table 3.

Table 3

PERCENTAGE OF REVENUE SHARING SOURCES DISTRIBUTED TO LOCAL UNITS		
Taxes	Counties	Cities, Villages, Townships
Sales	---	100%
Income	34.65%	65.34%
Single Business Tax		
Relative Tax Effort	---	100%
Inventory Reimbursement	28%	72%
Intangibles	---	100%

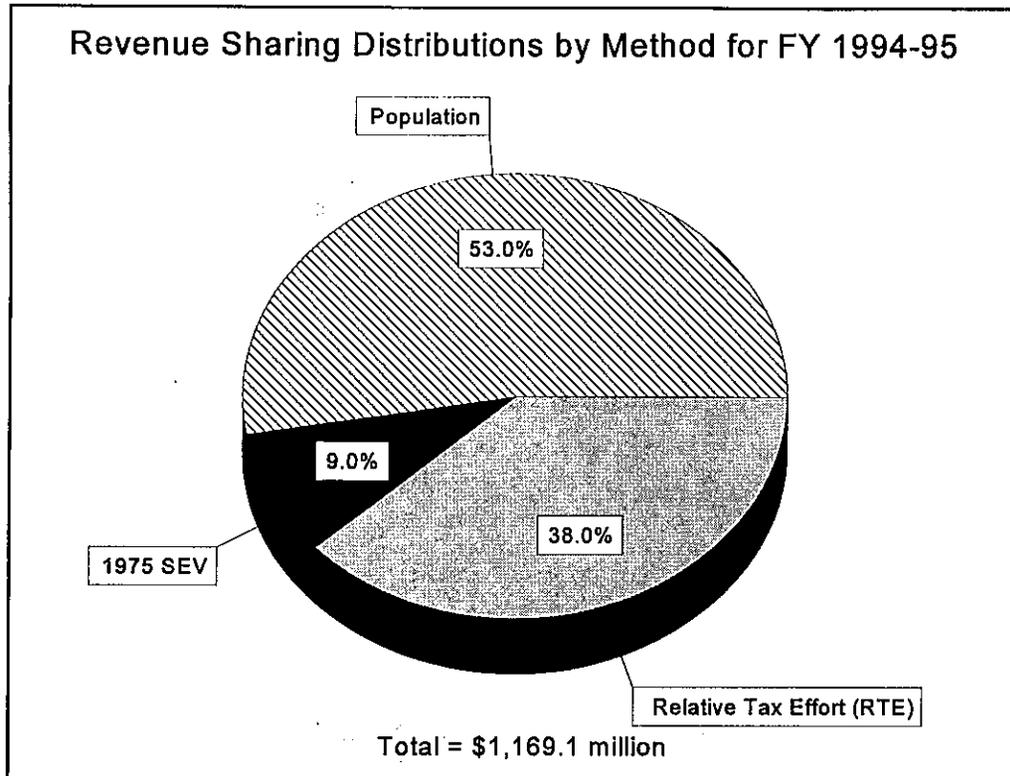
Total revenue sharing money is distributed among local units by three methods: population, relative tax effort formula weighted by population, and the 1975 State Equalized Value (SEV). Figure 3 indicates the percentage of total revenue sharing payments distributed by each method for FY 1994-95.

Population distributions occur from the sales and intangibles taxes, as well as income tax payments to counties. The population figures used to calculate the payments are based on the Federal decennial census and adjusted to account for 50% of institutionalized population.

The inventory reimbursement portion of the single business tax is distributed to all local units. It is based on the 1975 State Equalized Value (SEV) of business inventory times the prior year's local millage rate.

Relative tax effort (RTE) distributions are used for the income tax payments to cities, villages, and townships, as well as for the single business tax payments (less the inventory replacement payments). The RTE is a measure of the taxes each local unit raises compared with the State as a whole. To weight the RTE factor by population, each local unit's RTE is multiplied by its population.

Figure 3



The taxes involved in the FY 1995-96 RTE calculation are taxes levied by local units for calendar year 1994. The local data used for the RTE factors include: ad valorem property taxes, city income taxes, excise or utility users taxes, and the SEV of each local unit. All cities, villages, and townships are directly affected by ad valorem property taxes and the SEV, which is reflected in their RTE. Table 4 provides a list of the 22 cities that levy city income taxes, which directly affects their RTE factor. Appendix E provides further detail of the city income tax rates in these 22 cities. The City of Detroit is the only local unit that has a utility users tax and its RTE factor benefits directly by it.

The local tax effort (LTE) for each local unit is the sum of the taxes specified: the ad valorem property, the income tax, and the excise tax. The sum of these three components then is divided by each local unit's SEV. The RTE for each local unit is then the ratio of each local unit's LTE over the Statewide average LTE. The RTE formula is indicated below.

$$\text{LTE} = (\text{ad valorem property} + \text{income} + \text{excise})/\text{sev}$$

$$\text{RTE for each local unit} = \text{LTE}/\text{statewide average LTE}$$

The RTE for each local unit then is multiplied by its population to weight the RTE factors by population.

Table 5 shows a list of the local units with the highest relative tax efforts. The relative tax effort rates tend to be the highest for cities, followed by villages, and the lowest for townships. The relative tax effort formula, when compared with a per capita distribution, benefits local units that have higher local taxes than the Statewide average. Detroit has the highest relative tax effort of 7.2, meaning each person in Detroit, for the RTE payments, is counted as 7.2 people. Likewise, Sault Ste. Marie has an RTE of 1.6; therefore, each of its residents is counted as 1.6 people for the single business tax and income tax RTE payments.

Table 4

CALENDAR YEAR 1994 CITY INCOME TAX DATA USED IN THE FY 1995-96 RELATIVE TAX EFFORT CALCULATION					
County	City	1994 Net Collections	Nonresident Collections	Corporate and Resident Collections	1994 Income Tax Data Used for Revenue Share
Calhoun	Albion	\$ 721,556	\$ 215,902	\$ 505,654	\$ 577,245
Calhoun	Battle Creek	10,640,799	3,770,788	6,870,011	8,512,639
Calhoun	Springfield	585,546	328,170	257,376	468,437
Crawford	Grayling	234,702	123,165	111,537	187,762
Genesee	Flint	28,316,936	11,043,605	17,273,331	22,653,549
Ingham	Lansing	22,052,024	7,700,000	14,352,024	17,641,619
Ionia	Ionia	1,122,846	N/A	N/A	898,277
Ionia	Portland	452,549	69,240	383,309	383,309
Jackson	Jackson	5,142,276	2,186,160	2,956,116	4,113,821
Kent	Grand Rapids	31,846,272	8,025,261	23,821,011	25,477,018
Kent	Walker	4,324,687	1,912,449	2,412,238	3,459,750
Lapeer	Lapeer	1,159,128	592,029	567,099	927,303
Lenawee	Hudson	286,135	90,059	196,076	228,908
Mecosta	Big Rapids	1,109,195	765,345	343,850	887,356
Muskegon	Muskegon	5,072,316	2,520,550	2,551,766	4,057,853
Muskegon	Muskegon Heights	935,361	589,277	346,084	748,289
Oakland	Pontiac	12,011,022	4,843,258	7,167,764	9,608,818
St. Clair	Port Huron	4,643,822	N/A	N/A	3,715,058
Saginaw	Saginaw	12,926,860	6,329,532	6,597,328	11,203,279
Wayne	Detroit	307,013,911	67,604,108	239,409,803	286,546,317
Wayne	Hamtramck	1,636,429	433,419	1,203,010	1,309,143
Wayne	Highland Park	4,534,427	N/A	N/A	4,080,984
Total		\$456,768,799	\$119,142,317	\$327,325,387	\$407,686,734
Average		\$ 20,762,218	\$ 6,270,648	\$ 17,227,652	\$ 18,531,215
Current law calculation of city income tax data: greater of Resident + Corporate collections or 80% of total collections except for:					
<ul style="list-style-type: none"> • Highland Park (10%) or 90% of total collections • Saginaw (13.33%) or 86.67% of total collections • Detroit (6.67%) or 93.34% of total collections 					

