



## GENERAL OFFICES

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Dear Key Communicator,

Below please find the most recent update.

### STATE REVENUE SHARING

Canton residents have read headlines dealing with revenue sharing for the last five years. In the last few months, a number of residents have asked questions about the State Revenue Sharing.....what is it, how did it begin, what impact does it have on Canton's operation, how is it distributed....

#### What is State Revenue Sharing?

The State Revenue Sharing program distributes sales tax collected by the State of Michigan to local governments as unrestricted revenues. Revenue Sharing was created to keep local governments whole when the State eliminated local taxes and replaced them with State taxes in order to improve the uniformity and efficiency of tax collection across the State.

#### How did State Revenue Sharing begin?

**1939** – Prior to 1939, local government had the authority to tax intangible personal property. In 1939, the State exempted intangible personal property from local property taxes. In exchange, the State returned two-thirds of the State intangible tax collections to local governments through the annual State statutory budget process.

**1963** – The State adopted a new constitution which required that 15% of State sales taxes, then 4%, be returned to local governments on a per capita basis.

**1967** – The State passed a State income tax. Because the State income tax was viewed as negatively affecting local government's ability to raise local taxes, the State passed a statute that returned a portion of the State's income tax to local governments through the annual State statutory budget process.

**1975** – The State passed a single business tax replacing several local business taxes. Again, as a replacement for the State taking away local government's right to levy local taxes, the State passed a statute to return a portion of the

State single business taxes to local government through the annual State statutory budget process.

**1998** – The State increased the State sales tax from 4% to 6%, decreased other State taxes, and placed further prohibitions on local governments to raise local taxes. Although the State constitutional requirement to return 15% of the State sales taxes collected on the original 4% sales tax base remained, the State eliminated returning State income taxes and single business taxes to local government, and passed a statute which required sharing 21.3% of the sales tax base with local governments.

**2000** – After one year under the new formula, the State changed the law to keep more of the taxes for State government. Since then, the State has cut revenue sharing several times to balance the State budget. **In every State budget since the change to the State Revenue Sharing formula, the State has not fully returned State sales taxes and single business taxes to local governments.**

**2001** – The 2000 census was certified showing Canton's population grew by over 19,000 residents between 1990 and 2000. Canton was entitled to receive revenue sharing based upon 76,000 residents; instead, the State capped revenue sharing increases at 8%. That one single action reduced Canton's annual revenue sharing by \$2 million each year. **Canton now has one of the lowest per capita returns of revenue sharing in the State of Michigan.**

**2002 through 2005** – **Canton has lost nearly \$2 million annually in State Revenue Sharing** because the State did not fully return State income taxes and single business taxes to us.

#### **What impact does it have on Canton's operations?**

Cities and Townships throughout Michigan have been forced to reduce staff by 1600 (less police officers), diminish or eliminate programs and services.

Reductions in Canton's revenue sharing have been dealt with through staff reductions and a major reduction in capital improvements. To date, staff reductions have had only a minor impact on programs and services.

#### **If the money is still being collected by the State through these taxes, where are the funds going?**

Governor Granholm and the legislature have targeted revenue sharing as a means to help balance the State's budget. In fact, revenue sharing has been **reduced by over \$1.5 billion in the last four years** representing the **largest reduction in the State's budget.**

The State's budget is made up of the following components: Education 33%, Health Services 23%, Human Services 9.5%, Transportation 7%, Corrections 5.3%, Unemployment Compensation 4.3%, General Government 4.3%, Lottery 3.3% **Revenue Sharing 2.5%**, Labor and Commerce 2.1%, Tax Credits 1.5%, and Interest on Debt 1.3%.

Over the past few years, the State cut their spending by 12%, while their revenues declined by nearly 20%. **Of all State spending cuts, 40% of them have come from revenue sharing cuts.** The State will continue to face annual budget deficits until they correct the structural gap between their expenditures and revenues

Your feedback is always welcome, you can contact me at 394-5185 or [tyack@canton-mi.org](mailto:tyack@canton-mi.org).

Sincerely,

Tom Yack  
Canton Supervisor