THE GREAT REVENUE SHARING HEIST

By Anthony Minghine

There have been a lot of high profile robberies over the years. The Lufthansa robbery, D.B. Cooper highjacking, the Antwerp Diamond Caper…but these crimes look amateurish compared to the state of Michigan's Great Revenue Sharing Heist. The state has managed to pinch over $6 billion in revenue sharing from local government over the last several years. Those numbers would even get Bernie Madoff's attention.

Michigan's broken municipal financing model is almost a cliché. Talking about budget numbers and deficits in the *billions* of dollars can cause us to lose perspective. The fact is, there are a record number of local governments that find themselves in the midst of a financial crisis. Is it the result of mismanagement, neglect, or incompetence? Or is it the result of a dramatic disinvestment by the state in local government? I suggest the latter.

In my view, there are three major factors that have led communities to the financial brink: post retirement costs; a steep decline in property values; and a dramatic reduction in state revenue sharing. The third factor will be the focus of this article.

Post retirement costs are a huge issue that locals are grappling with. Change here is difficult at best; local governments are hamstrung with contracts and laws that make transformation slow. The property tax declines local governments have experienced could not have been anticipated to the degree they occurred, and are certainly out of the control of anyone in this state. Statutory revenue sharing, on the other hand, has been unilaterally taken by the state to solve its budget issues. It's a fact. Revenue sharing is paid from sales tax revenues, which have been a remarkably stable source of income, and have in recent years experienced significant growth.

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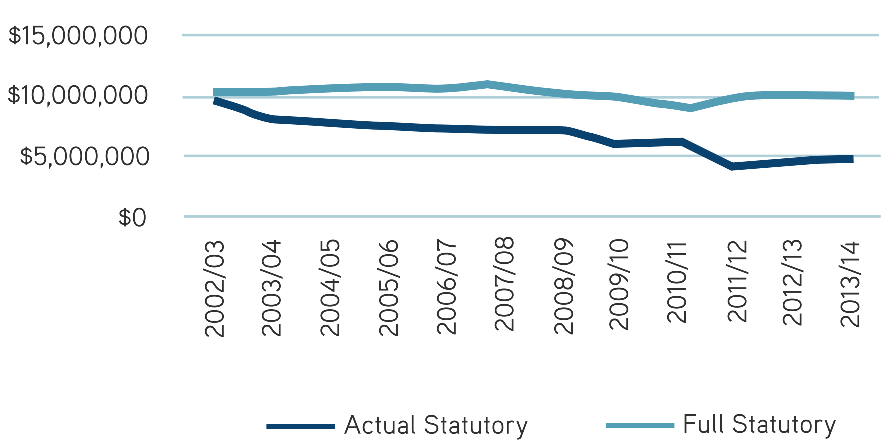
Annual Revenue Sharing Loss



Breaking Down the Numbers

Hopefully you'll stick with me, as I'm about to drop the "b" word. From 2003-2013, sales tax revenues went from $6.6 *billion* to $7.72 *billion.* Over that same period, statutory revenue sharing declined from over $900 million annually to around $250 million. The state is now in an enviable position—revenues that exceeded expectations. It is posting large surpluses but has failed to take steps to restore local funding.

PROJECTED REVENUE TAKEN 2003-2014

Allen Park	$8,440,088
Alpena	$4,371,700
Dearborn	$31,320,463
Detroit	$732,235,683
Farmington Hills	$20,488,283
Ferndale	$9,772,967
Flint	$54,868,096
Grand Rapids	$72,854,201
Hamtramck	$13,301,632
Lincoln Park	$17,147,092
Marquette	$6,907,445
Melvindale	$5,865,221
Pontiac	$40,533,681
Saginaw	$30,329,283
Southfield	$21,904,790
Traverse City	$4,307,187
Warren	$45,961,823

In fact, the state is trumpeting its sound fiscal management and admonishing local governments for not being as efficient. What the state fails to mention is that it balanced its own budget on the backs of local communities. This would be like me taking your money to pay my bills, and then telling you that you need to be more responsible with your household budget. In fairness, the state did experience revenue declines out of its control, much like locals experienced with property tax declines. It is different, though, in one important way—local communities couldn't take money from others and push those tough decisions down to someone else.

What is most shocking is the difference those revenue sharing dollars would have made at the local level. As I stated at the onset of this article, we now have a record number of communities facing financial emergencies. It's easy to blame local leaders, but you must consider all the facts. In most cases, communities that currently face large deficits would in contrast have general fund surpluses.

Let's Get Specific: Four Cities' Cuts

So what does it mean to specific communities? For Allen Park, an $857,000 deficit in 2012 becomes a surplus of over $5 million and would grow to a projected surplus of $7.3 million by 2014. Hamtramck's deficit of $580,000 would have been a surplus of $8.7 million. Flint will have lost $54.9 million dollars by the end of 2014. The deficit in its 2012 financial statements is $19.2 million. Flint could eliminate the deficit and pay off all $30 million of bonded indebtedness and still have over $5 million in surplus. In Detroit, a city facing the largest municipal bankruptcy in history, the state took over $700 million to balance the state's books.

This data begs the question: did municipalities ignore their duty to manage or did someone else change the rules of the game and then throw a penalty flag at them? I see yellow flags all over the playing field. Post-retirement benefits are a huge expense and burden to local government, but we must not ignore the reality—the promises were made with a different expectation from the state as it relates to sharing sales tax revenue with local government. It's a fact that the state has broken that promise. State leaders excused themselves from making tough choices, instead using local money to pay their bills. In the process, they have created most, if not all, of the financial emergencies at the local level.

The numbers don't lie. Revenue sharing is the only factor that anyone has had direct control over during these difficult financial times. It is time for the state to shift gears and start investing in local government again. Hardships at the local level weren't created by a lack of cooperation or collaboration. I would humbly submit that local governments invented the concept and the state is very late to the table. Local government officials have done, and will continue to do, their part to be prudent managers, but the goal cannot be to hang on and survive. Our goal must be to ensure that our cities are vibrant places that people will choose to live in, and that can only happen if the state fulfills its promise and responsibility to invest where the rubber meets the road, and that is at the local level.

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Cumulative Revenue Sharing Losses