Source: Michigan Department of Treasury, Office of Revenue and Tax Analysis

Table 5

LOCAL UNITS WITH THE HIGHEST FY 1995-96 RELATIVE TAX EFFORT (RTE) RATES				
County	Local Unit	Local Unit Type	FY 1995-96 RTE	City Income Tax
1 WAYNE	DETROIT	CITY	7.21049	YES
2 WAYNE	HAMTRAMCK	CITY	5.34429	YES
3 WAYNE	HIGHLAND PARK	CITY	4.12833	YES
4 OAKLAND	PONTIAC	CITY	3.52347	YES
5 WAYNE	ECORSE	CITY	2.85055	NO
6 SAGINAW	SAGINAW	CITY	2.73161	YES
7 WAYNE	MELVINDALE	CITY	2.57590	NO
8 GENESEE	FLINT	CITY	2.40141	YES
9 INGHAM	LANSING	CITY	2.34038	YES
10 BERRIEN	BENTON HARBOR	CITY	2.26917	NO
11 JACKSON	JACKSON	CITY	2.20657	YES
12 OAKLAND	OAK PARK	CITY	2.09546	NO
13 CALHOUN	SPRINGFIELD	CITY	2.06182	YES
14 CALHOUN	BATTLE CREEK	CITY	2.01956	YES
15 ST CLAIR	PORT HURON	CITY	1.99452	YES
16 WASHTENAW	YPSILANTI	CITY	1.98983	NO
17 MACOMB	RICHMOND	CITY	1.98122	NO
18 MARQUETTE	ISHPEMING	CITY	1.96714	NO
19 WAYNE	LINCOLN PARK	CITY	1.91706	NO
20 IONIA	IONIA	CITY	1.90219	YES
21 WAYNE	INKSTER	CITY	1.89515	NO
22 KALAMAZOO	KALAMAZOO	CITY	1.88341	NO
23 WAYNE	RIVER ROUGE	CITY	1.87480	NO
24 MUSKEGON	MUSKEGON HEIGHTS	CITY	1.87011	YES
25 MACOMB	MT CLEMENS	CITY	1.85446	NO

Table 5 (continued)

LOCAL UNITS WITH THE HIGHEST FY 1995-96 RELATIVE TAX EFFORT (RTE) RATES				
County	Local Unit	Local Unit Type	FY 1995-96 RTE	City Income Tax
26 OAKLAND	ROYAL OAK	TOWNSHIP	1.84742	NO
27 ST CLAIR	MARINE CITY	CITY	1.83099	NO
28 OAKLAND	HAZEL PARK	CITY	1.82786	NO
29 BAY CITY	BAY CITY	CITY	1.82394	NO
30 SHIAWASSEE	DURAND	CITY	1.79969	NO
31 IONIA	PORTLAND	CITY	1.78951	YES
32 INGHAM	LESLIE	CITY	1.78169	NO
33 VAN BUREN	BANGOR	CITY	1.76056	NO
34 ST CLAIR	CAPAC	VILLAGE	1.75587	NO
35 GOGEBIC	IRONWOOD	CITY	1.75117	NO
36 WAYNE	HARPER WOODS	CITY	1.74413	NO
37 HOUGHTON	CALUMET	VILLAGE	1.74100	NO
38 MENOMINEE	MENOMINEE	CITY	1.72926	NO
39 IRON	GAASTRA	CITY	1.71909	NO
40 CHARLEVOIX	EAST JORDON	CITY	1.71831	NO
41 LAPEER	CLIFFORD	VILLAGE	1.71674	NO
42 OAKLAND	FERNDALE	CITY	1.71440	NO
43 IRON	IRON RIVER	CITY	1.70814	NO
44 PRESQUE ISLE	ONAWAY	CITY	1.66901	NO
45 MANISTEE	MANISTEE	CITY	1.66667	NO
46 MECOSTA	BIG RAPIDS	CITY	1.65415	YES
47 MONROE	PETERSBURG	CITY	1.64319	NO
48 IRON	CASPIAN	CITY	1.64319	NO
49 BRANCH	QUINCY	VILLAGE	1.64319	NO
50 CHIPPEWA	SAULT STE MARIE	CITY	1.61502	NO

Source: Michigan Department of Treasury, Office of Revenue and Tax Analysis.

Actual Distribution to Locals

Table 6 indicates total and per capita revenue sharing payments for FY 1994-95 for the largest counties, cities, villages, and townships.

Table 6

REVENUE SHARING PAYMENTS FOR FY 1994-95 BY LOCAL UNIT TYPE							
COUNTIES	County	Local Unit	Population		Revenue Sharing FY 1994-95		
			Unit	% of Total	Payments	% of Total	Per Capita
	1 WAYNE	WAYNE	2,109,282	22.8%	\$44,624,519	3.8%	\$21.16
	2 OAKLAND	OAKLAND	1,082,382	11.7%	19,126,690	1.6%	17.67
	3 MACOMB	MACOMB	716,936	7.7%	12,698,926	1.1%	17.71
	4 KENT	KENT	500,132	5.4%	9,295,233	0.8%	18.59
	5 GENESEE	GENESEE	430,224	4.6%	8,504,512	0.7%	19.77
	6 INGHAM	INGHAM	281,672	3.0%	5,277,921	0.5%	18.74
	7 WASHTENAW	WASHTENAW	281,108	3.0%	5,076,209	0.4%	18.06
	8 KALAMAZOO	KALAMAZOO	223,023	2.4%	4,271,696	0.4%	19.15
	9 SAGINAW	SAGINAW	211,765	2.3%	4,015,553	0.3%	18.96
	10 OTTAWA	OTTAWA	187,697	2.0%	3,234,071	0.3%	17.23
	11 BERRIEN	BERRIEN	161,221	1.7%	3,112,652	0.3%	19.31
	12 MUSKEGON	MUSKEGON	157,429	1.7%	2,927,350	0.3%	18.59
	13 JACKSON	JACKSON	146,150	1.6%	2,834,671	0.2%	19.40
	14 ST CLAIR	ST CLAIR	145,518	1.6%	2,733,629	0.2%	18.79
	15 CALHOUN	CALHOUN	135,679	1.5%	2,538,294	0.2%	18.71
COUNTY TOTAL			9,270,801		\$174,662,574		\$18.84
TOWNSHIPS							
	1 MACOMB	CLINTON	85,866	0.9%	\$6,403,798	0.5%	\$74.58
	2 WAYNE	REDFORD	54,387	0.6%	5,654,414	0.5%	103.97
	3 OAKLAND	WATERFORD	66,692	0.7%	5,375,070	0.5%	80.60
	4 WAYNE	CANTON	57,040	0.6%	4,358,408	0.4%	76.41
	5 WASHTENAW	YPSILANTI	45,307	0.5%	3,571,530	0.3%	78.83
	6 OAKLAND	WEST BLOOMFIELD	54,516	0.6%	3,760,755	0.3%	68.98
	7 MACOMB	SHELBY	48,655	0.5%	3,657,872	0.3%	75.18
	8 OAKLAND	BLOOMFIELD	42,473	0.5%	2,849,000	0.2%	67.08
	9 INGHAM	MERIDIAN	35,256	0.4%	2,515,557	0.2%	71.35
	10 SAGINAW	SAGINAW	37,684	0.4%	2,386,397	0.2%	63.33
	11 GENESEE	FLINT	34,078	0.4%	2,238,268	0.2%	65.68
	12 WAYNE	BROWNSTOWN	18,811	0.2%	2,192,513	0.2%	116.55
	13 GENESEE	MT MORRIS	25,198	0.3%	1,914,077	0.2%	75.96
	14 KALAMAZOO	KALAMAZOO	20,976	0.2%	1,918,237	0.2%	91.45
	15 EATON	DELTA	26,129	0.3%	1,870,011	0.2%	71.57
TOWNSHIP TOTAL			3,821,267		\$239,302,965		\$62.62

Table 6 (continued)

