

Talking Points Revenue Sharing-

The House Appropriations Committee tried to restore a modest 1 percent of revenue sharing funding within the General Government Budget (House Bill 5880) for police and fire protections by closing the following loopholes: *marginal oil-wells, interstate fleet exemption, retail bad debt exemptions, international/WATTS calls, use/sales tax collection costs, and water conditioning systems.* This would have netted \$66.98 million dollars.

The following is a definition of the loopholes identified.

- **Marginal Oil and Gas Wells (HB 4487):** Currently, stripper or marginal wells (those producing between 10-35 barrels per day) are taxed 2.6% less than other wells at 4% on the gross cash market value of oil severed. This credit was implemented at a time when the country was facing an energy crisis and it was not profitable to operate such wells. However, currently, oil sells at over \$100 per barrel. The credit costs the state \$7.5 million.
- **Interstate Fleet Exemption (HBs 5391-5393):** Trucks and trailers are currently exempt from sales and use tax, even if the majority of their use is out of state. HBs 5391-5393 would charge a credit based upon miles driven out of state; would generate \$22.4 million in new revenue.
- **Bad Debt Exemption (HBs 5417, 5418 or SBs 836, 837):** Currently, retailers can exemption bad debts from retail sales from sales/use tax collection. As drafted, these bills would generate \$11.5 million due to an 80% deduction allotment; however, previous legislation in 2007 would have generated \$64 million due to no deduction allotment.
- **Telecommunications/WATTS, International Call Exemption (HB 5419 or SB 833):** Currently, international calls and 800 (or similar services) are exempt from sales/use tax. The introduced legislation would remove this exemption to generate \$14.5 million. However, previous legislation in 2007 (HB 5254) included additional telecommunication exemptions (i.e. pay phones) to generate \$59.8 million.
- **Sales/Use Tax Collection Costs (HBs 5421, 5422 or SB 837):** Generally, those collecting sales/use tax can retain .5 or .75 percent of the tax due--not to exceed \$15,000 or \$20,000 depending on time of month remitted. This legislation would generate \$5.8 million in additional revenue.
- **Water Conditioning Systems (HB 5490):** Currently, companies that rent or lease water conditioning systems to residential customers are exempt from paying personal property tax on each unit. The legislation would eliminate this exemption and generate \$1.5 million in additional revenue.
- **Income Tax--Personal Exemption Limit/Freeze:** HB 5420 (HB 5420, Meadows) freezes the current personal exemption limit; the governor's budget recommendation accounts for \$57 million. However, there is concern how this may impact low and middle-income individuals.

Revenue Sharing-A historical Perspective:

- Local governments use state funding, called revenue sharing, to pay for services that make our communities the types of places where people want to live and businesses want to locate.
- Revenue sharing was promised to local communities in the Michigan Constitution to help pay for core government services such as police protection, fire services, roads, water, sewer and garbage collection services.

- Revenue sharing started in the 1920s when the State of Michigan promised communities it would streamline tax collection by eliminating local taxes and replacing them with state taxes. The State collects and records these taxes and is suppose to reimburse local jurisdictions to offset the general budgets of local communities.
- In every budget since 2000, the State has not fully returned revenue sharing as required by statute. Six consecutive years of cuts have left local communities more than \$3 billion short on revenue sharing.
- Revenue Sharing is directly connected to essential services provided by local communities as it relates to quality of life and the economic vitality of our state.
- Local communities are the foundation of successful economic development in Michigan. Safe streets and functioning infrastructure are critical to attracting and maintaining businesses.
- Communities have reduced their services, eliminated public safety positions and consolidated services to deal with lost revenue.
- According to the Michigan Commission on Law Enforcement Standards, there are 1,800 fewer police officers on the streets of Michigan since 2001.
- Michigan's Fire Marshall Office reports 2,400 fewer fire fighters since 2001.
- Senior, recreation and public library programs have been drastically cut or eliminated.
- Local governments cannot continue to provide essential services if funding is continually redistributed to other budget priorities.
- Last year the Legislature presented the governor a FY 2009-10 general government budget (SB 245) that cuts statutory revenue sharing to local governments by 19 percent and total revenue sharing (statutory and constitutional) by 11 percent.