REVENUE SHARING PAYMENTS FOR FY 1994-95 BY LOCAL UNIT TYPE							
CITIES	County	Local Unit	Population		Revenue Sharing FY 1994-95		
			Unit	% of Total	Payments	% of Total	Per Capita
1	WAYNE	DETROIT	1,027,029	11.1%	\$292,497,600	25.0%	\$284.80
2	KENT	GRAND RAPIDS	188,627	2.0%	19,463,507	1.7%	103.19
3	GENESEE	FLINT	140,690	1.5%	18,724,281	1.6%	133.09
4	INGHAM	LANSING	122,700	1.3%	17,626,664	1.5%	143.66
5	MACOMB	WARREN	144,864	1.6%	15,878,389	1.4%	109.61
6	OAKLAND	PONTIAC	70,177	0.8%	14,428,072	1.2%	205.60
7	WASHTENAW	ANN ARBOR	109,440	1.2%	10,655,927	0.9%	97.37
8	SAGINAW	SAGINAW	69,331	0.7%	9,384,306	0.8%	135.36
9	MACOMB	STERLING HEIGHTS	117,810	1.3%	10,031,076	0.9%	85.15
10	KALAMAZOO	KALAMAZOO	79,889	0.9%	10,044,449	0.9%	125.73
11	WAYNE	DEARBORN	89,286	1.0%	9,745,359	0.8%	109.15
12	WAYNE	LIVONIA	100,850	1.1%	9,152,021	0.8%	90.75
13	WAYNE	TAYLOR	70,811	0.8%	7,467,936	0.6%	105.46
14	OAKLAND	SOUTHFIELD	75,703	0.8%	7,489,119	0.6%	98.93
15	WAYNE	WESTLAND	84,583	0.9%	7,250,071	0.6%	85.72
CITY TOTAL			5,178,549		\$731,047,915		1\$41.17
VILLAGES							
1	OAKLAND	BEVERLY HILLS	10,610	0.1%	\$809,530	0.1%	\$76.30
2	OAKLAND	HOLLY	5,595	0.1%	543,107	0.0%	97.07
3	MACOMB	ROMEO	3,520	0.0%	491,606	0.0%	139.66
4	OAKLAND	MILFORD	5,500	0.1%	468,414	0.0%	85.17
5	KENT	SPARTA	3,968	0.0%	437,194	0.0%	110.18
6	TUSCOLA	CARO	4,018	0.0%	414,259	0.0%	103.10
7	WASHTENAW	CHELSEA	3,772	0.0%	421,015	0.0%	111.62
8	OAKLAND	WOLVERINE LAKE	4,727	0.1%	355,251	0.0%	75.15
9	LENAWEE	BLISSFIELD	3,172	0.0%	310,896	0.0%	98.01
10	VAN BUREN	PAW PAW	3,123	0.0%	309,139	0.0%	98.99
11	MONROE	DUNDEE	2,664	0.0%	273,742	0.0%	102.76
12	OAKLAND	LAKE ORION	3,057	0.0%	260,531	0.0%	85.22
13	LIVINGSTON	FOWLerville	2,648	0.0%	275,738	0.0%	104.13
14	WAYNE	GROSSE PTE SHORES	2,850	0.0%	238,468	0.0%	83.67
15	TUSCOLA	CASS CITY	2,276	0.0%	238,668	0.0%	104.86
VILLAGE TOTAL			270,985		\$23,944,925		\$88.36
STATE TOTAL			9,270,800		\$1,169,100,000		\$126.11

As indicated in Figure 4, the percentage of total revenue sharing payments for FY 1994-95 that counties received was 14.9%; cities received 62.4%, townships received 20.5%, and villages received 2.3%.

Local Perspectives

The importance of State revenue sharing payments as a percentage of a local unit's total general fund revenue varies greatly among counties, cities, villages, and townships. Table 7 shows revenue sharing as a percentage of local government general revenue by local unit type for FY 1992-93. Townships receive 43% of their total general fund budget from revenue sharing, villages receive 27% of their total general fund budget from revenue sharing, cities receive 23% of their total general fund budget from revenue sharing, and counties' revenue sharing payments account for 9% of their total general fund revenues.

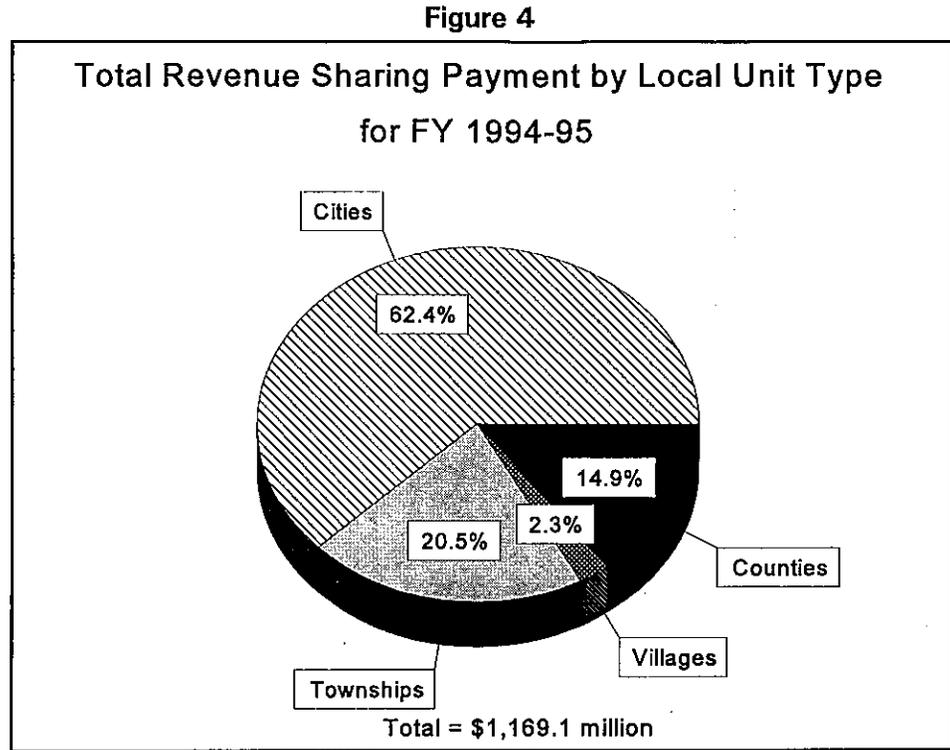


Table 7

REVENUE SHARING AS A PERCENTAGE OF LOCAL GOVERNMENT TOTAL GENERAL FUND REVENUE BY UNIT TYPE FOR FY 1992-93			
	Number	Total General Fund Revenue (millions of \$)	Revenue Sharing As a % of Total General Fund Revenue
COUNTIES	83	\$949.6	9%
CITIES	284	2,689.8	23%
TOWNSHIPS	1,242	443.4	43%
VILLAGES	271	79.1	27%

Note: Local units with insufficient data were not used

Source: Michigan Department of Treasury data from F-65(MI-2) & F-65(MI-3) Annual Local Unit Fiscal Reports

Revenue Sharing Payment Schedule

Revenue sharing payments to local units are made throughout the State’s fiscal year, as described in Table 8. Payments are made at different dates within each month for different local unit types and different tax types.

Table 8

MICHIGAN REVENUE SHARING PAYMENT SCHEDULE						
Tax	October	November	February	May	June	August
Income		Counties Cities, Villages, Townships	Counties Cities, Villages, Townships	Counties Cities, Villages Townships		Counties Cities, Villages, Townships
Sales		Cities, Villages, Townships	Cities, Villages, Townships	Cities, Villages, Townships		Cities, Villages, Townships
Intangibles	Cities, Villages, Townships				Cities, Villages, Townships	
Single Business:						
Relative Tax Effort Distribution	Cities, Villages, Townships		Cities, Villages, Townships		Cities, Villages, Townships	
Inventory Distribution	Cities Villages		Counties Townships			
Note:	Payments are made at different dates in a given month and no payments are made in December, January, March, April, July, or September.					

III. STATE REVENUE SHARING PROGRAMS ACROSS THE UNITED STATES

A. United States Overview

As measured by the United States Bureau of the Census, revenue sharing is included as an intergovernmental grant—payments from one level of government to usually a lower level of government. Intergovernmental revenue is divided into two categories: restricted or categorical aid and unrestricted or general purpose aid. The restricted aid includes revenues that must be spent on a specific area; the three largest are education, human services, and transportation. Unrestricted aid is revenue given to a governmental unit with no stipulations or specifications as to how it is spent. Approximately one-third of state government general expenditures is funneled through local governments in the form of intergovernmental grants, but the majority is restricted or dedicated for specific purposes. State general expenditure is defined as all governmental expenditures except for utility, liquor stores, retirement, and insurance. Table 9 provides a summary of state governmental expenditures, state intergovernmental grants to locals, and estimates of the level of unrestricted state intergovernmental grants to local units of government.

Michigan provides 32.9% of general expenditures in the form of intergovernmental payments to locals, compared with the United States average of 33.1%. Hawaii provides the lowest amount of general expenditures as intergovernmental payments at 2.6%, while California provides 49.6%. Unrestricted aid or revenue sharing payments as a percentage of total general expenditures for Michigan are 4.4%, higher than the United States average of 2.6%. Several states provide very little or no revenue sharing payments to local units. Nevada, Wisconsin, New Mexico, and Wyoming provide higher-than-average unrestricted aid payments as a percentage of their total general expenditures of 11.5%, 9.3%, 8.2%, and 8.0%, respectively. Of the total intergovernmental aid Michigan provides, 13.5% is unrestricted, compared with the United States average of 7.8%. Missouri provides 0.3%—the least amount of intergovernmental payments in the form of unrestricted aid. Hawaii provides 60.7% of its total intergovernmental payments as unrestricted.

The revenue sharing programs discussed are examples of unrestricted local aid. In this study, only state unrestricted aid to local units of government is considered comparable to Michigan's revenue sharing program.

B. State-by-State Comparison of Revenue Sharing Programs

The amount of unrestricted money states give or share with local units varies widely among states. Four main reasons explain the difference: variations in the mix of state/local responsibilities, restricted versus unrestricted financing, state compared with local revenue-raising powers, and geographic differences.

Table 9

STATE GOVERNMENT TOTAL GENERAL EXPENDITURES AND PAYMENTS TO LOCAL GOVERNMENTS, 1993 thousands of dollars						
State	Total General Expenditures	Intergovernmental Payments	Intergovernmental Percent of Total	Unrestricted Payments	Unrestricted Percent of Total	Unrestricted Percent of Intergovernmental
Alabama	\$9,339,796	\$2,211,563	23.7%	\$108,958	1.2%	4.9%
Alaska	4,933,907	1,086,346	22.0	80,392	1.6	7.4
Arizona	8,782,381	3,219,572	36.7	649,050	7.4	20.2
Arkansas	5,455,006	1,505,645	27.6	47,139	0.9	3.1
California	89,037,012	44,176,628	49.6	2,346,315	2.6	5.3
Colorado	7,471,882	2,378,157	31.8	25,232	0.3	1.1
Connecticut	10,582,334	2,112,048	20.0	60,768	0.6	2.9
Delaware	2,319,842	410,182	17.7	0	0.0	0.0
Florida	27,688,696	9,303,312	33.6	1,630,579	5.9	17.5
Georgia	14,061,084	4,120,627	29.3	0	0.0	0.0
Hawaii	5,087,791	132,570	2.6	80,476	1.6	60.7
Idaho	2,441,966	806,396	33.0	75,020	3.1	9.3
Illinois	24,682,312	7,139,225	28.9	754,193	3.1	10.6
Indiana	13,480,105	4,385,769	32.5	185,587	1.4	4.2
Iowa	7,197,879	2,286,506	31.8	134,241	1.9	5.9
Kansas	5,274,778	1,670,354	31.7	89,427	1.7	5.4
Kentucky	9,550,437	2,521,244	26.4	0	0.0	0.0
Louisiana	11,725,998	2,806,110	23.9	153,932	1.3	5.5
Maine	3,405,338	772,595	22.7	64,830	1.9	8.4
Maryland	11,406,315	2,707,134	23.7	50,242	0.4	1.9
Massachusetts	18,684,419	4,286,839	22.9	830,949	4.4	19.4
Michigan	23,357,795	7,693,539	32.9	1,036,464	4.4	13.5
Minnesota	13,003,118	4,803,732	36.9	703,989	5.4	14.7
Mississippi	5,585,172	1,946,210	34.8	293,990	5.3	15.1
Missouri	9,817,390	2,824,448	28.8	7,518	0.1	0.3

Table 9 (continued)

STATE GOVERNMENT TOTAL GENERAL EXPENDITURES AND PAYMENTS TO LOCAL GOVERNMENTS, 1993 thousands of dollars						
State	Total General Expenditures	Intergovernmental Payments	Intergovernmental Percent of Total	Unrestricted Payments	Unrestricted Percent of Total	Unrestricted Percent of Intergovernmental
Montana	2,282,752	659,613	28.9	42,038	1.8	6.4
Nebraska	3,717,214	1,029,811	27.7	22,516	0.6	2.2
Nevada	3,150,967	1,165,679	37.0	363,486	11.5	31.2
New Hampshire	2,583,651	301,281	11.7	31,563	1.2	10.5
New Jersey	23,630,213	8,099,029	34.3	1,054,411	4.5	13.0
New Mexico	5,189,922	1,666,350	32.1	426,737	8.2	25.6
New York	61,557,640	23,848,129	38.7	1,260,124	2.0	5.3
North Carolina	15,494,643	5,419,109	35.0	476,148	3.1	8.8
North Dakota	1,919,490	411,268	21.4	52,878	2.8	12.9
Ohio	25,037,974	8,314,711	33.2	1,154,965	4.6	13.9
Oklahoma	7,057,834	2,254,815	31.9	30,880	0.4	1.4
Oregon	7,684,558	2,258,239	29.4	105,984	1.4	4.7
Pennsylvania	28,704,733	8,378,102	29.2	156,970	0.5	1.9
Rhode Island	3,539,123	483,816	13.7	19,100	0.5	3.9
South Carolina	8,793,206	2,098,883	23.9	290,061	3.3	13.8
South Dakota	1,603,543	299,323	18.7	23,946	1.5	8.0
Tennessee	10,287,797	2,774,218	27.0	241,148	2.3	8.7
Texas	35,111,320	10,373,354	29.5	51,378	0.1	0.5
Utah	4,370,101	1,213,729	27.8	0	0.0	0.0
Vermont	1,696,410	302,695	17.8	9,725	0.6	3.2
Virginia	13,398,381	3,749,296	28.0	23,425	0.2	0.6
Washington	15,141,261	4,657,732	30.8	86,138	0.6	1.8
West Virginia	4,832,665	1,226,379	25.4	15,781	0.3	1.3
Wisconsin	13,272,436	5,005,878	37.7	1,231,255	9.3	24.6
Wyoming	1,657,030	638,672	38.5	133,028	8.0	20.8
United States	\$646,087,617	\$213,936,862	33.1%	\$16,712,976	2.6%	7.8%

Source: U.S. Bureau of Census, State Government Finances

State-local responsibilities differ widely among the states. Hawaii, for example, provides very little restricted or unrestricted aid to its local units, mainly because it provides for the services, such as education, directly. In recent years, especially since the end of Federal revenue sharing, states have assumed responsibility for some of the services that were previously provided at the local level. Thirty states assume 90% or more of local public welfare expenditures.³ Some states, such as New York, assume the full cost of the judicial system. Additionally, almost one-third of the states have, in recent years, enacted programs to reimburse local governments for mandated activities.⁴ States that assume more responsibility—either financially or for a whole program—eliminate the need to fund programs through local units.

Restricted compared with unrestricted financing also explains some differences among the states. States that provide larger amounts of unrestricted instead of restricted aid generally give more control to local units. Examples of states that provide more restricted and less unrestricted aid include Georgia, Montana, Nebraska, Oklahoma, Texas, Pennsylvania, Utah, Virginia, and Washington.

Local unit revenue-raising abilities vary vastly among the states. Most local units in states with no revenue sharing programs get revenues from local property taxes or sales or income taxes raised at the local level. Thirty-six states allow certain local units to have greater taxing authority by levying sales or income taxes.⁵ Colorado permits local units to raise revenues through a local sales tax. In Missouri, local governments can raise revenues through local sales taxes, capital improvement taxes, and transit taxes.

Geographic differences explain some of the variations in the amounts of unrestricted aid to local units of government among the states. Geographically smaller states, such as Connecticut, Maryland, Rhode Island, and Vermont, are able to deliver services directly from the state, instead of from local units. In larger states, where the state government seat is located away from most of the state's population, local governments provide more services.

States vary widely in their revenue sharing programs, concerning everything from sources and distributions to the types of local units involved. The areas that are addressed include: revenue sources, revenue sharing payments and reductions or increases, local units involved, and distribution methods or goals of the programs.

Table 10 illustrates the 19 states that were most heavily involved with local revenue sharing programs during calendar year 1993. During this period, 11 states provided unrestricted aid to local governments of an amount greater than or equal to 4% of their total general expenditures and eight states provided between 2% and 4%. The majority of the states provided unrestricted aid to local governments of an amount less than 2% of their total general expenditures.

Table 10

STATES WITH LARGEST STATE REVENUE SHARING PROGRAMS UNRESTRICTED PAYMENTS TO LOCAL GOVERNMENT FOR CALENDAR YEAR 1993 REVENUE SHARING AS A PERCENTAGE OF TOTAL STATE GENERAL EXPENDITURES			
State	Over 4%	State	Between 2% & 4%
Arizona	7.4	California	2.6
Florida	5.9	Idaho	3.1
Massachusetts	4.4	Illinois	3.1
Michigan	4.4	New York	2.0
Minnesota	5.4	North Carolina	3.1
Mississippi	5.3	North Dakota	2.8
Nevada	11.5	South Carolina	3.3
New Jersey	4.5	Tennessee	2.3
New Mexico	8.2		
Wisconsin	9.3		
Wyoming	8.0		

Source: U.S. Bureau of Census, State Government Finances

C. State Revenue Sharing Programs

Financing of Revenue Sharing Programs

Most states earmark or restrict revenues from a specific tax to revenue sharing expenditures; however, some also make general fund appropriations. The most frequently earmarked or shared taxes for local governments are the income tax and the sales tax. Further detail for the states in this study is provided in the sections that follow.

Distribution Criteria

The distribution methods may be grouped into four main categories: origin, property tax reimbursement, population, and tax effort or need. Distributions based on origin attempt to give money back to units in proportion to their contribution from a particular tax. Property tax reimbursements or payments in lieu of taxes reimburse local governments for local taxes lost due to state legislative actions.⁶ Distribution methods based on per capita formulas return money to local units based on their population. Tax capacity or effort attempts to redistribute to local units based on some measure of need. According to a study by the National Association of State Budget Officers (NASBO), need-based allocation formulas include per capita income, urbanized population, tax effort, and revenue collected from the personal income tax.⁷

It is important to point out that these distribution methods are broad categories and several variations exist within each. For example, distributions based on population may include only one type of local unit, such as cities, or revenue may be distributed based on origin to counties, which then divide the revenue among smaller local units by population. Revenue sharing distribution methods vary widely among the states; therefore, each state must be looked at separately. Summaries of distribution methods for the states that have relatively large revenue sharing programs are presented below.

Revenue Sharing Programs in Selected States

Arizona: For FY 1993-94, sales tax revenue of \$200.1 million is divided among municipalities by population and \$320.2 million is distributed based on the average of the local unit's population over the state population and the local unit's origin over the state origin. Income tax revenue of \$185.4 million is distributed to cities and towns by population. Also, vehicle license tax revenue of \$19.5 million is distributed to counties by origin and \$19.5 million to cities and towns by population. Finally, lottery collections of \$7.7 million are distributed 93% equally to small counties and 7% equally between the two largest counties.

California: California's revenue sharing program includes distributions from the motor vehicle license fee of \$2.4 billion. The counties receive approximately 59% of the revenue sharing total distributed per capita. Cities receive close to 41%, also distributed per capita.

Florida: Florida's sources include sales tax revenue of \$856.1 million, cigarette tax revenue of \$308.1 million, intangibles tax revenue of \$285.6 million, and beverage license tax revenue of \$10.6 million for FY 1994-95. Distributions are based on three equally weighted factors, for municipalities: weighted population factor, sales tax allocation factor, and relative revenue-raising ability factor; for counties: adjusted county population, adjusted unincorporated population, and adjusted sales tax collections. Counties receive twice the amount of municipalities.

Idaho: Idaho's revenue sharing program consists of 13.75% of sales tax collections, which totaled \$72.0 million in FY 1993-94. Counties receive 6% of sales tax revenue based on business inventory replacement, which is then funneled to cities. Of the remaining 7.75% of sales tax collections distributed as unrestricted aid to local units, half is distributed to cities based on equally weighted property values and population. The other 50% of the 7.75% of sales tax collections is distributed to counties, with each county receiving \$30,000 and the rest distributed based on population.

Illinois: For FY 1994-95, corporate income tax collections of \$700.0 million are distributed based on property tax collections in 1977 to counties and municipalities. Also, \$579.8 million from the income tax, \$61.7 million from the use tax, and \$18.5 million from the sales tax on photo processing are distributed per capita.

Massachusetts: Massachusetts's sources include racing tax revenue of \$1.4 million, \$442.6 million from Lottery, Beano, and charity games, and general fund revenue of \$494.8 million for FY 1995-96. The horse and dog racetrack revenue is distributed to municipalities of origin. The Lottery, Beano, and charity games revenue is distributed to municipalities based on equalized property value per capita of the state. Municipalities with lower property values receive proportionately more aid than local units with greater

property values. Of the general fund payments, \$18.5 million is paid to municipalities for property tax reimbursements. The remaining unrestricted aid is termed Additional Assistance and is funded at the FY 1991-92 level, which was distributed on a needs-based formula.

Minnesota: Minnesota's source for FY 1994-95 includes a general fund appropriation of \$338.3 million. Cities receive \$336.1 million distributed on the certified aid of the prior year plus a new city revenue need. Towns receive \$3.2 million, which is their prior year's certified aid plus an increase equal to the implicit price deflator with a range of 2.5% to 5%. The certified aid and new revenue aid are measures of tax capacity and tax effort. Counties receive no revenue sharing payments.

Mississippi: For FY 1995-96, Mississippi's sources include 15% of sales tax collections and 16% of auto privilege tax collections to total \$253.8 million. Sales tax revenue of \$239.9 million is distributed to municipalities by origin; the amount that cannot be allocated to municipalities is distributed to the counties by origin. Auto privilege tax revenue of \$13.9 million is distributed to counties based on origin.

Nevada: For FY 1994-95, sales tax revenue of \$104.4 million is distributed by relative populations to counties and cities. Also, \$365.2 million is distributed by origin to counties, which then distribute to local units based on property tax reimbursements, some of which is returned to poorer counties. Property tax revenue of \$425.7 million is distributed through property tax reimbursements to all local units. Additionally, excise tax collections of \$14.8 million are distributed by origin; motor vehicle taxes of \$128.3 million are distributed by origin, most of which is to counties, which then distribute to cities based on property taxes.

New Jersey: New Jersey's revenue sharing program for FY 1994-95 includes revenues from the franchise and gross receipts taxes of \$715.5 million, property tax relief fund of \$633.4 million, and \$138.8 million from the general fund. Public utility franchise and gross receipts revenues of \$685 million are distributed to municipalities according to the value of generation and transmission equipment within their borders. Additionally, under a municipal property tax relief program, \$302 million is distributed to municipalities by per capita amounts weighted by relative property tax rates and \$30 million is divided among 95 municipalities according to fiscal hardships. Municipal Revitalization Aid of \$165 million is distributed to municipalities that prove severe fiscal and economic conditions and need. Business personal property tax replacement aid of \$158.7 million is divided among all municipalities by property tax reimbursement. New Jersey's program is very complex and only the main components, which reflect the total program, have been summarized. New Jersey's unrestricted aid program, unlike that of most states, is much larger than its restricted aid program to local units.

New Mexico: For FY 1994-95, revenue sharing payments to counties and municipalities totaled approximately \$33.8 million. New Mexico's revenue sharing program consists of 2/15 cent, distributed from the cigarette tax, proportionate to sales made within their respective boundaries. From the gasoline tax, the state distributes 4.46% of net receipts for municipalities and a share for counties based on a formula that includes population, share of miles of public roads maintained, or share of taxable gallons of gasoline. From the motor vehicle registration fee, counties and municipalities receive a percentage of the fees proportionate to registration fees collected and total registration for all vehicles in the county. Counties and municipalities also receive a percentage of gross receipts

and they receive assistance for small cities and small counties, which is distributed based on population and the prior fiscal year taxable gross receipts.

New York: New York's unrestricted aid program, a general fund appropriation of \$957.8 million for FY 1995-96, has had substantial changes since the late 1980s. New York's program consists of state revenue sharing aid of \$771.5 million, emergency financial assistance to eligible municipalities of \$40.0 million, emergency financial aid to certain cities, and a stock transfer tax of \$114.0 million, which is distributed by origin, the majority going to New York City. The underlining distributions are per capita amounts that vary with local unit types; cities receive \$8.60 per capita, villages receive \$3.60 per capita, and towns outside the village areas receive \$2.05. Under this method, New York City receives half of the total revenue sharing money. The other cities get the majority of the two emergency aid programs and approximately 40% of revenue sharing. The amount distributed to each city, town, and village is described in the budget as a percentage increase or decrease from the prior year's distribution. Counties receive no payments.

North Carolina: North Carolina's revenue sharing program for FY 1993-94 is as follows: sales tax revenue of \$516.9 million is distributed by point of purchase or origin and inventory tax revenue of \$190.2 million is distributed by property tax reimbursement. Also, franchise tax revenue of \$121.7 million is distributed to cities with public utilities by origin, beer and wine tax revenue of \$20.9 million is divided among counties and cities based on population, and environmental tax revenue of \$4.5 million is distributed by origin to counties.

North Dakota: North Dakota's revenue sharing sources for FY 1994-95 include sales tax and motor vehicle excise tax collections, which total \$25.8 million. Half of the revenue sharing money is distributed based on property tax reimbursements to the counties and cities; townships receive up to 10% of the county's portion based on the ratio of their population to the county's population. The remaining 50% is distributed to counties in proportion to their population to the state's population, which is then distributed to each city in proportion to the city's population to the county's population.

South Carolina: South Carolina's unrestricted aid program includes a Local Government Fund, which is not less than 4-1/2% of general fund revenues, and an Accommodations tax, which is a 2% additional sales tax on the gross proceeds from the rental of transient accommodations subject to the state sales tax. For FY 1994-95, Local Government Fund distributions totaled \$162.0 million. Municipalities receive 16.722% of the Local Government Fund payments based on the ratio of their population to the population of all municipalities, and counties receive the remainder based on population. The Accommodations tax revenue of \$21.4 million is distributed to cities and counties of origin, with each county receiving a minimum payment of \$50,000.

Tennessee: For FY 1994-95, sales tax revenue of \$147.9 million is distributed by population. Also, \$25.8 million from income tax revenue, \$7.6 million from mixed drinks, and \$6.6 million from local option taxes are distributed based on origin. Excise tax collections of \$7.0 million are distributed based on property taxes. Finally, \$16.4 million from gross receipts for the Tennessee Valley Authority (TVA) replacement is distributed half based on population and half to specific areas for TVA replacements.

Wisconsin: Wisconsin's revenue sharing sources total \$950.6 million for FY 1994-95 from general fund appropriations. The distributions are as follows: \$764.7 million of aidable revenue, which is a tax effort or need measure, \$162.9 million per capita, and \$23.0 million for public utilities, which reimburses local units for costs incurred in providing services to public utilities. Additionally, 3% is used to redistribute growth among local units to ensure that they receive a minimum of 95% of their prior year's payment and a maximum of 4.9% growth for municipalities and 2.1% for counties, which is called a minimum/maximum guarantee.

Wyoming: For FY 1993-94, revenue of \$138.5 million from the sales tax is distributed 61% to cities and towns based on the local unit's population to the county's population, and 39% to counties based on origin. Also, \$22.8 million from the severance tax and \$4.1 million from the cigarette tax are distributed by origin.

As previously mentioned, state revenue sharing programs vary considerably; however, Table 11 summarizes the distribution methods for the states discussed.

Table 11

BASIS FOR DISTRIBUTION OF LARGEST STATE REVENUE SHARING PROGRAMS					
State	Basis for Distribution				
	Origin of Revenue Source	Property Tax Reimbursement	Population	Tax Capacity, Tax Effort, or Need	Other
Arizona	24%	0%	75%	0%	1%
Florida	33	0	34	33	0
Idaho	0	58	40	0	2
Illinois	0	51	49	0	0
Massachusetts	0	2	0	47	51
Michigan	0	9	53	38	0
Minnesota	0	0	0	100	0
Mississippi	100	0	0	0	0
Nevada	25	65	10	0	0
New Jersey	51	34	0	15	0
New Mexico	75	0	9	0	16
New York	0	0	0	0	100
North Carolina	76	22	2	0	0
North Dakota	0	50	50	0	0
South Carolina	12	0	88	0	0
Tennessee	19	7	74	0	0
Wisconsin	0	0	17	80	3
Wyoming	49	0	51	0	0

Source: U.S. Bureau of Census, State Government Finances and compiled from state responses.

IV. CONCLUSION

Michigan's revenue sharing program was mostly developed in 1971 and 1972, and although changes have been made, it closely resembles the original State Revenue Sharing Act. The early 1990s started a yearly trend of reductions from the statutory levels that have reduced the increases local units receive. The revenue sharing distribution criteria, of which 53% is based on population, 38% on relative tax effort, and 9% on the 1975 state equalized value of business inventory, has not been changed since the early 1970s; however, discussions to change the distribution criteria, specifically the relative tax effort formula, have taken place. Issues for the future include continuing the pattern of yearly reductions and distributing the total amount paid in a manner different than the present.

The revenue sharing programs for the 19 states used in this paper, as mentioned, vary widely in the tax sources used, the distribution methods, and the local units involved. To compare Michigan's program with revenue sharing programs in other states, each state needs to be viewed individually.

STATE REVENUE SHARING ACT: ACT 140 of 1971

MSA 5.1394; MCL 141.901 - 141.921

GENERAL SALES TAX ACT – Act No. 167 of 1933

Distributed to: cities, villages, townships
Paid: four times per year: August, November, February, May
Calculation: Distribution Rate x State Revenue Sharing Population
Distribution: 15% of gross collections of 4% rate of prior calendar quarter
Note: Constitutionally mandated payment

INCOME TAX – Act No. 281 of 1967

MSA 7.557 (1481); MCL 206.1 - 206.532

Distributed to: cities, villages, townships, counties
Paid: four times per year: August, November, February, May
Calculation: a. CITIES, VILLAGES AND TOWNSHIPS: Distribution Rate x State Revenue Sharing Population x Relative Tax Effort Rate
 b. COUNTIES: Distribution Rate x State Revenue Sharing Population
Distribution: 7.2% of gross collections of prior calendar quarter. Counties receive 34.65% of distribution; cities, villages and townships receive 65.35% of distribution.

SINGLE BUSINESS TAX ACT – Act No. 228 of 1975

MSA 7.558; MCL 208.1.1 - 208.145

Distributed to: cities, villages, townships
Paid: three times per year: September, February, June
Calculation: Distribution Rate x State Revenue Sharing Population x Relative Tax Effort Rate
Distribution: June = 5.5378% of prior July-June gross collections. 8.3447% of prior July-June gross collections less the current year's inventory reimbursement total to cities, villages and townships excluding amount to authorities.

INTANGIBLES TAX ACT – ACT NO. 301 OF 1939

MSA 7.556; MCL 205.131 - 205.140

Distributed to: cities, villages, townships levying at least one mill the second prior calendar year (mandatory rollbacks to below one mill held harmless)
Paid: once per year; June
Calculation: Distribution Rate x State Revenue Sharing Population
Distribution: \$9,500,000 annually

SBT INVENTORY REIMBURSEMENT

- Distributed to: cities, villages, townships, counties
Paid: once per year: October to cities and villages; February to townships and counties
Calculation: 1975 SEV of business inventory x prior year's local ad valorem tax levy on both real and personal property
Distribution: Total amount calculated by formula application
Notes:
1. The February payments are based on local tax rates of the second prior calendar year (e.g., February 1995 payments are based on December 1993 tax rate)
 2. Paid as compensation for local tax revenue loss because of repeal of personal property taxation on business inventory with enactment in 1975 of Single Business Tax Act.

SPECIAL PAYMENTS UNDER STATE REVENUE SHARING

Special Census

- Distributed to: eligible cities, villages, townships levying at least one mill in the prior calendar year
Paid: once per year: July 1
Calculation: Aggregate per capita rate of prior July 1 - June 30 payments x increase in population that exceeds the estimated State growth rate on date of special census
Distribution: General Fund appropriation under State revenue sharing. Payments may be prorated.
Note: Locality must bear cost of contract for special census in accordance with provisions stated in Section 14a of the State Revenue Sharing Act. Special census must establish at least 15% growth in population since last actual census count to be eligible for payment.

Relative Tax Burden

- Distributed to: eligible cities, villages, townships levying at least one mill in the prior calendar year
Paid: once per year: July 1
Calculation: RTE payments of prior July 1 - June 30 subtracted from (total calculated at those distribution rates x Relative Tax Burden (RTB) rate). The RTB rate includes special assessments and 25% of overlapping taxes.
Distribution: \$3,500,000 General Fund appropriation under State revenue sharing. Payments are prorated because of this ceiling. **Last paid in FY 1978-79.**
Note: Section 14 of State Revenue Sharing Act

Guaranteed Minimum

- Distributed to: eligible cities, villages, townships
Paid: once per year: July 1
Calculation: Based on local millage the prior calendar year, if total payments over July 1 - June 30 do not meet a specified per capita minimum, the difference shall be paid.

Distribution: General Fund appropriation under State revenue sharing. Last paid in FY 1976-77.
Note: Section 15 of State Revenue Sharing Act

OTHER INFORMATION

1. Local Tax Effort rate = local unit's prior calendar year ad valorem property taxes plus income and excise taxes divided by local unit's State Equalized Value (SEV).
2. Statewide Average Tax Effort rate = total township, city and village property taxes plus local income and excise taxes, divided by total State Equalized Value (SEV). The Statewide Average Tax Effort rates since 1988 are listed below.
 - 1988 = 14.05 mills (affects FY 1989-90 State Revenue Sharing payments)
 - 1989 = 13.60 mills (affects FY 1990-91 State Revenue Sharing payments)
 - 1990 = 13.19 mills (affects FY 1991-92 State Revenue Sharing payments)
 - 1991 = 12.92 mills (affects FY 1992-93 State Revenue Sharing payments)
 - 1992 = 12.94 mills (affects FY 1993-94 State Revenue Sharing payments)
 - 1993 = 12.46 mills (affects FY 1994-95 State Revenue Sharing payments)
 - 1994 = 12.78 mills (affects FY 1995-96 State Revenue Sharing payments)
3. Relative Tax Effort rate = Local Tax Effort divided by Statewide Tax Effort rates effective July 1 - June 30 every year
4. State revenue sharing fiscal year is July 1 - June 30
5. With the exception of the Single Business Tax Inventory payment and others noted that go out the first of the month, all payments go out the last payable day of the month.
6. "Collections" are those dollars coming into the State Treasury that month (cash basis) and represent the previous month's activities.

MICHIGAN REVENUE SHARING LEGISLATIVE HISTORY

- 1946 sales tax amendment to the 1908 Constitution earmarked 1/6 of net revenues to cities, villages, townships on a per capita basis
- PA 140 of 1971 established the State Revenue Sharing program
- PA 212 of 1972 used the tax burden and Relative Tax Effort (RTE) formula for income tax payments to cities, villages, and townships
- PA 69 of 1973 provided four levels of minimum per capita payments guaranteed, based on local property tax rate
- PA 225 of 1975 changed the income tax distribution percentages for counties and cities, villages, and townships from 50-50 in FY 1976 to 65-35 in FY 1979-80
- PA 245 of 1975 provided for a distribution of the new single business tax, increased the minimum guaranteed amounts, provided for mid-decade special census payments, and capped the RTB payments at \$3,500,000
- PA 275 of 1980 provided for a hold-harmless guarantee for local units that levied less than one mill, if the millage was rolled back as a result of the Headlee limit; delayed the effective date of the decennial census from April 1 to October 1; provided for census delay adjustment payments
- PA 317 of 1982 provided for a hold-harmless guarantee for local units that levied at least one mill, as a result of the Headlee Bowman rollbacks
- PA 146 of 1983 provided for advanced income tax payments to cities, villages, and townships to balance their budgets and offset the reductions
- PA 236 of 1983 provided that local units be notified of delayed payments and that the state pay interest to local units if authorized by the Governor
- PA 143 of 1985 allowed local units to pledge revenue sharing payments to the Municipal Bond Authority
- PA 88 of 1987 increased the income tax percentage earmarked from 6.84% to 6.91% of gross collections
- PA 116 of 1987 provided for the inclusion of some special assessments in the RTE formula
- PA 474 of 1988 extended the hold-harmless provision to special census payments
- PA 357 & Executive Order 1991-17 reduced \$10.7 million from the income tax portion of revenue sharing payments
- PA 67, 68, 69 of 1992 provided for payment schedule changes as part of forward funding, which was a State reduction of \$112.2 million
- PA 159, 160, 161 of 1992 reduced \$24.2 million from the income tax, \$11.8 million from the single business tax (RTE), and \$9.5 million from the intangibles tax payments to revenue sharing payments for FY 1992-93
- PA 166, 167, 168 of 1993 reduced \$48.1 million from the income tax, \$6.9 million from the single business tax (RTE), and \$9.5 million from the intangibles tax payments to revenue sharing payments for FY 1993-94
- PA 328 of 1993 changed the distribution percentage from the income tax from 6.91% to 7.21%
- PA 247 of 1994 changed the distribution percentage from the single business tax from 13.53% to 13.88%
- PA 298, 299, 300 of 1994 changed the reduction to \$38.1 million from the income tax for FY 1993-94; reduced \$50.6 million from the income tax, \$6.9 million from the single business tax (RTE), and \$9.5 million from the intangibles tax payments to revenue sharing payments for FY 1994-95; changed the distribution percentage from the income tax from 7.21% to 7.30%
- PA 134 of 1995 reduced \$55.8 million from the income tax, \$16.0 million from the single business tax (RTE), and \$9.5 million from the intangibles tax payments to revenue sharing payments for FY 1995-96; changed the distribution percentage from the single business tax from 13.88% to 13.91% of gross collections

Source: Michigan Department of Treasury

SPECIAL CENSUS PAYMENTS

Cities, villages, or townships may receive special census payments as a result of population growth between the Federal decennial census counts. To receive special census supplemental payments under the State Revenue Sharing Act of 1971, as amended (applicable to cities, villages and townships only):

1. Special census must be conducted.
 - a. Locality must bear the entire cost.
 - b. Locality must contract with the Secretary of State or the U.S. Bureau of the Census to conduct the census.
 - c. Census must include wards, patients, or convicts in tax-supported institutions.
 - d. A special census cannot be conducted within three years of a regular Statewide Federal census, past or future. Based on the official April 1, 1990, Federal decennial census date, the earliest date on which a special census can be conducted for State revenue sharing payment through 2000 is April 1, 1993 and the latest date is April 1, 1977.

2. Special census results must be used as follows:
 - a. Census results must be certified to the Department of Management and Budget (DMB) by the Secretary of State. Only one special census can be submitted by a local unit of government to the Secretary of State, to be certified to the DMB, for use in determining qualification for payment between two Statewide Federal censuses.
 - b. Special census results must establish that the locality's population growth has been at least 15% since 1990. "Population" means actual census count less 50% of the institutional population (see 1.c. above).
 - c. If a minimum 15% growth is certified, the special census results will be effective the following July 1. The first special census payment will be distributed the subsequent July.
 - d. A local unit must levy at least 1 mill of general property tax in the calendar year preceding the July 1 on which eligibility for payment is effective (see 2.c. above). To retain eligibility for payment through 2000, a minimum of 1 mill must continue to be levied through 1993.
 - e. A payment is made once a year, in July.
 - f. A payment is based on the increase in the population that exceeds the estimated State growth rate on the date of enumeration. Since the State's population has grown since 1980, 100% of the increase in population will be used as the basis for payment, through 2000.
 - g. For payment, the population figure calculated under 2.f. above will be multiplied by the locality's aggregate per capita amount of payments received the previous July 1 - June 30 (including payments under the sales tax, income tax, single business tax, intangibles tax, guaranteed minimum, and relative tax burden).
 - h. Special census payments may be prorated depending upon the appropriation.

STATE REVENUE SHARING PROJECTED DISTRIBUTION RATES - 1994, 1995, 1996					
	Cities, Villages, Townships			Counties	
	Sales	Income	Single Business Tax	Income	Single Business Tax
1994					
Feb 28	13.074	4.956	2.791	3.092	***
May 31	11.553	5.549	---	3.572	---
Jun 30	1.025	---	5.948	---	---
Aug 31	12.182	1.013	---	0.0611	---
Oct 1	---	---	**	---	---
Oct 31	---	---	3.335	---	---
Nov 30	12.877	4.993	---	7.15	---
1995					
Feb 28	13.485	5.123	3.335	3.386	***
May 31	12.018	5.948	---	4.072	---
Jun 30	1.025	---	6.516	---	---
Aug 31	12.051	1.03	---	0.885	---
Oct 1	---	---	**	---	---
Oct 31	---	---	3.655	---	---
Nov 30	13.926	50.3	---	7.159	---
1996					
Feb 28	14.416	5.128	3.655	3.368	***
May 31	13.358	6.143	---	4.212	---
Jun 30	1.025	---	7.309	---	---
Aug 31	13.202	1.119	---	0.936	---
Oct 1	---	---	**	---	---
Oct 31	---	---	3.459	---	---
Nov 30	14.691	6.423	---	7.925	---
** SBT inventory payments for cities & villages; *** SBT inventory payments for counties & townships are made on February 1.					
<u>To estimate payments:</u>					
sales: distribution rate X population					
Income: cvts = distribution rate X relative tax effort X population; counties = distribution rate X population					
SBT: distribution rate X relative tax effort X population					
SBT inventory: 1975 sev personal property X prior year millage					

Source: Michigan Department of Treasury, Office of Revenue and Tax Analysis

CITY INCOME TAX RATES					
City	Year Adopted	Resident Rate	Corporation Rate	Nonresident Rate	
Albion	1972	1.0%	1.0%	0.5%	
Battle Creek	1967	1.0	1.0	0.5	
Big Rapids	1970	1.0	1.0	0.5	
Detroit	1962	3.0	2.0	1.5	
Flint	1965	1.0	1.0	0.5	
Grand Rapids ¹⁾	1967	1.0	1.0	0.5	
Grayling	1972	1.0	1.0	0.5	
Hamtramck	1962	1.0	1.0	0.5	
Highland Park	1966	2.0	2.0	1.0	
Hudson	1971	1.0	1.0	0.5	
Ionia	1994	1.0	1.0	0.5	
Jackson	1970	1.0	1.0	0.5	
Lansing	1968	1.0	1.0	0.5	
Lapeer	1967	1.0	1.0	0.5	
Muskegon	1993	1.0	1.0	0.5	
Muskegon Heights	1990	1.0	1.0	0.5	
Pontiac	1968	1.0	1.0	0.5	
Port Huron	1969	1.0	1.0	0.5	
Portland	1969	1.0	1.0	0.5	
Saginaw	1965	1.5	1.5	0.75	
Springfield	1989	1.0	1.0	0.5	
Walker	1988	1.0	1.0	0.5	

1) Calendar Year 1996, the resident & corporation rate is 1.3%, and the nonresident rate is 0.65%.

Compiled by: Citizens Research Council of Michigan, Outline of the Michigan Tax System 18th Edition, July 1995

VI. REFERENCES

State of Arizona, Joint Legislative Budget Committee, H.C. Reardon, Senior Economist, 1995.

State of California, Local Government, Pedro Reyes, 1995.

The Florida Senate, Committee on Ways and Means, David Beggs, 1995.

Idaho State Tax Commission, James Husted, Tax Policy Specialist, 1995.

State of Illinois, Commission on Intergovernmental Cooperation, David Griffith, Associate Director, 1995.

Massachusetts, Department of Revenue, Division of Local Services, Kay C. Meinel Upham, Municipal Finance Analyst, 1995.

Michigan Department of Treasury, Office of Revenue and Tax Analysis, 1995.

Minnesota House of Representatives, Research Department, Steve Hinze, Legislative Analyst, and Pat Dalton, Legislative Analyst, 1995.

Mississippi Institutions of Higher Learning, Darrin Webb, Senior Economist, 1995.

Mississippi Joint Legislative Budget Committee, Tom Kynerd, Revenue Officer, 1995.

State of Nevada, Legislative Counsel Bureau, Fiscal Analysis Division, Kevin Welsh, Deputy Fiscal Analyst, 1995.

State of New Jersey, Department of the Treasury, Division of Taxation, Jim Diffley, 1995.

New Mexico, Budget and Finance Manual, Department of Finance and Administration, Local Government Division - Budget Revenue Bureau, 1994.

State of New York, Commission on State-Local Relations, Eric Peterson, Deputy Director, 1995.

General Assembly of North Carolina, Fiscal Research Division, H. Warren Plonk, Fiscal Analyst, 1995.

North Dakota Legislative Council, Joe Morrissette, Fiscal Analyst, 1995.

South Carolina, Department of Revenue, Gary Turner, 1995.

South Carolina, Treasurer's Office, Paul Jarvis, 1995.

State of Tennessee, Comptroller of the Treasury, Office of Local Government, Eric Wormhoudt, Senior Research Analyst, 1995.

Shared Revenue Program, State of Wisconsin, Legislative Fiscal Bureau, Rick Olin, January, 1995.

Wyoming Department of Revenue, Don Bright, 1995.

"Earmarking State Taxes", Arturo Perez and Ronald Snell, National Conference of State Legislatures, September 18, 1995.

U.S. Advisory Commission on Intergovernmental Relations and National Academy of Public Administration, 1995.

Wyoming Department of Revenue 1994 Annual Report, Wyoming Department of Revenue, 1994.

City Government Finances: 1993, U. S. Bureau of Census, 1993.

State Government Finances: 1993, U. S. Bureau of Census, 1993.

State Aid to Local Government Programs of Financial Assistance to Local Governments for State and Local Services, New York State Office of the State Comptroller, McCall, H. Carl, Comptroller, 1993.

State and Local Finances: Some Jurisdictions Confronted by Short- and Long-Term Problems, U. S. GAO, October 1993.

State Aid to Local Government 1990, National Association of State Budget Officers, 1991.

"State Aid to Local Governments in the 1980s", Gold, Steven D. and Erickson, Brenda M., Fiscal Federalism Project, 1989.

Michigan's Fiscal and Economic Structure, "State-Local Fiscal Relations: Counties, Cities, Villages, and Townships", Wolfram, Gary L., edited by Brazer, Harvey E. and Laren, Deborah S., The University of Michigan Press, 1982.

Michigan Economic Report of the Governor, Michigan Department of Treasury, 1971.

VII. ENDNOTES

1. Michigan State Constitution 1908, Article X, Section 23.
2. Michigan Economic Report of the Governor, Michigan Department of Treasury, 1971, p. 70.
3. State-Local Relations, U.S. Advisory Commission on Intergovernmental Relations and National Academy of Public Administration, 1995, p.77.
4. Ibid., p.77.
5. Ibid., p.77.
6. State Aid to Local Government 1990, National Association of State Budget Officers, 1991, p. 29.
7. Ibid., p.30.